Senate Budget and Fiscal Review

Subcommittee No. 3 2003 Agendas

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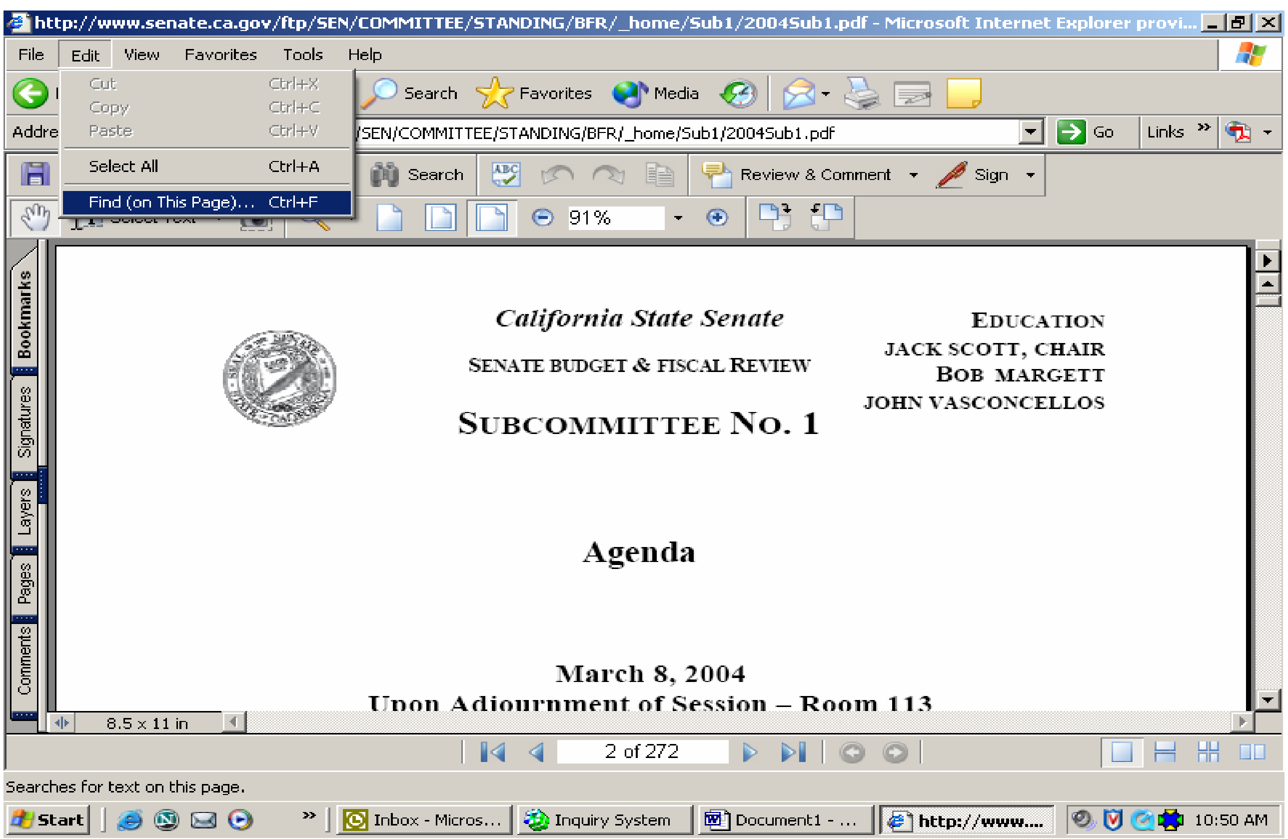

SUBCOMMITTEE 3
COMBINED AGENDAS 2003

Senate Budget and Fiscal Review

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

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March 3, 2003
2:30 PM or Upon Adjournment of Session
Room 4203

(Diane Van Maren, Consultant)

Item	*Description*
2400	**Department of Managed Health Care—Selected Issues**
4120	**Emergency Medical Services Authority—Selected Issues**
4260	**Department of Health Services—Healthy Families related items (only)**
4280	**Managed Risk Medical Insurance Board (MRMIB)—Selected Issues**

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.

The DMHC is funded completely with special funds—the Managed Care Fund. Most of the funds deposited into the Managed Care Fund are derived from Health Care Plans paying annual assessments as outlined in Health and Safety Code, Section 1356.

Overall Budget of the Department

With respect to the Mid-Year Reductions, the Legislature adopted the Administration's two proposals. First, $1 million in administrative penalties collected pursuant to a ruling by the Office of Administrative Hearings (case number N2000070472) was transferred to the General Fund to assist in the fiscal shortfall. Second, a reduction of $558,000 (Managed Care Fund) and 14 positions were taken pursuant to Control Section 31.60 regarding vacant positions.

The budget for 2003-04 proposes total expenditures of $34.5 million (Managed Care Fund) and 314 positions for the DMHC, which includes $2.1 million for the Office of Patient Advocate. This reflects a *net* increase of $1.9 million (Managed Care Fund) over 2002-03. The Legislative Analyst's Office has raised no issues regarding this department.

Summary of Expenditures (dollars in thousands)	2002-03	2003-04	$ Change	% Change
Health Care Service Plans	$30,615	$32,409	$1,794	5.9
Office of Patient Advocate	2,018	2,135	117	5.8
Total, Health Plan Program (Managed Care Fund)	**$32,633**	**$34,544**	**$1,911**	**5.9**

B. ITEMS FOR DISCUSSION—Department of Managed Health Care (DMHC)

1. Proposed Salary Savings Adjustment

Background: When the DMHC was established as of July 1, 2000, a total of 190 positions were transferred from the Department of Corporations, and an additional 145 new positions were established to address the comprehensive reforms regarding health care and health maintenance organizations.

Many of the new positions which were originally funded at the first salary step were typically being filled with employees eligible for higher steps. As such, the salary savings level has been running at 12.4 percent, when it should be operating at about 7 percent.

According to the DOF, "salary savings" reflect personnel cost savings resulting from vacancies and downward reclassifications as a result of turnover of employees. The amount of budgeted salary savings is an estimate generally based on past experience.

Governor's Proposed Budget: The DMHC **is requesting an increase of $834,000 (Managed Care Fund) to reduce the department's salary savings level from 12 percent to 7 percent.** This will allow existing vacant positions to be filled. **Without the requested funding, about 39 positions in the budget year would be required to be kept vacant.**

Department Summary
As of February 1, 2003

Office	Proposed	Vacancies as of 2/1/03	12 Percent Level Required	12 Percent Level Available to Fill	7 Percent Level Required	7 Percent Level Available to Fill
Admin Services	54.0	7.0	6.8	0.2	4.4	2.6
Director's Office	22.0	5.0	2.8	2.2	1.8	3.2
Enforcement	26.0	4.0	3.3	0.7	2.1	1.9
Hlth Plan Oversight	81.0	15.0	10.2	4.8	6.6	8.4
HMO Help Center	70.0	6.0	8.8	-2.8	5.7	0.3
Legal Services	28.0	1.0	3.5	-2.5	2.3	-1.3
Tech & Innovation	20.0	1.0	2.5	-1.5	1.6	-0.6
TOTAL, DMHC	**301.0**	**39.0**	**37.9**	**1.1**	**24.4**	**14.6**
Patient Advocate	13.0	1.0	1.6	-0.6	1.1	-0.1
TOTAL	**314.0**	**40.0**	**39.5**	**0.5**	**25.5**	**14.5**

The Legislative Analyst's Office has raised no issues with this proposal.

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

- **1.** Please provide a brief overview of your request.

<u>Budget Issue:</u> Does the Subcommittee want to adopt the request as proposed?

II. 4120 Emergency Medical Services Authority (EMSA)

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.

Overall Budget of the Department

With respect to the Mid-Year Reduction, the Legislature adopted the Administration's proposal to reduce the EMSA by $77,000 (General Fund) to reflect savings by shifting a position to special fund support and reducing out-of-state travel. **However, the Administration's proposal to transfer the EMSA to the Department of Health Services for savings of $342,000 ($132,000 General Fund) was not adopted.**

The Administration's budget for 2003-04 assumes total funding of $14.9 million ($3.9 million General Fund) within the DHS, to reflect the proposed transfer. This level of funding reflects a reduction of about $28.2 million (total funds) compared to 2002-03. **Most of this reduction is due to the elimination of $20 million (General Fund) for trauma care centers and the end of the first phase for the federal bioterrorism grant.**

B. ITEMS RECOMMENDED FOR CONSENT *(Items 1 to 4—Through Page 8)*

1. Paramedic Licensure and Enforcement Program

Background: According to the EMSA, since 1994 the workload for both the Paramedic Licensure Program and Enforcement Program has increased because there has been an increase in the number of paramedics (from 7,600 in 1994 to 11,900 in 2002) and the number of federal and state mandates for licensing agencies. In addition, the EMSA must ensure that misconduct by paramedics is appropriately disciplined. However, the number of staff who review and process the applications for licensure has decreased from three positions to 2.5 positions.

The EMSA contends that in order to ensure there are valid and competent paramedics available to render competent prehospital emergency medical care, they must have the resources necessary to be able to **(1)** review paramedic renewal applications to ensure paramedics have met the continuing education requirements to renew paramedic licenses before their expiration dates, and **(2)** process new paramedic license applications to fill the current shortage of 1,000 paramedics statewide.

Governor's Proposed Budget: The budget proposes **an increase of $100,000 (EMS Personnel Fund) to (1)** contract with the Attorney General's Office and the Office of Administrative Law ($70,000 total) to conduct activities related to paramedic prosecutions, and **(2)** provide for temporary help expenses related to licensing activities ($30,000).

Subcommittee Staff Recommendation: Subcommittee staff recommends approval of the request. No issues have been raised by constituency groups or the LAO and the proposal seems reasonable based on workload.

2. Paramedic Investigations

Background: The EMSA's Enforcement Unit is responsible for investigating alleged violations of the Health and Safety Code and recommending disciplinary action against the licenses of EMT-Ps (paramedics). There are approximately 12,000 paramedics in the state with that number increasing substantially each year.

According to the EMSA, the Enforcement Unit has experienced an increase in cases resulting in a substantial backlog. In fact, the unit had to implement a policy for written prioritization of cases wherein only Level I (high immediate risk to the public) cases are immediately assigned to investigators. Level 2 (probably risk to the public) and Level 3 (low risk) cases are assigned only as resources become available.

Based upon current projections, the average caseload for an EMSA investigator is 100 cases annually. As a comparison, the California Medical Board has a caseload of about 25 cases.

Staffing levels in the Enforcement Unit have not increased since 1997.

Governor's Proposed Budget: The budget **proposes an increase of $59,000 (EMS Personnel Fund) to fund an Investigator Assistant position in the Enforcement Unit.**

The Investigator Assistant would be responsible for providing assistance to the Enforcement Unit by obtaining documents, serving subpoenas, and performing other related duties. Specifically much of their time would be spend conducting criminal background investigations to determine suitability for a paramedic license (this is presently being conducted by a part-time Student Assistant).

Subcommittee Staff Recommendation: Subcommittee staff recommends approval of the request. No issues have been raised by constituency groups or the LAO and the proposal seems reasonable based upon workload.

3. California Emergency Medical Services Information System (CEMSIS)

Background: In 1997, California's EMS community embarked upon an aggressive and unprecedented statewide EMS planning process. Through this process, a comprehensive assessment was completed and included 90 recommendations for improvement, fifteen of which directly impacted the collection and use of prehospital data. It was agreed that a common data collection and information management system be developed and implemented. A feasibility study report (FSR) for implementation of the project was approved and initial funding was provided in 2000 (federal fund grant from the Office of Traffic Safety).

The objective of the CEMSIS project is to create a statewide database of EMS-based patient information and to then link that data whenever possible.

Governor's Proposed Budget: The budget proposes an increase of $85,000 (federal funds) to operate and house the CEMSIS at the Health and Human Services Data Center (HHSDC). The EMSA notes that the CEMSIS will contain data that is confidential and will be relied upon for departmental business operations. As such, state policy requires that it be housed at the HHSDC.

The amount needed to operate the CEMSIS was calculated by the HHSDC staff based upon resource requirements identified by the vendor chosen by competitive bid to implement the system, and volume estimates supplied by EMSA project staff.

Subcommittee Staff Recommendation: Subcommittee staff recommends approval of the request. No issues have been raised by constituency groups or the LAO and the proposal seems reasonable.

4. 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.

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.

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.

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** (TAC) 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.

Governor's Proposed Budget: The budget proposes **an increase of $80,000 (federal funds) to contract for a Emergency Medical Services Coordinator to incorporate the standards and protocols developed by the Technical Advisory Committee** (TAC) into state regulations and make strategic improvements to the EMS for Children Program.

Subcommittee Staff Recommendation: Subcommittee staff recommends approval of the request. No issues have been raised by constituency groups or the LAO and the proposal seems reasonable.

C. ITEMS FOR DISCUSSION

1. Transfer of the EMSA to the Department of Health Services

Background and Governor's Proposed Budget: The EMSA was created as a separate entity from the Department of Health Services in 1980, primarily due to dissatisfaction among emergency medical service constituency groups with the state's emergency medical service system.

In an effort to reduce state government, the Administration has proposed to consolidate the EMSA with the Department of Health Services. **The budget assumes savings of $342,438 ($138,440 General Fund, $128,198 federal funds, $62,607 EMS Personnel Fund, and $13,193 EMS Training Program Approval Fund) from this proposal.**

Specifically, the savings would be achieved by eliminating five positions--the Chief Deputy, Health Program Manager III, and three clerical support. In addition, it assumes that the Director of the EMSA is downgraded to a Career Executive Assistant (CEA) III level for savings of almost $13,000 (total funds). In addition, the Administration proposes trailer bill language which would achieve the proposed consolidation.

Subcommittee Hearing of January 15th and Constituency Comment: In the Subcommittee's January 15th hearing, numerous constituency groups testified against the consolidation. **Among many comments presented, it was noted that the EMSA:**

- Needs to remain independent in order to effectively manage and coordinate the multiple functions for which it is responsible and meet the needs of constituencies;
- Has conducted a comprehensive planning process for the Future Vision of California's EMS System which now needs to proceed with implementation;
- Has a long history of successfully working with a wide representation of constituencies on emergency preparedness and response;
- Needs to maintain the Commission on EMS as a regulatory body, not change to an advisory body as would occur under the proposed consolidation; and
- Is recognized as being expert at establishing medical standards and regulations for local EMS systems, including a hospital standards component.

The Subcommittee did not receive any testimony in support of the consolidation, nor has it received any correspondence in support of it.

Subcommittee Staff Alternative—Adopt Budget Bill Language: **In lieu of the consolidation**, it is suggested for the Subcommittee **to (1) reduce the EMSA state support item by $138,000 (General Fund),** the same amount as attributable to the proposed consolidation, **(2) adopt Budget Bill Language, and (3) restore the approximate $ 204,000 in federal and special funds** that would not be transferred over to the DHS. The suggested language is as follows:

Item 4120-001-0001 Provision 1.

It is the Legislature's intent for any reduction taken in this item to be obtained from state support only and not local assistance. This may include efficiencies and savings obtained from personnel expenditures, operating expenditures or equipment.

Subcommittee Request: The Subcommittee has requested **the EMSA to briefly explain the consolidation proposal.**

Budget Issue: Does the **Subcommittee want to adopt the budget proposal, the Subcommittee staff alternative or another option in order to achieve General Fund savings?**

2. California Poison Control System—Shift Funding to 911 Surcharge

Background--Overall: **The California Poison Control System (CPCS) is a major source of poison information, treatment and referral assistance to public and health professionals through their emergency hotlines (24-hour, 7 days a week).** It should be noted that the calls not only pertain to the ingestion of potentially toxic household products**, but also allergic reactions to products such as hair products, over-the-counter medications, the use of home cleaners,** and even the potential poisoning of pets/animals.

The staff also provides **a 24-hour interpreter service, Hazmat, public health surveillance and state of the art information references. They are currently preparing information and procedures to prepare for biological, chemical and nuclear terrorism threats to California.**

It should be noted that a portion of the CPCS activities consists of receiving and responding to transferred 911 calls.

California saves over $55 million annually in health care-related costs as a result of poison control consultations.

Background—Key Statistics: At the request of the Subcommittee, the CPCS has provided the following statistics regarding their services:

- Managed more than 367,000 poison calls in 2002
- 51 percent of poisonings involved children under 5 years of age.
- CPCS saves $7 for every $1 of cost
- 61,000 emergency department/physician office visits were averted by poison control consultants.

Current Year Funding: The CPCS has expenditures of about $9 million or so annually. Funding is obtained from a variety of sources, including in-kind support from the University of California at San Francisco, the City and County of San Francisco, some industry contracts, $1.6 million in federal HRSA funds, **$3.6 million in General Fund support from the EMSA and about $3.3 million in federal supplemental funds obtained from the California Medical Assistance Commission (CMAC).**

The Budget Act of 2002 reduced General Fund support by $400,000.

It should be noted that some Medi-Cal supplemental federal funds which had been previously made available to the CPCS will no longer be provided by CMAC. This is due to changes in the state's Selective Provider Hospital Contract Medicaid Waiver which was just approved by the federal government a few weeks ago. In essence, additional funds to be made available under the Waiver need to be provided for other uses, most notably disproportionate share hospitals, the Los Angeles County Health System, Children's Hospitals and graduate medical education assistance.

Governor's Proposed Budget: **The Administration proposes to use $3.6 million from the 911 Account to backfill for General Fund support for the California Poison Control System (CPCS).**

These additional 911 revenues would be obtained by increasing the 911 surcharge rate from 0.75 percent to 1 percent of intrastate phone charges (placed on monthly phone bills) to be effective as of November 1, 2003. It is estimated that $50 million would result from this increase and that various state activities, including the CPCS, would be funded with this adjustment.

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

- **1. Please explain why the 911 Account makes sense to use for this purpose.**
- **2. Is it likely that supplemental federal funds previously obtained from CMAC will be available in 2003-04 for this purpose? Could the current-year CMAC funding be further reduced or placed in jeopardy?**
- **3. From a public policy perspective, what may occur if funding is not provided for the CPCS?**

Legislative Analyst's Office Comment: The LAO contends that the Administration's proposed use of 911 surcharge funds is not consistent with current law for the 911 Account is to pay for equipment-related expenses, not other activities. Specifically, Section 41136 of Revenue and Taxation Code allows government agencies and telephone companies to receive funding to maintain 911 database and network functions, and install computer aided dispatch systems and software.

In addition, the LAO believes that use of the 911 Account for the CPCS would not be equitable because other "Public Safety Answering Points" such as homeless shelters, are not included in the Administration's proposal.

Subcommittee Staff Recommendation: Due to the General Fund shortfall, it is recommended to adopt the Administration's proposal to fund CPCS with $3.6 million in 911 Account funds. Without these funds, it is unlikely that the CPCS could be maintained.

Further, though other Public Safety Answering Points would not be eligible for 911 Account funding under the Administration's proposal, the CPCS should be viewed differently due to the often urgent medical nature of potential poisonings and the overall level of health care savings--

including potential emergency transportation—that often result from the services provided by the CPCS.

Budget Issue: Does the **Subcommittee want to adopt the Administration's proposal** to adjust the 911 surcharge?

3. Hospital Bioterrorism Preparedness Program—Federal HRSA Funds

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, **provided 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.
- **$9.9 million from the federal Health Resources and Services Administration (HRSA) to the DHS and transferred to the EMSA;**
- $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.

The funds provided to the state were obtained by submitting two comprehensive applications-- one to HRSA and one to the CDC. These applications and funding were discussed in a comprehensive manner through the budget deliberations which crafted the Budget Act of 2002.

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, and **(3)** coordination among the three grant programs (i.e., CDC, HRSA and federal DHHS) to standardize protocols and minimize redundancy.

Budget Act of 2002: The Budget Act of 2002 **appropriated about $8.5 million (federal funds) for local assistance** to develop and implement bioterrorism response planning in California **and $597,000 (federal funds) for state support (four limited-term positions through June 30, 2003).**

Update on EMSA Activities: The EMSA states that the **Hospital Bioterrorism Preparedness Planning Committee,** consisting of 46 representatives from hospitals, clinics, emergency medical services, public health and others, **has established priorities for funding as follows: (1)** Communications, **(2)** medications, **(3)** personal protective equipment, **(4)** decontamination facilities, **(5)** surge capacity, **(6)** smallpox, **(7)** standardized training programs for healthcare providers, **(8)** clinic focus—enhancement of general and terrorism emergency management planning and preparedness, and **(9)** statewide standardized training program. **These priorities are consistent with and meet the HRSA guidelines as described in the grant notice, and have been forwarded to the EMSA for final consideration.**

The EMSA states that they are "on target" to meet the deadlines as outlined in the state's application and that implementation will begin in mid-March and be fully implemented during 2003-04.

Governor's Proposed Budget: The Administration **proposes to expend a total of $594,000 (federal funds) to fund four limited-term positions** and related costs (total of $450,000) **and an interdepartmental contract—primarily for a Medical Director** (total of $144,000)--to complete implementation of the bioterrorism response plan, and perform follow-up contract audits and compliance reviews. This proposal basically extends for one more year the proposal contained in the Budget Act of 2002.

Specifically, the four limited-term positions (extend to June 30, 2004) include: a Hospital Bioterrorism Preparedness Program Coordinator, an Associate Health Program Advisor, an Associate Governmental Program Analyst, and an Office Technician. In addition, the EMSA will contract with a Medical Director with expertise in emergency medicine and bioterrorism planning, to provide medical direction of the program.

The EMSA notes that the terms of the HRSA grant require the appointment of adequate staff to support the program and allow for program administration costs to be included in the budget.

Subcommittee Request and Questions: The Subcommittee **requested the EMSA to provide a *brief* update** regarding the implementation of the Hospital Bioterrorism Preparedness Program and to respond to the following questions:

- **1.** Please briefly describe your proposal and why the positions are needed for one more year. (What key milestones need to be completed?)

III. 4280 Managed Risk Medical Insurance Board (MRMIB)

A. BACKGROUND

Purpose and Description of the Board

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).**

Overall Budget of the Board

The budget proposes total expenditures of $972.4 million ($92.3 million General Fund, $511.6 million Federal Trust Fund, $220 million Tobacco Settlement Fund, and $148.5 million in other funds) for all programs administered by the Managed Risk Medical Insurance Board. Of this amount, $7.1 million is for state operations and $965.3 million is for local assistance.

The budget proposes key changes to the Healthy Families Program and the Access for Infants and Mothers Program.

Summary of Expenditures (dollars in thousands)	2002-03	2003-04	$ Change	% Change
Program Source				
Major Risk Medical Insurance (including state support)	$41,220	$40,082	($1,138)	(2.8)
Access for Infants & Mother (including state support)	$96,461	$117,488	$21,027	21.8
Healthy Families Program (including state support)	$706,673	$814,780	$108,107	15.3
Totals, Program Source	**$844,354**	**$972,350**	**$127,996**	**15.2**
General Fund	**$31,285**	**$92,310**	**$61,025**	**195**
Federal Funds	**$445,867**	**$511,585**	**$65,718**	**14.7**
Tobacco Settlement Fund	**$234,752**	**$220,000**	**($14,752)**	**(6.3)**
Other Funds	**$132,450**	**$148,455**	**$16,005**	**12**
Total Funds	**$844,354**	**$972,350**	**$127,996**	**15.2**

B. ITEMS RECOMMENDED FOR CONSENT *(Items 1 Through 2—To Page 16)*

1. Eliminate the Sunset Date for the Healthy Families Program

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

In response to this opportunity, the Legislature and Governor advanced the Healthy Families Program (HFP) through a package of legislation, including **(1)** AB 1126/97 (Figueroa and Villaraigosa), **(2)** SB 903/97 (Lee and Maddy), **(3)** AB 1572/97 (Villaraigosa and Gallegos), and **(4)** AB 217/97 (Figueroa).

The Healthy Families Program provides health, dental and vision coverage through managed care arrangements to uninsured children in families with incomes up to 250 percent of the federal poverty level. Families pay a monthly premium and copayments as applicable. The benefit package is modeled after that offered to state employees. Eligibility is conducted on an annual basis.

California's HFP legislation established **a sunset date of January 1, 2004** for the program to provide an opportunity for future reconsideration of the program's structure and design (because it was new).

The federal SCHIP legislation allows for 10 years of funding beginning in federal fiscal year 1998 through federal fiscal year 2007. This legislation also designated the total funding level for each federal fiscal year and specified the allocation formula to the states.

Governor's Proposed Budget: The Administration **is proposing to repeal Section 12693.99 of the Insurance Code which contains the sunset clause (January 1, 2004)** for the Healthy Families Program (HFP).

Subcommittee Staff Recommendation: Subcommittee staff recommends adoption of the proposal. The Legislative Analyst's Office has raised no issues.

2. Administrative Transfers

Background and Governor's Proposed Budget: Like most small Boards, MRMIB has traditionally out-sourced their administrative functions to a larger state department—the Office of Statewide Health Planning and Development (OSHPD). This was done through a series of inter-agency agreements between the two entities for the past 11 years.

At this time, MRMIB seeks to transition this arrangement by increasing MRMIB staff by two positions to conduct activities related to business services, personnel and accounting, and deleting 3.5 positions at OSHPD which had previously performed this work.

The budget proposes to provide two positions—Personnel Specialist I and Business Services Officer I—at the MRMIB to perform the specified administrative functions. No increase in funding is being requested. As such, the proposal does not result in a net increase to the state in positions or support cost.

Subcommittee Staff Recommendation: Subcommittee staff recommends adoption of the proposal. The Legislative Analyst's Office has raised no issues.

C. ITEMS FOR DISCUSSION

1. MRMIB Administrative Support Reductions

Background: The budget for 2003-04 provides the MRMIB with $7 million ($1.7 million General Fund, $3.3 million federal funds, $1.9 million in Proposition 99 Funds and $99,000 in Reimbursements) to fund about 68 positions to conduct administrative support functions associated with the Healthy Families Program, the Access for Infants and Mothers (AIM) Program and the Major Risk Medical Insurance Program.

***Mid-Year Reduction Proposal*:** The Legislature adopted the Administration's Mid-Year Reduction to reduce the MRMIB support item for 2002-03 by $191,000 ($66,000 General Fund).

Governor's Proposed Budget: The budget proposes to reduce administrative costs by $360,000 ($125,000 General Fund), or 5 percent of their overall expenditures. (Seven percent of their General Fund support.) Of this amount, **(1)** $299,000 or 83 percent is being reduced from external contracts, **(2)** $35,000 is from out-of-state and in-state travel, and **(3)** $26,000 is from various operating expenses, including training, data processing and equipment.

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

- **1.** Please briefly explain the proposal.

Budget Issue: Does the **Subcommittee want to adopt the proposal?**

2. Proposed Consolidation of the Access for Infants and Mothers (AIM) Program (See *HAND OUT* for trailer bill language)

Background—Existing Program: The Access for Infants and Mothers (AIM) Program **provides health insurance coverage to uninsured 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, including the application of Medi-Cal income deductions. (Generally, women below 200 percent of poverty are eligible for Medi-Cal.) **Subscribers must be no more than 30 weeks pregnant and pay a subscriber contribution equal to 2 percent of the family's annual income (average of $790) plus $100 for the infant's second year of coverage, or only $50 if the infant's vaccinations are current.** AIM is not an entitlement program. The level of available funding determines the enrollment capacity.

Currently, AIM offers coverage through **9 contracted health plans.**

AIM Expenditures Increasing Significantly: Over the past several years, costs and enrollment for AIM have exceeded budgeted levels. As a result, the MRMIB has submitted several requests to the Legislature for additional funds in order to avoid having to cap enrollment levels. At the same time, the primary funding source for AIM (Proposition 99 Funds—Physician Account, Hospital Services Account, and Unallocated Account) has continued to decline.

Specifically, expenditures for AIM have increased substantially over the past two years—by 76 percent—as noted in the chart below.

Summary of Expenditures	**2001-02 Actual**	**2002-03 Estimated**	**2003-04 Proposed**
Fund Source: (Dollars in Millions)			
Perinatal Insurance (Proposition 99 Funds)	$62.5	$83.2	$97.3
General Fund	1.5	0.3	7.1
Tobacco Settlement	--	4.3	--
Federal Funds	2.9	8.6	13.1
TOTALS	**$66.9**	**$96.4**	**$117.5**
Percent change		**44%**	**22%** **76% (2 yrs)**

Most of this increased cost is attributable to increased caseload, as well as increasing HMO rates to provide this type of coverage. **The MRMIB notes that a separate program, such as AIM, with specialized services for cost-intensive enrollees makes it difficult to negotiate rates with health plans because the risk cannot be spread across a large purchasing pool (i.e., these are pregnant women only, no other enrollees). This in turn, limits the number of health plans willing to participate in the program.**

Governor's Proposed Budget—Shift Eligible Infants to the Healthy Families Program: In order to address funding and caseload issues in AIM, the Administration proposes **to consolidate AIM and enroll *eligible* infants into the Healthy Families Program (HFP) at birth while continuing to provide women with prenatal and postpartum care through AIM. This proposal applies to infants born to women who enroll in AIM on or after July 1, 2004.**

The MRMIB states that by merging AIM in this manner, the state should be able to obtain lower health plan rates for infants via the Healthy Families Program (larger risk pool), as well as achieve other economies of scale through consolidating certain program administration. **Specifically, infants in families *between 200 and 250 percent of poverty* would be funded through the Healthy Families Program using General Fund and federal Title XXI funds (35 percent General Fund to draw a 65 percent federal match).**

AIM infants in families *between 250 and 300 percent of poverty* (above the Healthy Families Program income threshold) would be funded with 100 percent state funds (Proposition 99 Funds).

Although there is no budget year fiscal effect due to the July 1, 2004 implementation date, the Administration assumes net annual savings of $10 million at full implementation. The fiscal affect of this is based on a comparison of the cost of pregnant women and their infants under the current AIM Program versus the infants' cost under the HFP.

Key assumptions include the following:

- **Subscribers would pay a subscriber contribution equal to 1.5 percent** (not the current 2 percent) of the family's annual income for enrollment in AIM **<u>and</u>** then the applicable HFP monthly premium for the **infant,** contingent upon family income level (about $7 to $9 per child per month).
- Infants would be enrolled in the Healthy Families Program at birth.
- Infants 0-12 months with a gross family income **over 250 percent** of poverty would be enrolled in the HFP and funded with Proposition 99 funds.
- **At the infant's first birthday an "annual eligibility review" would be conducted, and the following would occur:**
    - Infants in families with incomes below 133 percent of poverty would be eligible for no-cost Medi-Cal;
    - Infants in families with incomes between 133-250 percent of poverty would remain in the HFP;
    - Infants in families with incomes between 250-300 percent would be in the HFP (using state funds) for one additional year (until age 2); **and**
    - Infants in families with incomes over 300 percent of poverty would be disenrolled.
- At the infant's next annual eligibility review (second birthday), and the following would occur:
    - Infants in families with incomes below 133 percent of poverty would be eligible for no-cost Medi-Cal;
    - Infants in families with incomes between 133-250 percent of poverty would remain in the HFP; and
    - Infants in families with incomes over 250 percent would be disenrolled in the HFP.

It should be noted that this proposal will potentially affect expenditures in the California Children's Services (CCS) Program. This is because children enrolled in the Healthy Families Program are also eligible for CCS services if they meet the medical eligibility criteria. Therefore, MRMIB can potentially obtain better AIM rates because the risk of having high cost, medically involved infants is shifted to the CCS Program where the state and county pick-up the costs. The potential cost shift to the CCS Program is unknown at this time.

Total Proposed AIM Expenditures for 2003-04: A total of $117.5 million ($97.3 million Perinatal Insurance Fund, $7.1 million General Fund, and $13.1 million in Title XXI federal funds), including state support is proposed for AIM. **Of this amount, $116.5 million is for local assistance.** As discussed above, although there is no budget year fiscal effect, the Administration assumes net annual savings of $10.2 million (total funds).

A total of 9,531 women and 138,237 infants are expected to served in AIM in 2003-04.

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

- **1.** Please **briefly describe the proposal** to shift eligible AIM infants to the HFP, including how the Subscriber payments would change.
- **2.** Specifically, how would the infant be enrolled (i.e., shifted from AIM) to the HFP? Would this be a straightforward, simple process?
- **3.** Please step through each section of the Administration's proposed trailer bill language for this item using the "Hand Out". **(Also, please state what technical fixes are needed to correct the Administration's proposed draft trailer bill, such as the need for emergency regulation authority and a date change.**)
- **4.** How may the California Children's Services Program (CCS) be affected by this proposal?

Budget Issue: Does the Subcommittee want to adopt the AIM consolidation proposal, or modify it?

3. AIM Outreach Funding

Background and Governor's Proposed Budget: The budget proposes **to appropriate $2 million (Proposition 99 Funds)** to conduct a wide variety of outreach activities, including **(1)** presentations and trainings for insurance agents, healthcare plans, schools and government agencies, **(2)** developing and distributing advertisements for television and print media, and **(3)** organizing media events.

Subcommittee Staff Comment: This funding proposal is inconsistent with the Administration's approach in other health care programs where outreach, education, and information assistance has been stripped from the budget. For example, all of the outreach funding for Medi-Cal for children and Healthy Families has been deleted, funding for education activities in TeenSMART has been deleted, information regarding the Newborn Hearing Screening Program has been deleted and there are many other examples.

AIM has been over its estimated caseload every budget year since 1998. **As such, outreach funding could be deleted during a time of fiscal crisis and used to support other health care service programs.**

Budget Issue: Does the Subcommittee want to delete the $2 million (Proposition 99 Funds) from AIM outreach and use it in another programmatic area for health care services?

4. Healthy Families Program Estimate—*ISSUES "A" to "C"*

Background—Overall on the HFP: The Healthy Families Program provides health, dental and vision coverage through managed care arrangements to uninsured children in families with incomes up to 250 percent of the federal poverty level. Families pay a monthly premium and copayments as applicable. The benefit package is modeled after that offered to state employees. Eligibility is conducted on an annual basis.

Background—Child Health Disability Prevention Gateway for the HFP: Through the Budget Act of 2002, and corresponding trailer bill language, the CHDP Program was modified to create a "gateway". This gateway is used for the CHDP Program (i.e., children not otherwise eligible for Medi-Cal or the HFP), Medi-Cal Program and the HFP. *(The gateway will be discussed further when the Department of Health Services budget is discussed at a later hearing.)*

Under the gateway (to be implemented beginning July 1, 2003) for HFP eligible children, an uninsured, eligible child is "pre-enrolled" in Medi-Cal Fee-For-Service for up to 60-days. During this time, the state is receiving a 65 percent federal Title XXI (S-CHIP) match for services, and the applicant is proceeding with the full HFP (or if applicable, Medi-Cal) application enrollment process.

Governor's Proposed Budget—Overall on the HFP: A total of $814.8 million ($85.3 million General Fund, $220 million Tobacco Settlement Fund and $498.5 million Federal Title XXI

Funds, and $11 million Reimbursements) is proposed for the Healthy Families Program, including state administration. **Of this amount, $809.7 million ($83.6 million General Fund, $220 million Tobacco Settlement Fund, $495.2 million Federal Title XXI Funds and $10.9 million Reimbursements) is for local assistance.**

Further due to the continuing economic downturn, the Governor is proposing to delay implementation of the HFP Parents expansion until July 2006. However, the Legislature does not need to take action regarding this proposal since the HFP Parent expansion can only occur if an appropriation is made for that purpose *(Reference Section 12693.755 of Insurance Code).* As such, the existing statute regarding the HFP Parent expansion can remain as presently crafted. (The Administration has proposed to change the date (to July 2006) for the bridge from Medi-Cal to Healthy Families; this issue is discuss below, under Issue "B".)

ISSUE "A"— Children's Program Estimate: Caseload and Related Adjustments

Governor's Proposed Budget: The budget proposes total local assistance expenditures of **$809.7 million ($83.6 million General Fund, $220 million Tobacco Settlement Funds** and $495.2 million federal funds) for the children's program. This is about 16 percent more than the current-year. **(It should be noted that it is unclear at this time whether the $220 million in Tobacco Settlement Funds will be available due to the bond securitization.)**

The primary adjustment for the baseline program pertains to caseload increases, with a small shift of some program funding from the Tobacco Settlement Fund to the General Fund.

The budget assumes **a total enrollment of 768,232 children as of June 30, 2004, for an increase of 99,715 children, or about 15 percent, over the revised current year enrollment level.**

This enrollment figure is based **on the sum of four population segments as follows:**

- Children in families **up to 200 percent of poverty:** 556,755 children
- Children in families **between 201 to 250 percent of poverty:** 148,789 children
- Children in families who are **legal immigrants:** 25,573 children
- Child Health Disability Prevention (CHDP) Gateway Access: 37,115 children

The Administration assumes **that net enrollment growth in the budget year will begin to slow as total enrollment reaches the end of the universe of potential eligible children and disenrollments and new enrollments equal out.**

The budget year adjustment also assumes the following key adjustments:

- $88.99 (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 $88.72) 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 are in progress and the May Revision will reflect adjustments.
- $200 (average cost) for health, dental and vision plan payments per infant per month (o to 1 years). This is the same as assumed under the Budget Act of 2002. **The actual monthly rate paid is based on MRMIB negotiating with the participating plans through a model contract process.** Negotiations are in progress and the May Revision will reflect adjustments.
- The Budget Act of 2002 implemented a program change in which the initial premium will cover the first full month of family enrollment. This assumption remains the same for the budget year.
- The administrative vendor payments to EDS reflect final negotiated contract costs (for the period of July 1, 2002 through December 31, 2003) of $5.71 per member per month. MRMIB states that they will be re-procuring a new administrative vendor in the budget year.
- As published in the Federal Register, California's federal matching percentage for the period October 1, 2003 to September 30, 2004 (federal fiscal year) will remain at 65 percent.

Legislative Analyst's Office Comment—Wait for May Revision Estimate: The LAO states that based on their analysis of recent trends, **they believe the Administration's proposed funding level *may be* over budgeted by about $20 million ($8.5 million General Fund).** Specifically, the costs associated with enrollment of children from the CHDP Gateway may be over budgeted by as much as $10 million (total funds) and costs associated with general HFP enrollment may be over budgeted by more than $10 million (total funds).

The LAO notes that since caseload data beyond December 2002 is not yet available, it is unclear whether a caseload enrollment drop in the HFP that occurred in December is actually a downward shift in overall enrollment, or a one-time decrease. They also note that California is experiencing its first "soft economy" since the implementation of the HFP and as such, it is unclear what affect this may have on the rates at which children enroll and disenroll in the program.

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

- **1.** Please **provide a brief summary** of the request, **including caseload and key assumptions.**

Budget Issue: Does the Subcommittee want to reduce the HFP estimate by $20 million ($8.5 million General Fund) and corresponding federal funds to reflect the LAO comment regarding the likelihood of less estimated caseload, ***or*** wait until the Governor's May Revision when caseload estimate adjustments will be made and more actual data is available?

<u>ISSUE "B"—"Bridge" for Children Moving Between Programs (*See Hand Out*)</u>

<u>Background:</u> Historically, **a one-month "bridge"** has been provided **between the Medi-Cal and HFP programs for children, *<u>and</u>* a two-month bridge has been provided between the HFP and Medi-Cal**. As a families income rises or falls, children can continue to receive health care coverage as they transition to the other program, pending eligibility determination and plan transfer, when applicable.

In the omnibus health trailer bill (AB 430) which accompanied the Budget Act of 2001, statute was changed to provide for a **two-month bridge** between programs as part of the state's HFP Parental Expansion Waiver. However, even though the Waiver was approved by the federal government, **the two-month bridge (from Medi-Cal to the HFP) has never been implemented because funding for the Waiver expansion has not yet been appropriated.**

The two-month bridge (from HFP to Medi-Cal) has been in operation. This **bridge** takes effect when the HFP determines at annual eligibility review that the family's income qualifies the child for no-cost Medi-Cal coverage.

<u>Governor's Proposed Budget (See Hand Out):</u> The Administration is proposing trailer bill language (See page 26, Section 16, of the Hand Out) to change the two-month provision to a one-month provision. **In addition (See page 29, subparagraph "j"), the Administration also proposes to insert an implementation date of October 1, 2006 for the one-month bridge (Medi-Cal to HFP) to change to two months.** The Administration is suggesting this subparagraph language for it would correspond with their concept of when funding may be available for the Waiver and parental expansion.

<u>Subcommittee Staff Recommendation:</u> It is recommended **to modify the Administration's language by modifying subparagraph j (on page 29, the underscored section). The revised suggested language is as follows:**

> <u>(j) The one month of benefits provided in this section shall be increased to two months commencing upon implementation of the waiver as referenced in Section 12693.755.</u>

The one-month reference would be used to replace the two-month reference in the other sections as noted. This would reflect existing funding and practice as the bridge pertains to going from Medi-Cal to the HFP.

In addition, the existing practice of having a two-month bridge in going from the HFP to Medi-Cal will remain. Funds are included in the Governor's budget for this purpose.

<u>Budget Issue:</u> Does the Subcommittee want to adopt the Subcommittee staff recommendation, the Administration's proposed trailer bill language as crafted, **or** another version?

<u>ISSUE "C"—Rural Health Demonstration Projects</u>

<u>Background:</u> The **Rural Health Demonstration Projects, enacted into law in 1997 as part of the original enabling HFP legislation for children**, **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.** These projects are an integral component of the Healthy Families Program.

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, and rate enhancements to increase HFP provider networks in remote areas. According the Rural Demonstration Project 2002 Fact Book, over 238 projects have been funded with very successful and measurable results.**

The enabling legislation for Rural Health Demonstration Projects contained a sunset clause, as did the Healthy Families Program overall. Specifically, the statute is set to sunset as of July 1, 2003.

<u>Budget Act of 2002:</u> **The Legislature restored a total of $4.8 million ($1 million General Fund, $683,000 Tobacco Settlement Funds and $3.2 million federal funds) for the Rural Demonstration Projects funded under the MRMIB, and the Governor sustained the adjustment.**

<u>Governor's Proposed Budget:</u> The budget proposes to eliminate the Rural Demonstration Projects funds used in the HFP for savings of $4.8 million ($1.7 million General Fund and $3.1 million federal Title XXI funds).

According to the MRMIB, the only reason these projects are being deleted is due to General Fund constraints.

<u>Subcommittee Staff Recommendation:</u> Subcommittee staff recommends to redirect $2 million in Propositions 99 Funds from the Access for Infants and Mothers (AIM) which was to be used for outreach activities (as discussed under item 3, above) and redirect them to the Rural Health Demonstration Projects.

In addition, in order to obtain a federal Title XXI match, **it is also recommended to adopt placeholder trailer bill language which would enable Proposition 99 funds to be used to obtain a federal match specifically for the Rural Demonstration Projects.** If place holder trailer bill language is not adopted, then a federal match cannot be obtained. Due to the structure of Proposition 99, a four-fifths vote of the Legislature is required for passage in order to obtain the federal funds. **Further**, it is recommended **to extend the sunset for the projects for three more years (to January 1, 2007)**.

<u>Budget Issue:</u> Does the **Subcommittee want to adopt (1)** the Administration's budget to eliminate the Rural Demonstration Projects, **(2)** the Subcommittee staff recommendation, ***or*** **(3)** create another option?

5. Medi-Cal and Healthy Families Program Outreach

Budget Act of 2002 and Mid-Year Reduction: **The Budget Act of 2002** significantly reduced the level of funding available for this purpose. Specifically it provided $10.3 million ($3.9 million General Fund and $6.4 million in federal funds). **Generally, the Budget Act of 2002 funds were allocated as follows:**

- Payments to Community-Based Organizations—total of $7.138 million:
  - $6.138 million for Application Assistance Fees; and
  - $1 million for payment processing fees;

- Outreach Support—total of $2.528 million:
  - $1.296 million for Advertising toll-free 888 line;
  - $650,000 for CBO support staff/reporting;
  - $400,000 for application and Health e-app training; and
  - $182,000 for training and presentations.

- Education—total of $650,000
  - $650,000 for administration, research and travel expenditures

The Governor's Mid-Year Reduction, as adopted by the Legislature, reduced $168,000 (General Fund) from the above amount.

Governor's Proposed Budget (See Hand Out—Pages 39 to 42): The budget **proposes to eliminate all of the outreach program, *except* for $1.3 million ($650,000 General Fund). The $1.3 million (total funds) is to be made available for the toll-free telephone lines** which are used to provide program information to various interested parties, including potential enrollees. The proposed trailer bill language makes outreach activities permissive, not mandatory and contingent upon appropriation in the annual Budget Act.

Subcommittee Staff Recommendation: Due to General Fund fiscal constraints, it is recommended to adopt the Administration's proposal, including the proposed trailer bill language.

Subcommittee Request: The Subcommittee **has requested the DHS and MRMIB to briefly describe their proposal *and* to step through the proposed trailer bill language (pages 39 to 42).**

Budget Issue: Does the Subcommittee want to concur with the Administration's proposal to delete all funding except for the $1.3 million and to adopt the proposed trailer bill language, ***or*** to modify the proposal?

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Senate Budget & Fiscal Review
Senator Wesley Chesbro, Chair

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

Senator Wesley Chesbro, Chair
Senator Gilbert Cedillo
Senator Tom McClintock
Senator Bruce McPherson
Senator Deborah Ortiz

March 10, 2003

2:30 PM or Upon Adjournment of Session

Room 4203

(Diane Van Maren, Consultant)

Item	*Description*
4440	**Department of Mental Health**

- **Community-Based Mental Health**
- **State Hospitals**

I. 4440 Department of Mental Health

Overall Purpose and Description of the Department

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.

Overall Budget of the Department

The budget proposes expenditures of $2.319 billion ($786.8 million General Fund) for mental health services. This reflects a decrease of $60.2 million, or 7 percent, over the revised 2002-03 budget. Of the total amount, $1.588 billion is for local assistance, $693.1 million is for the state hospitals, $19.3 million is for department support, and $6 million (General Fund) is for state mandated local programs.

In addition, it is estimated that $1.095 billion will be available in the Mental Health Subaccount (County Realignment Funds) which does not directly flow through the state 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.

Summary of Expenditures (dollars in thousands)	2002-03	2003-04	$ Change	% Change
Program Source				
Community Services Program	$1,577,648	$1,625,631	$47,983	3
Long Term Care Services	659,608	693,121	$33,513	5
State Mandated Local Programs	6	6		
Total, Program Source	$2,237,262	$2,318,758	$81,496	3.6
Funding Source				
General Fund	$846,960	$786,789	($60,171)	
Federal Funds	60,834	60,839	5	
Reimbursements	1,325,684	1,467,919	142,235	
Other Funds	3,784	3,211	(573)	
Total Department	$2,237,262	$2,318,758	$81,496	

A. Community-Based Mental Health Services

Summary of Funding

State Funding: **The budget proposes expenditures of almost $1.588 billion ($224.3 million General Fund) for community-based local assistance, including the Conditional Release Program.** This reflects an increase of $131.9 million (total funds) and a reduction of $95.9 million (General Fund) as compared to the revised 2002-03 budget.

Realignment Funding: **In addition, it is estimated that $1.095 billion will be available in the Mental Health Subaccount (County Realignment Funds) which does not directly flow through the state budget.** This estimate is based on the following revenue estimates:

- Sales Tax $820,568,000
- Vehicle License Fee Account $265,784,000
- Vehicle License Fee Growth Account $8,718,000
- Sales Tax Growth Account $-0-

Realignment revenues deposited in the Mental Health Subaccount, as established by formula outlined in statute, are distributed to counties until each county receives funds equal to the previous year's total. Any realignment revenues above that amount are placed into a growth account. Generally, first claim on the distribution of growth funds are caseload-driven social services programs. Any remaining growth (i.e., "general" growth) in revenues is then distributed according to a formula in statute.

Concerns with Lack of Growth Funds: As discussed in a recently released report on mental health realignment (AB 328 Realignment Data, Department of Mental Health, February 5, 2003), **due to continued caseload growth in Child Welfare services and Foster Care, as well as cost increases in the In Home Supportive Services (IHSS) Program, growth distributions to the Mental Health Subaccount and Health Subaccount have been substantially reduced. This is because the first claim on the Sales Tax Growth Account goes to caseload-driven social services programs, not the Mental Health Subaccount.**

ITEMS FOR DISCUSSION—COMMUNITY MENTAL HEALTH

1. Unmet Mental Health Needs in California—*Informational Item*

Assessing Mental Health Needs in California—600,000 People in Unmet Needs: A comprehensive analysis of "**unmet" need has been recently conducted by the California Mental Health Planning Council (Council) (Report dated March 2003).** They reviewed a number of methodologies for estimating how many people need public mental health services and **worked with the California Mental Health Directors Association (CMHDA) and the Department of Mental Health (DMH) for *more than a year* to develop these estimates.**

According to the Council's Report, they believe that a reasonable estimate of unmet need for public mental health services is about *600,000 persons*. To put this figure in perspective, about 460,000 persons were served in the public mental health system in 1997-98. **Therefore, the public mental health system would need to more than double to meet the needs of all children and youth with serious emotional disturbances and adults and older adults with serious mental illness.**

"Unmet" need reflects the number of people who are not getting any mental health services at all. It does not reflect the number of people who are underserved.

Summary of Unmet Need Estimates of Age Group

Age Group	Lower Limit CMHS (1)	Lower Limit CMHS (2)	Lower Limit Meinhardt (1,3)	Lower Limit Meinhardt (2,3)
0-17	123,592	271,978	123,592	271,978
18-20	28,888	28,888	33,339	33,339
21-59	191,913	191,913	239,963	239,963
60+	92,042	92,042	104,164	104,164
Lower Total	**436,435**	**584,821**	**501,058**	**649,444**
Age Group	**Upper Limit CMHS (1)**	**Upper Limit CMHS (2)**	**Upper Limit Meinhardt (1,3)**	**Upper Limit Meinhardt (2,3)**
0-17	493,593	864,000	493,593	864,000
18-20	76,889	76,889	87,925	87,925
21-59	699,403	699,403	820,316	820,316
60+	225,145	225,145	254,916	254,916
UPPER Total	**1,495,030**	**1,865,437**	**1,656,750**	**2,027,157**

CMHS—federal Center for Mental Health Services.
(1) Unmet need for 0-17-year-olds is calculated based on children with SED and extreme functional impairment.
(2) Unmet need for 0-17-year-olds is calculated based on children with SED and substantial functional impairment.
(3) Meinhardt's estimates to do not apply to 0-17-year-olds. In order to estimate total unmet need for all age groups, Meinhardt's prevalence rates were used for transition-age youth, adults, and older adults, and CMHS figures have been used for the 0-17-year-olds.

The Council notes that any method for estimating "unmet" need has limitations that must be carefully considered when evaluating the results of the study, **including the following key considerations:**

- Due to a variety of factors, including **human resource shortages, geographic location, population growth rates and socioeconomic status, some counties have more difficulty providing services to their persons in need.**
- **Ethnic populations may be hesitant to report mental illness and to seek services.**
- **The Serious Emotional Disturbance prevalence rates used apply to children from 9 to 17 years of age only.** Generally, data are presently inadequate to estimate for children under the age of nine. However, some studies have suggested prevalence rates of 7 to 22 percent for younger children. **Therefore, the Council's methodology most likely provides a conservative estimate for this age group.**
- The data used for both the Meinhardt and CMHS are derived from household surveys. **As a result, they exclude the homeless and people in nursing homes, military barracks, correctional institutions, hospitals and residential facilities for persons who are mentally ill or mentally retarded.**

Subcommittee Request and Questions: The Subcommittee has requested **Ms Ann Arneill-Py**, Executive Director of the California Mental Health Planning Council, **to provide an overview of their unmet needs analysis.**

Budget Issue: No action is required. This is an informational item.

2. Report on Realignment Data As Required by Chapter 367/2001 (February 2003)

Summary of Mental Health Funding— Historically Under Funded: As noted by the DMH in public testimony before the Little Hoover Commission, **limited funding of the existing public mental health system is the foremost limiting factor in providing adequate services.**

In reviewing past funding patterns, this has been generally true historically. According to a 1990 report by the California Mental Health Directors Association**, between 1975 and 1990 the mental health system experienced an erosion of about $320 million due to unfunded client population growth and increases in the cost of providing services. Since mental health services were never established as an "entitlement", it made it difficult for these services to compete for state General Fund moneys during a time of economic recession and diminishing state revenues.**

Background—Realignment Significantly Changes Governance Structure and Funding: AB 1288 (Bronzan and McCorquodale), Statutes of 1991, realigned the fiscal and administrative responsibility under county authority. **The intent of mental health realignment was generally to:**

- Provide a more stable funding source for community-based services;
- Shift program accountability to the local level (counties and two cities);
- Provide counties with additional flexibility regarding the use of mental health funds for those receiving services from the county;
- Establish local advisory boards in each county to provide advice to local mental health directors;
- Make services more client centered and family focused;
- Develop performance measures and outcome data;
- Redefine the role of the state in providing services through the State Hospital system and its responsibilities in program oversight and evaluation.

Background--Realignment Funding: **In 1992, Realignment funding replaced about $700 million in state General Fund support for community mental health services.** Realignment revenues, funded by an increase in the Sales Tax and in vehicle license fees, are collected by the state and allocated to various accounts and subaccounts in the Local Revenue Fund. **The Mental Health Subaccount is the principal fund that contains revenues for the provision of local mental health services.**

It should be noted that due to a decrease in revenues (sales tax and vehicle license fees) in 1991-92, realigned services were not funded initially at the 1990-91 levels. Counties only received $668 million—about $82 million less than the actual expenditures for realigned services in mental health services in 1990-91. **As noted in the Report on Realignment, funding levels finally met the 1990-91 levels in 1994-95 (the fourth year of Realignment).**

In addition, realignment funding was based on the current funding going to each county at the time of implementation and did not take into consideration the adequacy of funding prior to 1991.

Realignment revenues deposited in the Mental Health Subaccount, as established by formula outlined in statute, are distributed to counties until each county receives funds equal to the previous year's total. Any realignment revenues above that amount are placed into a growth account. Generally, first claim on the distribution of growth funds are caseload-driven social services programs. Any remaining growth (i.e., "general" growth) in revenues is then distributed according to a formula in statute.

It is estimated that $1.095 billion will be available in the Mental Health Subaccount (County Realignment Funds) for 2003-04. These funds do <u>not</u> directly flow through the state budget because they are county funds.

<u>Concerns with Lack of Growth Funds:</u> As discussed in report, **due to continued caseload growth in Child Welfare services and Foster Care, as well as cost increases in the In Home Supportive Services (IHSS) Program, growth distributions to the Mental Health Subaccount and Health Subaccount have been substantially reduced. This is because the *first claim on the Sales Tax Growth Account goes to caseload-driven social services programs, not the Mental Health Subaccount.***

<u>Background--Realignment Target Population:</u> **The statute also defined appropriate use of these funds and established definitions for priority target populations to help focus how resources are spent. Specifically, counties are required to provide services to individuals who have a severe mental illness or serious emotional disturbance, *<u>to the extent that resources are available</u>.*** The criteria include diagnoses with psychotic features, serious functional impairment, risk of hospitalization, and risk of removal from home (mainly for children). **There are no income eligibility provisions; therefore, individuals with assets are charged fees according to an established schedule.**

<u>Background—Impact of Medi-Cal on the Mental Health System Since Realignment:</u> As noted in the Report on Realignment, **the second largest revenue source for county mental health programs is Federal Medicaid (Medi-Cal) dollars.** As noted in the Report on Realignment, understanding the changes in the state's Mental Health Managed Care Program ***since*** **Realignment and the interaction of the Medi-Cal revenues with Realignment are critical to analyzing the current structure** and status of public mental health services in California.

Following Realignment, counties were *mandated* to serve the Medi-Cal population who meet medical necessity criteria and counties were making an effort to assist clients in getting on Medi-Cal since this provided additional federal dollars. Realignment replaced the state General Funds that were previously used to draw the federal Medicaid match.

Key Findings of Report on Realignment Data (February 2003) as Required by Statute: AB 328 (Salinas), Statutes of 2001 directed the DMH to report to the Legislature regarding three areas of **mental health financing and service delivery since Realignment—revenues, services and expenditures.**

Key Findings—REVENUES & EXPENDITURES

- Under the current funding structure, **funds appropriated to the counties under Realignment have not kept pace** with 1991-92 levels when population changes and medical inflation are taken into account (page 30). The percentage increase in medical inflation and client growth combined **has been greater than the increase in realignment revenues.**
- Increased **federal funding has provided some revenue assistance; however, many counties must use an increasing proportion of their Realignment funds to draw the federal Medicaid (Medi-Cal) match. As such, they have decreased the amount of funds expended for indigent clients** (page 30). Specifically, three major changes have increased the availability of federal funding:
  - Implementation of the Rehabilitation Option which added certain mental health services available under the Medi-Cal Program (with no state General Fund affect);
  - Consolidation of the Fee-For-Service Program into the Mental Health Managed Care Program; and
  - Expansion of Medi-Cal services to children under 21 years of age under the Early and Periodic Screening, Diagnosis and Treatment (EPSDT) Program;
- **Mental health programs are not able to continue to generate sufficient revenues to keep pace with increased client and service usage and increases in expenditures for services. The Report notes that the number of clients served and expenditures for services for these clients have both risen dramatically over the last ten years.**
- Total mental health expenditures have increased 72 percent since the enactment of Realignment. This is due to many factors, including medical inflation (as calculated by the DMH and federal CMS), increased acuity of clients and their service usage, and other factors such as housing and staffing costs.

Key Findings—SERVICES & SERVICE DELIVERY

- Counties have been **able to reduce inpatient services and use these cost savings to increase access and create more appropriate and less restrictive community treatment services.** County flexibility has further allowed counties to institute best practices, which appear to be more effective in the recovery process for individuals with severe mental illness and serious emotional disturbances.
- The number of **Medi-Cal clients served increased 131 percent over the 10 year period**, while numbers of indigent clients served decreased by about 8 percent. **This resulted in a shift in the balance between Medi-Cal and indigent clients:**
  - 45 percent Medi-Cal to 55 percent indigent clients in 1990-91.
  - 68 percent Medi-Cal to 32 percent indigent clients in 1999-2000.

This shift is probably mainly due to the fact that following Realignment, counties were mandated to served the Medi-Cal population who meet medical necessity criteria and counties are making an effort to assist clients in getting on Medi-Cal since this provided additional federal dollars.

- **Usage of services for individuals with severe mental illness and serious emotional disorders has been increasing.** This is reflected both in increasing numbers of clients served and the increasing intensity of services provided per client.
- The growth in services for children and youth has been greater than for adults.

Subcommittee Request and Questions: The **Subcommittee has requested representatives from the counties, the DMH and other interested parties to respond to the following questions or to offer general public comment and observation:**

- **1. Counties**, From your perspective what key aspects of the report are of note to you from either a policy or fiscal perspective? Do you have any suggestions for improvements?
- **2. DMH**, What is your perspective of the information? Do you have any suggestions for improvements?
- **3. LAO,** What is your perspective of the information?

Budget Issue: No action is required. This is an informational item.

3. Mental Health Managed Care—ISSUES “A” to “E“

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 government (i.e., HCFA, now the Centers on Medicare and Medicaid—CMS).**

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.**

The Waiver promotes plan improvement in three significant areas—access, quality and cost-effectiveness/neutrality.

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 also provided to the MHP's.**

Based on the most recent estimate of expenditure data for 2001-02, of California’s state share of cost for Mental Health Managed Care, County MHPs provided a 46 percent match while the state provided a 54 percent match. (Adding these two funding sources together equates to 100 percent of the state’s match in order to draw down the federal Medicaid funds.)

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 of the Federal Waiver Renewal & Emergency Regulations

Background—Status of Waiver Still Pending: California is currently operating under a temporary extension of the Medi-Cal Mental Health Managed Care Waiver (Waiver). **Our existing two-year Waiver expired as of November 2002 but the state has been obtaining 90-day extensions to continue existing operations. The latest 90-day extension (the second) provides operation *through May 19, 2003*. According to both the DHS and DMH, it is anticipated that the CMS will approve California's Waiver.**

In order to renew our Waiver, the state had to submit a required "Independent Assessment" of the Waiver, submitted to the federal CMS in November 2002, as well as provide additional information in response to questions asked by the CMS.

Background—Emergency Regulation Authority Is Never Ending: Effective **November 1, 1997,** the DMH adopted emergency regulations for Medi-Cal Mental Health Managed Care as provided for in Section 5775 of Welfare and Institutions Code. However, this authority was **never intended to be on-going.**

Since this time, the DMH has obtained authority to continue the emergency regulations through annual Budget Act Language, including language adopted in 1998, 1999, 2000, 2001 and 2002. This authority will expire as of June 30, 2003, unless action is taken to extend this authority.

The DMH has **had two public comment periods on the emergency regulations—November 1997 to January 1998, and November-December 1999.** According to the DMH, extensive public comment was received.

Governor's Proposed Budget—Budget Bill Language and Trailer Bill Language (See Hand Out): **The Governor's proposed budget contains Budget Bill Language for the purpose of extending the emergency regulation authority to July 1, 2004. Specifically, the proposed language is as follows:**

> "Notwithstanding any other provision of law, the emergency regulations adopted pursuant to Section 14680 of the Welfare and Institutions Code to implement the second phase of Mental Health Managed Care as provided in Part 2.5 (commencing with Sections 5775) of Division 5 of the Welfare and Institutions Code shall remain in effect **until July 1, 2004**, or until the regulations are made permanent, whichever occurs first, and shall not be subject to the repeal provisions of Section 11346.1 of the Government Code until that time."

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

- **1.** Please provide **an update on the status of the emergency regulations for Medi-Cal Mental Health Managed Care**. **Why has the process taken so long?**
- **2. What else needs to be done to complete the normal regulation process?**
- **3.** Please provide an **update on the status of the Waiver.** What else needs to be done to complete the Waiver process?

Subcommittee Staff Recommendation: It is recommended **to delete the Budget Bill Language as contained in the Governor's proposed budget and instead, utilize the Administration's proposed trailer bill language as requested for development of emergency regulations for the new federal regulations (See Agenda, ISSUE "C", below).**

Further it is recommended for the Administration (DMH and DHS) to keep the Subcommittee informed as to the (1) progress of completing the entire package of Medi-Cal Mental Health Managed Care regulations, and **(2)** ongoing discussion with the federal CMS and approval of the state's Waiver for Medi-Cal Mental Health Managed Care.

Budget Issue: Does the Subcommittee want to adopt the staff recommendation or another option?

ISSUE "B"—Discussion of the "Independent Assessment" for Waiver Renewal

Background—What is the Independent Assessment: The federal CMS **requires states to submit "Independent Assessments" of their Waivers in order to determine (1) client access to services, (2) quality of services, and (3) the cost effectiveness/neutrality. An Independent Assessment must be conducted and provided to the federal CMS every two years, prior to Waiver renewal.**

The Department of Finance, Office of State Audits and Evaluations Unit, entered into an interagency agreement with the DHS (as the sole Medicaid Agency) to perform the Independent Assessment of the Waiver. The DHS, in consultation with the DMH developed and provided the DOF unit with a proposed work plan.

The DOF conducted their assessment in several phases over a six-month period. They met with over 100 county representatives, conducted County MHP site visits, spoke with seven clients and provider advocacy groups, and meet with various DMH representatives. They also reviewed other supplemental documentation to familiarize themselves with the current implementation of the Waiver program**. In addition, 139 chart reviews of clients were conducted and 23 provider sites were visited.**

The DOF notes in their analysis that they also performed a limited fiscal review to determine whether claimed billings were supported by source documentation.

Key Findings of the Independent Assessment: The Independent Assessment looked at three key components—access to services, evaluation of quality, and cost-effectiveness analysis. **This report is about 120 pages; as such, key findings in each of these areas are noted below:**

Access to Services—Key Findings and Concerns *(Page iv of report)*

A key goal of the Waiver is to improve access to specialty mental health services for Medi-Cal clients. **The Independent Assessment evaluated four core access elements—gatekeeping functions, 24/7 emergent and urgent-care capacity, outreach to targeted and under-served populations, and availability of patients' rights and choice information.**

Based this evaluation, the DOF found that access for Medi-Cal clients has improved since the implementation of the Waiver and that advocacy groups believe that California would best be served by continuation of the Waiver.

However, the following areas of concern were also identified.

- **Uneven statewide provision of Medi-Cal reimbursable services**;
- Historical **inequitable County MHP funding bases and resulting effects on current utilization and penetration rates**;
- **Lack of standards governing provider capacity** and providers' self-assessment of capacity;
- **Insufficient numbers of hospital beds and step-down facilities**;
- Shortages of general ***and*** child psychiatric services and the **resulting appointment delays and waiting lists.**

Evaluation of Quality—Key Findings and Concerns *(Page iv of report)*

The Waiver is also intended to enhance quality of services. **The DOF looked at many elements regarding quality, including coordination of care, continuous care methodologies, cultural competence, credentialing provides and quality management programs. The DOF notes that quality of services has improved since the Waiver.**

However, the following areas of concern were also identified.

- **Barriers to overall coordinated care** include the disconnect between county-operated/contract and network fee-for-service providers, the inconsistent sharing of treatment results among providers, and the inconsistent provision of case management to mental health clients.
- **Inconsistent statewide ability to discharge clients to lower levels of care**, possibly resulting in increased inpatient readmission rates and hospital administrative days.

- **Inconsistent statewide methodologies and periodicity requirements** for preparation and update of assessments and client plans;
- **Inconsistent statewide scope of quality assurance systems**, especially pertaining to provider chart reviews;
- **Infrequent and inconsistent quality assurance monitoring** of provider charts, particularly of network fee-for-service providers.
- **Lack of state special incident reporting** system for outpatient services;

Evaluation of Quality—Key Findings and Concerns ***(Page iv of report)***

The DOF determined **that the Waiver was cost effective/neutral** (meaning that more funds would have been spend had the Waiver not been implemented).

However, the following areas of concern were also identified.

- EPSDT costs are **not tracked by the County MHPs because the state requires no oversight of EPSDT expenditures.**
- The methodology used to calculate the federal CMS –approved cost effectiveness figure (referred to as "upper payment limit") is based only on historical trends and does not provide accurate estimates because actual data becomes obsolete, as unpredicted changes in the environment take place.
- EPSDT program costs represent 40 percent of overall Waiver costs.

Department of Finance, Evaluation Unit's Conclusions and Recommendations: Though overall the DOF concluded that the Waiver improved both access to and quality of services while maintaining cost-effectiveness/neutrality, **they also identified recommendations for areas that require consideration and analysis *by the DMH* to determine the most appropriate course of action. The DOF's recommendations included the following:**

DOF Conclusions and Recommendations ***(Page vi of report)***

- **DMH should** promulgate regulations requiring an increased level of capacity monitoring for network fee-for-service providers to reduce the incidence of service delays;
- **DMH should** develop statewide guidelines and best practices to provide guidance and assistance to help ensure that County MHPs operate at optimal levels.
- **DMH should** draft a State Quality Improvement Plan to coordinate oversight efforts and support County MHPs.
- **DMH/DHS should** revise the methodology used to calculate the "Upper Payment Limit" and it should be performed by an actuary, or based on sound methodology, similar to that contained in the DHS Manual for Upper Payment Limits in health.

- **DMH should** enhance the existing special incident reporting system to include reportings on outpatient care.
- DMH should implement a plan for monitoring medication utilization trends in order to identify unusual fluctuations and promote appropriate use of resources.

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

- **1.** What does the **DMH and DHS think of the Independent Assessment key findings?**
- **2.** Are there **any recommended changes** to Medi-Cal Mental Health Managed Care due to the findings **that the DMH is going to proceed with?**

ISSUE "C"—Implementation of New Federal Regulations for Waiver

Background—New Federal Regulations for Waiver: As discussed above, California's Medi-Cal Mental Health Managed Care Program operates under a federal Waiver. Our Waiver enables a County Mental Health Plan (MHPs) to limit client access to a specific pool of services and practitioners. The Waiver promotes MHP improvement in three significant areas—access, quality, and cost containment/neutrality.

New federal managed care regulations were issued in June 2002 and must be implemented by the state and MHPs by August 13, 2003. According to the DMH, the new regulations require significant changes in the operation of the program.

Specifically, the regulations would require the following:

- **1.** The DMH must arrange for **annual "External Quality Reviews" (EQRs)** of the quality outcomes and timeliness of access to services covered by **each MHP** (56 MHPs—there are two MHPs that cover two counties);
- **2.** The methodology used to **reimburse the MHPs must be validated annually by a qualified actuary**. The DMH notes that **the actuarial studies may result in the need to revise current methods since the method currently used for distributing state General Fund support to the MHPs is not actuarially determined.**
- **3.** The **state must provide extensive information to clients** about the MHPs and client rights available under the Waiver, including detailed explanations of federal regulations written in a language that can be easily understood by all clients.
- **4. The state must conduct expedited state fair hearings (a decision within three business days of filing) in situations in which a client may suffer harm** if the process follows the normal 90-day time frame. According to the DMH, there are about 100 mental health-related fair hearings per year and currently**, the hearing process frequently takes more than the allowed 90-days**. *(These costs are address in a DHS-*

related budget change proposal and will be discussed at a subsequent Subcommittee hearing.)

- **5. The County MHPs will be required to (a)** establish advance directive systems, **(b)** establish formal compliance plans and systems, **(c)** finalize and distribute informational materials, **(d)** comply with new administrative requirements related to provider contracts, **(e)** maintain additional documentation of the adequacy of the MHP's provider networks, **(f)**adopt formal practice guidelines, and **(g)** establish a more complex grievance and appeal system.

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.

Governor's Proposed Budget (See Hand Out): The budget proposes **an increase of $6.2 million ($1.7 million General Fund** and $4.5 million in reimbursements from the DHS—federal Medicaid funds) **and a two-year limited-term Associate Mental Health Specialist position to support federally required External Quality Reviews (EQRs)** of the County Mental Health Plans (MPHs) **and related activities** to ensure that the program is brought into compliance with new federal regulations.

In addition, the Administration is proposing trailer bill language to adopt *new* emergency regulations implementing the new federal requirements on an emergency basis because of the federal implementation timeline (August 13, 2003)

Of the amount proposed, (1) $5.6 million is for a contract to conduct EQRs of the MHPs, (2) $50,000 is for a contract to conduct an actuarial analysis, **(3)** $500,000 is for client information materials, and **(4)** $75,000 is for the position and related operating expenses.

The DMH states that the funding level for the EQR contract is modeled after the DHS contract which is used to conduct 20 EQRs (of Medi-Cal Managed Health Care Plans) along with certain other required studies. The DHS contract costs $2 million (total funds) annually; therefore, the comparison of using $5.6 million (total funds) is probably accurate, given that 36 more EQRs would need to be conducted.

The DMH states that the requested two-year limited-term position is needed to review and revise existing state and MHP systems to comply with the new regulations. Specifically, it would be used to review current state regulations, MHP contracts, DMH Letters to Counties and Information Notices, Waiver documents and other materials for compliance with the new federal regulations.

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

- **1.** Please provide **a brief description of the *key* components of the federal regulations.**
- **2. Please provide a brief description of the budget request.**

- **3. How are County MHPs affected by the new federal regulations?**
- **4. Does the DMH anticipate any other changes with respect to the new federal regulations that would require a change to the budget? If yes, please explain.**
- **5. Will these emergency regulations be done in tandem** with completing the emergency regulations for Medi-Cal Mental Health Managed Care overall?
- **6. Will the External Quality Reviews be made available to the public or Legislature upon request?**

Subcommittee Staff Comment: Subcommittee staff recommends approval of the request **except for the two-year limited-term position.** In lieu of the new position, it is recommended to re-direct a position from within the DMH for this purpose. **Savings of $75,000 ($37,500 General Fund) would be obtained by deleting the position.**

It is recognized that this is an important function that needs to be completed; however due to implementation timeframes (i.e., August 2003) it is unlikely that the DMH would be able to hire someone and have the activities accomplished. Further, DMH staff is working on this issue now and therefore, have been redirecting resources already for this purpose.

Budget Issue: Does the **Subcommittee want to** adopt the budget as proposed, including the trailer bill language, ***or*** require the DMH to redirect an existing position as recommended by Subcommittee staff for savings of $75,000 ($37,500 General Fund)?

ISSUE "D"—Governor's Proposed Reduction in Funding of Waiver

Background—State & County Realignment Funds Used to Draw Federal Match: As discussed above, the state's Mental Health Managed Care Program operates under a federal Waiver whereby County Mental Health Plans (MHPs) are responsible for the provision of public mental health services, including those for Medi-Cal recipients.

An annual state General Fund allocation is provided to County MHPs, though counties also use a substantial amount of County Realignment funds—Mental Health Subaccount--to draw down federal matching dollars. For example,

Based on the most recent estimate of expenditure data for 2001-02, of California's state share of cost for Mental Health Managed Care, County MHPs provided a 46 percent match while the state provided a 54 percent match. (Adding these two funding sources together equates to 100 percent of the state's match in order to draw down the federal Medicaid funds.)

State General Fund Allocation: **The state General Fund allocation is usually updated each fiscal year to reflect adjustments as contained in Chapter 633, Statutes of 1994 (AB 757, Polanco). These adjustments have typically included, changes in the number of eligibles served, factors pertaining to changes to the consumer price index (CPI)for medical services, and other relevant cost items.**

However, **the state's allocation is contingent upon appropriation through the annual Budget Act. As such in more difficult fiscal years, state General Fund support has *not* been provided for the medical CPI, or the base level of funding has been proposed for reduction (such as this year).**

Governor's Proposed Mid-Year Reduction: The Administration proposed a reduction of **$8 million ($4 million General Fund)** in the Mid-Year Reduction proposal for 2002-03. This proposal assumed a ten percent "provider rate" decrease effective April 1, 2003. **This proposal was denied by the Legislature.**

Governor's Proposed Budget: The budget proposes a total state General Fund appropriation of $207.1 million (General Fund) for allocation to the County MHPs to assist in funding the Waiver Program. **This reflects a *net* decrease of $12.2 million ($6.1 million General Fund)** in the amount the state provides to the counties for Mental Health Managed Care**. It should also be noted that the medical CPI is being funded** and has not been funded since the Budget Act of 2000; This equates to another $13.4 million ($6.7 million General Fund) loss to the County MHPs.

This net decrease consists of the following proposed *key* adjustments:

- **Decrease of $46 million ($23 million General Fund) in the base County allocation amount. The Administration is referring to this as a ten percent Medi-Cal provider rate reduction; however, it should be noted that the counties already negotiate rates with their providers so in real terms, it is a reduction to the County allocation.**
- **Increase of $12.4 million ($6.2 million General Fund) to reflect increased County MHP administrative costs** due to the implementation of the **new federal regulations**. *(This item was discussed in the above item of the agenda—See Issue "C".)*
- **No adjustment for the medical Consumer Price Index (CPI) was provided. According to the DMH, it would be about 3.4 percent in the budget year for an expenditure of $13.4 million ($6.7 million General Fund). It should be noted that the medical CPI has not been funded for Mental Health Managed Care since the Budget Act of 2000.**

Subcommittee Staff Comment: The proposed reduction will likely result in County MHPs serving fewer individuals and having difficulty in meeting statutory and contractual responsibilities related to the provision of Medi-Cal Mental Health Managed Care services.

As discussed under Issue "B" above, the state and the counties are having some difficulty in presently meeting needs and requirements. As noted in the Independent Assessment, the state needs to address numerous issues regarding client access to services, quality of services, performance outcome measures and program management functions.

Both the short-term and long-term effect of this action is to cost shift mental health services more to the counties. **This proposal continues the Administration's direction to substantially reduce General Fund support for mental health services, other than the State Hospitals. About $164 million (General Fund), or 34 percent of the General Fund, was reduced from community-based mental health services in the Budget Act of 2002.**

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

- **1.** Please provide a **brief description** of the proposal.
- **2. From a policy perspective, does the DMH have concerns with reducing this program given the comments contained in the Independent Assessment?**

ISSUE "E"—Any DMH Efforts to Capture Additional Federal Funds?

Background: Generally, there **are three key ways that the public mental health system draws federal funds using a combination of state General Fund and County Realignment Funds as the state's Medicaid match. These three ways include: (1)** Medi-Cal Mental Health Managed Care Waiver, **(2)** the Rehabilitation Option, and **(3)** Early Periodic Screening Diagnosis and Treatment (EPSDT). Each of these areas enables California to draw one federal dollar for each state dollar (State General Fund and County Realignment Fund).

The Rehabilitation Option, implemented in 1993, opened Medi-Cal reimbursement eligibility to a wide range of licensed practitioners—psychiatrists, psychologists, licensed clinical social workers, and marriage, family and child counselors. Delivery of mental health services may be located in a variety of sites rather than in the traditional clinic setting. California has been able to draw down hundreds of millions in increased federal reimbursement through this option.

Potential Alternatives for Obtaining Increased Federal Funds: The Department of Developmental Services has done a tremendous job in expanding their Home and Community Based Waiver for individuals with developmental disabilities. **Opportunities also exist for the DMH to pursue a similar opportunity.**

Chapter 887, Statutes of 2002 (SB 1911, Ortiz), **directed the DMH to conduct an analysis**, contingent on receipt of funding for this purpose, **of expanding California's Home and Community-Based Waiver to include mental health services.** Given this fiscal environment, the DMH should be proceeding with this anyway.

Second, the DMH should also investigate whether California can obtain additional federal funds through the Medicaid Rehabilitation Option. It may be possible that some existing services could be included in this option in order to draw down additional federal funds.

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

- **1.** Has the **DMH recently investigated the feasibility of increasing federal funds for any public mental health services?**
- **2. Has any work been conducted specifically regarding SB 1911 (Ortiz)?**

Budget Issue: Does the **Subcommittee want to direct the DMH to report back regarding the feasibility of obtaining increased federal funds?**

4. AB 3632, 1984 Mental Health Services to Special Education Pupils

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, County MHPs are responsible for providing mental health services to students when required in the pupil's Individualized Education Program (IEP). This is because **AB 3632** (W. Brown), Statutes of 1984, **shifted responsibility for providing these services from School Districts and transferred them to the counties.**

These services are an entitlement and children can receive services irrespective of their parent's income-level. In addition, County MHPs cannot charge families for these services because the children are entitled to a free and appropriate public education under federal law.

What Mental Health Services Are Mandated: **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 the County MHP *and* the approval of the IEP team, or by parental decision.** Among other things, **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.

History of Funding for AB 3632 (Prior to 2002): For the past decade or so, **counties have paid** for the cost of the program **through a combination of the following:**

- **(1)** Categorical funding provided by the DMH as appropriated through the state budget process (about $12 million annually);
- **(2)** Mandate reimbursement claims as obtained via the State Commission on State Mandates process (referred to as the SB 90 process;

- **(3)** Realignment funds; and
- **(4)** Third-party health insurance when applicable, though parents can chose not to access their insurance for this purpose if they so decide (federal law).

It is estimated that about $100 million in total funds is expended annually.

Based on statistics from 2001-02, there are about 27,000 special education pupils who receive mental health services provided by County MHPs.

Budget Act of 2002 and AB 2781: The Budget Act of 2002 **eliminated the $12 million (General Fund) of categorical funding and directed the counties to obtain these funds through the mandate claims reimbursement process.**

As such AB 2781 (Section 38 of the legislation), the omnibus education trailer bill to the Budget Act of 2002, **requires the state to reimburse counties for all allowable costs incurred by counties in providing certain services to handicapped and disabled pupils. Reimbursement by the state would be provided either through the annual Budget Act or other statute.**

However, the Budget Act also placed a moratorium on all mandate reimbursement claims for local government, including funds provided for these mental health services to special education pupils. As such, no funds are available in the current year for this purpose, other than County Realignment funds.

In addition, counties have not been reimbursed for prior year claims for these services.

Further, **the statute provides that counties are not required to provide any share of these costs or to fund the cost of any part of these services with money received from the Local Revenue Fund** (i.e., County Realignment Funds) **for those reimbursement claims for services delivered in the 2001-02 fiscal year and thereafter to these pupils.**

Governor's Proposed Budget: The budget proposes to continue the **moratorium on all mandate reimbursement claims for local government, including funds provided for mental health services to special education pupils.**

At this time, it is unclear when the moratorium may end.

Summary of Constituency Concerns: The California Mental Health Directors Association (CMHDA) is **extremely concerned that funding for past claims have not been paid and that any future payment is unknown at this time (i.e., there is no statutory timeframe as to when mandate reimbursements will resume).**

Since July 1, 2002 counties have not received any funding for mental health services provided as an entitlement to special education pupils. According to the CMHDA, **counties must advance about $8 million per month (about $100 million annually) of County General Fund support**

to maintain these services. Further they contend that over $130 million is owed to counties for these services since the state has not yet paid claims from 2001-02 and some prior years.

Some counties may be able to provide some portion of funding for these services; **however, the CMHDA believes this would create a "catch-22" situation whereby if counties use County Realignment funds for this purpose, they may not submit mandate reimbursement claims for their costs. In addition, County Realignment funds are intended to serve their "target" population (low-income and uninsured population of children diagnosed as being Seriously Emotionally Disturbed).**

The CMHDA also states that a lack of funding is also causing service slow-downs in some areas and parents and Special Education Local Program Agencies (SELPAs) are becoming frustrated.

Subcommittee Staff Comment: California currently receives about $781 million in federal funds from the Individuals with Disabilities Education Act (IDEA), Part B grant. These funds are expended for a variety of special education functions. **According to recent federal funding information, California is slated to receive an increase of about $151.5 million (federal funds) in this grant for the budget year which will bring total funding to $933 million.**

A portion of these new federal funds may be available for expenditure for the mental health services provided by the counties for special education pupils. Based on current information, the provision of mental health services to special education pupils (i.e., a related service needed to ensure the success of the child's special education services) would be an appropriate expenditure of these funds, especially since these services are mandated by the IDEA.

It should be noted that California does have a federal "maintenance of effort (MOE)" problem with respect to the state's General Fund contribution to special education. Specifically, the state must increase General Fund support by $28.5 million or seek a federal waiver from this requirement. **As such, discussion regarding the full expenditure of the pending federal increase of $151.5 million will need to occur in a more comprehensive forum, such as in Senate Budget Subcommittee #1 which crafts the budget for education issues.**

Therefore, it is recommended to request Senate Budget Subcommittee #1 to place this issue on their agenda when special education issues are discussed. Specifically it would be to investigate the feasibility of funding these mental health services with IDEA, Part B, federal grant funds on a prospective basis (i.e., 2003-04 forward).

Subcommittee Request and Questions: The Subcommittee **has requested County Representatives as well as other interested parties, including parents, students, providers and advocacy groups to present their concerns. Further, the Subcommittee has requested the Administration (DMH and DOF) to provide any comment if desired.**

Budget Issue: Does the Subcommittee **want to request the Senate Budget Subcommittee #1 to discuss this issue in the context of special education funding priorities?**

5. Proposed Elimination of Funding for Early Mental Health Program (Proposition 98 Funds)

Background: Under the Early Mental Health Initiative, the state awards grants (for up to three-years) to Local Education Agencies (LEAs) to implement early mental health intervention and prevention programs for students in Kindergarten through Third Grade. Schools that receive grants must also provide at least a 50 percent match to the funding provided by the DMH. Schools use the funds to employ child aides who work with students to enhance the student's social and emotional development.

Students in the program are generally experiencing mild to moderate school adjustment difficulties. Students must have parental permission to participate in the program. In addition, all Early Mental Health Initiative programs are required to contract with a local mental health agency for referral of students whose needs exceed the service level provided in this program.

The Early Mental Health Initiative is an effective school-based program. **It serves children experiencing school adjustment issues who are *not* otherwise eligible for special education assistance or county mental health services because the student's condition is usually not severe enough to meet the eligibility criteria in these other programs (such as the Children's System of Care Program or EPSDT services).**

Governor's Mid-Year Reduction Proposal: The Administration proposed to revert $549,000 (Proposition 98 General Fund) in **unexpended** funds in 2002-03 and to eliminate the program in 2003-04 for savings of $15 million (Proposition 98 General Fund). **The Senate adopted the Mid-Year Reduction of $549,000 (Proposition 98 General Fund) but deferred action on the budget year proposal.**

Governor's Proposed Budget: The budget proposes to **(1)** eliminate the Early Mental Health Initiative for savings of $15 million (Proposition 98 General Fund), and **(2)** modify existing statutory language which would make the program subject to the availability of funding each year.

Staff Comment and Recommendation: Both the short-term and long-term effect of this reduction is that children with mild to moderate school adjustment problems will likely not receive services and may, as a consequence, need more intensive services later. Further, these students may end up doing poorly in school and developing other problems.

However, with this being a fiscal year where choices are difficult and triage must be done, it **should be noted that the Children's System of Care Program and the Early Periodic Diagnosis and Treatment (EPSDT) programs serve children with severe mental health needs,** where as the Early Mental Health Program serves children with school adjustment issues.

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

- **1. Please provide a brief description of the proposal.**
- **2.** Could schools continue to provide these services using their Proposition 98 funds if they so choose?

<u>Budget Issue:</u> Does the Subcommittee want to adopt the Administration's budget proposal?

<u>6. Early Periodic Screening Diagnostic and Treatment (EPSDT)—ISSUES "A" to "B"</u>

<u>Background—Overall:</u> **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 <u>mental health service that is medically necessary</u>** to correct or ameliorate a defect, physical or mental illness, or a condition identified by an assessment, **including services <u>not otherwise included</u> in a state's Medicaid (Medi-Cal) Plan.**

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, **counties are responsible for providing, arranging and managing Medi-Cal mental health services under the supervision of the DMH and DHS. However, eligibility and the scope of services to which eligible children are entitled, are *not* established at the local level.**

<u>Types of Services:</u> 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.**

<u>EPSDT Litigation:</u> In 1990, a national study found that **California ranked 50th** among the states in identifying and treating severely mentally ill children. **Subsequently due to litigation (T.L. v Belshe' 1994)**, the DHS was required to expand certain EPSDT services, including outpatient mental health services. The 1994 court's conclusion **was reiterated again in 2000 with respect to additional services (i.e., Therapeutic Behavioral Services—TBS) being mandated.**

<u>EPSDT Funding Process:</u> The DHS and DMH **crafted an interagency agreement in 1995 to implement expanded services.**

Generally, this *original* agreement required County MHPs to provide a "baseline" amount using County Realignment Funds (essentially a county "maintenance-of-effort"**) and then the state was responsible for providing the nonfederal share of the growth in the program.**

The baseline amount is established for each county based on a formula. **For 2003-2004, the baseline is $66.3 million <u>plus</u> an additional 10 percent county match ($5.9 million for the budget year) which was instituted in the Budget Act of 2002. The state will provide**

funding (via Medi-Cal) for costs above this amount (above the baseline and 10 percent match).

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 MHPs responsible for the provision of specialty mental health in each county. Final payment is based on cost settled actual allowable costs, or rates.**

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 5.2 percent (as of 2001-02) for all ages. This varies from county to county and by age group. For example, for Los Angeles for children ages 9 to 17 years has a penetration rate of 7.7 percent, Sacramento has a rate of 9.4 percent and Solano has a rate of 8.7 percent for the same group.

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!**

Reasons Why Costs Continue to Increase: **A variety of factors have contributed to the continued expansion of EPSDT,** including legal decisions, recent Medi-Cal Program expansions, 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.

It should be noted that when counties agreed to administer the EPSDT Program in 1995, a part of the understanding was that counties would endeavor to expand the program to meet the state's legal obligations under EPSDT (due to the litigation).

After the 2000 court decision regarding Therapeutic Behavioral Services (TBS), counties were once again urged by the state to act and assure that TBS services were available to any Medi-Cal eligible child in need of the service.

Further, in a 2001 report to the Legislature by the DMH entitled Utilization of the EPSDT Benefit, the DMH notes:

> "At least preliminarily, it appears that during the initial years of EPSDT implementation, County MHPs focused on increasing access to services for those EPSDT eligible children who needed

> them; thus the number of clients served increased. **As the program has matured, counties are finding that they need to increase the intensity of services to many young clients with the most severe emotional disturbances in order to achieve positive outcomes and to keep youth in their homes, functioning in school and out of the juvenile justice system. This has resulted in higher paid claims per client in a number of counties that were unable to provide these levels of service prior to EPSDT."**

Budget Act of 2002—EPSDT Reductions: The Budget Act of 2002 **cut General Fund support by $35 million ($60 million total funds including federal funds) *and* required County MHPs to fund a 10 percent share-of-cost (equivalent to $5 million).**

The 10 percent county-share-of-cost was directed through a Governor's budget veto whereby he further reduced General Fund support and directed the DMH to obtain a 10 percent match from the counties.

In addition, trailer bill language was enacted which directed the DMH to assist counties in implementing managed care principles that would help slow the growth in the program. The DMH is proceeding with some steps to implement these provisions to curtail growth in the program (As discussed in Issue "A", below).

ISSUE "A"—Update On Cost Containment, including Regulations

Background—Statutory Authority: As discussed above, trailer bill language was enacted with **the Budget Act of 2002 which directed the DMH to assist counties in implementing managed care principles that would help slow the growth in EPSDT.** This language however, did not provide the DMH with any emergency regulation authority. Instead on their own, the DMH opted to use emergency regulation authority provided to the DHS for Medi-Cal fraud and abuse purposes which was contained in AB 1107, Statutes of 1999, the omnibus health trailer bill for the Budget Act of 1999.

It should also be noted that the **DMH has authority to conduct audits and reviews of counties and EPSDT providers** that contract with counties to deliver the services. In addition, the state (DMH and DHS) **can if needed, stop county MHP or provider payments, reclaim funds already paid, and seek program changes to remedy their findings.**

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

- **1.** Please provide **a brief description of the various cost containment reviews** (such as the field audits) **and measures** implemented, including the development of emergency regulations for **Day Treatment Services** and actions taken regarding **Therapeutic Behavioral Services** (TBS).
- **2. When will emergency regulations be in place**?

ISSUE "B"—Proposed Change in EPSDT Funding Methodology

Background & Governor's Proposed Budget: In an effort to more accurately estimate EPSDT expenditures, the DMH has changed its methodology for estimating budget year needs. **On key change is that DMH's revised method takes into account specific data on EPSDT growth trends in *each* county**, while the previous expenditure projection method was based on cost data that was aggregated on a statewide basis.

The budget requests **an increase of $150 million ($142.4 million in Reimbursements from the DHS of which $69.7 million is General Fund and $72.7 million is federal Medicaid funds, and $7.5 million in County Realignment funds) for the EPSDT Program, including Therapeutic Behavioral Services (TBS).** This increase reflects a proposed change in estimating methodology by the Administration in an effort to more accurately reflect expenditures.

The Department of Finance states that the full effect of cost control measures implemented by the Legislature through AB 442, Statutes of 2002, trailer bill to the Budget Act of 2002, will not be realized until 2004-05. **However, the proposed $230.4 million increase does assume a smaller growth rate.**

Legislative Analyst's Office Recommendation: Though the LAO **concurs that the new methodology is consistently more accurate based on historical data, they are recommending a reduction of $25 million ($11.7 million General Fund) from the budget since they believe the new methodology may error on the side of providing too much funding.**

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

- **1. DMH,** Please provide a overview of the new methodology and why you believe it will more accurately reflect expenditures.
- **2. LAO**, Please explain your recommended reduction.
- **3. DMH** Please respond to the LAO concerns.

Budget Issue: Does the Subcommittee **want to adopt the LAO reduction or approve as budgeted**?

7. The Administration's Proposed Realignment & the LAO Realignment Option

Governor's Proposed Budget—Summary Overall: The Governor's proposed Realignment package consists of **four components in the health and human services area (over $7.9 billion), plus a court security plan for the Trial Courts ($300 million), for total expenditures of $8.2 billion.** The proposed new dedicated Realignment **revenues would stream from an increase in the Sales Tax (one percent), an increase in Personal Income Tax (10-11 percent bracket) and an increase in the Tobacco Excise Tax ($1.10 increase).**

The Administration proposes trailer bill legislation for each of these components. At this juncture, **the language is crafted broadly** to express the Legislature's intent to enact legislation to **(1)** transfer the specified program and its non-federal share of expenditures, **(2)** maintain state oversight of said programs, and **(3)** become operative only if dedicated revenues are enacted for this purpose.

The proposal assumes that 2003-04 fiscal allocations to counties would be based on the proposed level of funding for counties for each of the programs, absent Realignment, in order to avoid program disruptions in the budget year. However for 2004-05, the Administration assumes that a single allocation would be made to counties based on a formula to be developed through discussions. **As such, this would potentially serve as a type of "block grant" to the counties whereby the counties could conceivably shift funding across programmatic areas.**

The Legislature may want to consider several factors when reviewing this proposal. First, any transfer of program and fiscal responsibility should be designed to assist both the state and counties in maximizing their service delivery responsibilities. If service delivery is maximized, the program participants will likely be better served and program efficiencies will more likely occur.

Second, the dedicated revenues provided for the program transfers should have a growth rate that is comparable with the anticipated growth of the program being transferred. If this is uncertain, a trigger mechanism should be considered in order to bring forth an expenditure or revenue discussion. The Realignment of 1991-92 included a "poison pill" provision for this purpose.

Third, the programs transferred should be programs that allow counties and constituency groups flexibility to craft innovative approaches that utilize community-based resources and services. Under the Realignment of 1991-92, mental health services were re-focused and shifted from a model heavily reliant on state hospital services to a model that now offers a broader array of community based options. Both fiscal incentives and policy flexibility were made available to allow for innovation and some experimentation.

Governor's Proposed Budget—Mental Health: The Realignment package includes a $306 million component for Mental Health and Substance Abuse, including local programs for drug and alcohol services (Proposition 36 funding), the Integrated Services for Homeless Adults, the Children's System of Care Program, and Drug Courts.

Of this $306 million amount, **the total amount that affects mental health is $74.9 million. Specifically, it proposes to shift $74.9 million in expenditures for the Integrated Services to the Homeless Program and the Children's System of Care Program to the counties.**

In addition, the budget assumes a reduction of 8 positions for savings of $616,000 (General Fund) from the DMH state support. This reduction assumes elimination of 3 positions for the Children's System of Care Program and 5 positions for the Integrated Services for the Homeless Program.

<u>Background—What are the Programs Proposed in Governor's Realignment:</u> 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, and the delivery of services that are measurable and accountable. **From this original concept the Children's System of Care Program evolved, as well as the Integrated Services to the Homeless Program.**

The **Children's System of Care Program targets** adolescents 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). Services are provided in an integrated manner and include family participation. **Evaluations of the program have shown that the program is highly successful and cost-beneficial (including savings in service expenditures for group homes, special education and juvenile justice).**

The Integrated Services to the Homeless Program. (AB 34, Steinberg) focuses 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. Many of these adults don't have access or don't meet eligibility requirements for traditional mental health programs. Once identified, these adults are given access to a comprehensive service structure. **This program has had at least two evaluations that have shown its efficacy and cost-benefit to the state and counties.**

<u>Budget Act of 2002—Reduced the Children's System of Care and AB 34 Projects:</u> The **Governor vetoed <u>(1)</u>** $13.8 million General Fund from the Children's System of Care Program, **<u>(2)</u>** $10 million General Fund from the Integrated Services for Homeless Adults Program, and **(3)** $2.5 million from the Adult Systems of Care Projects (which eliminated all remaining funding).

These vetoes left $20 million (General Fund) available for expenditure for the Children's System of Care Program and $

<u>Subcommittee Staff Comment Regarding Governor's Proposal:</u> Shifting responsibility for fully operating the Children's System of Care Program as well as the Integrated Services for Homeless Adults Program makes sense if **(1)** a reliable revenue source is provided to fund the programs, and **(2)** some level of additional funding is provided to assist in making the programs whole from the budget reductions taken by the Governor's vetoes. These two programs offer the counties flexibility in operation and compliment the existing mission of the County MHPs.

Legislative Analyst's Realignment Option—Much Broader: The LAO has offered a much broader "option" for consideration. **Under her realignment proposal the following mental health programs are offered to be shifted to the counties:**

- Early Periodic Screening, Diagnosis and Treatment (EPSDT);
- Medi-Cal Mental Health Managed Care;
- Mental health local mandates, including AB 3632 services to special education pupils;
- Ancillary services (meaning medical health care-related services) for individuals in Institutions for Mental Disease (IMDs); and
- Community services for brain-damaged adults (i.e., "Caregiver Resource Centers").

Constituency Group Concerns: **Many constituency groups, as well as the DMH**, **have raised significant issues** with respect to the LAO proposal.

With respect to EPSDT, there are considerable concerns. Generally, EPSDT has broad requirements given past litigation, federal mandates and state requirements. There would not be much, if any, county flexibility. Further, EPSDT penetration rates are still relatively low and pressures with litigation, the lack of growth in County Realignment Funds and the need for more intensive services is a recipe for extensive concerns and potential disaster.

With respect to ancillary services, the physical health care needs of individuals under age 65 living in long-term care facilities are paid from state-only Medi-Cal funds by the DHS. County MHPs are not presently responsible for physical health care needs. They would have to establish relationships with the full range of physical health care providers, authorization systems and payment mechanisms. It should be noted that this particular population is usually very medically involved.

With respect to the Caregiver Resource Centers, these programs are direct contractors to the state for supportive services to caregivers of individuals with brain injury, primarily dementias. **This would be a new population for the counties to serve and currently, most of the services provide to this population are not the responsibility of counties.**

Budget Issue: Does the **Subcommittee want to (1)** back out the Governor's Realignment proposal in order to have a level playing field to begin overall restructuring/realignment discussions, **(2)** adopt the Governor's mental health proposal, or **(3)** craft another option?

<u>8. Children's System of Care Program(CSOC) –Update on New Data Outcomes</u>

<u>Background:</u> 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.**

<u>Recent Funding History:</u> **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, **(6)** a veto of $2.1 million (General Fund) by Governor Davis in 2001, and **(7) a veto of $15.8 million ($13.8 million General Fund and $2 million federal SAMHSA block grant funds) by Governor Davis.**

<u>Governor's Veto Message—Develop New Data System:</u> In his **veto message** that accompanied the Budget Act of 2002, **the Governor directed the DMH to restructure the program t provide better accountability and documented cost savings.**

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

- **1. DMH**, **Please briefly describe what restructuring has occurred** with respect to the Children's System of Care Program.
- **2. DMH**, Please **briefly describe what data has been obtained from the counties** and what your preliminary thoughts are about the data.
- **3. When will information be available for review by the Legislature**?
- **4.** With respect to the $**2 million in federal SAMHSA funds that was vetoed by the Governor in the Budget Act of 2002, have those unexpended federal funds been allocated to the counties as yet? If not, why not?**

9. Second Level Treatment Authorization Request Appeals.

Background: Existing state regulation (Title 9, Section 1850.305) provides that **a psychiatric hospital may file a second level TAR appeal when payment issues have not been resolved at the first level appeal (between the hospital and a County Mental Health Plan).**

Typically, a second level TAR appeal involves disagreements between a hospital (non-county owned or operated facility) and a County Mental Health Plan regarding the number of bed days the county will reimburse. For example, a hospital claims 15 days of inpatient services for a particular client and the County Mental Health Plan will only approve 10 days. As such, the hospital appeals the additional 5 days to the state. The state can either agree or disagree with the hospital. According to DMH statistics, the DMH agrees with County Mental Health Plans about 88 percent of the time.

It should also be noted, that the DMH's role in the second level TAR appeals process has inserted the department into judicial disputes between hospitals and County Mental Health Plans. According to the DMH, 29 lawsuits have been filed in this area.

Governor's Mid-Year Reduction and Proposed Budget: The Administration proposed to eliminate the second level Treatment Authorization Request (TAR) appeals process for savings of $64,000 General Fund in 2002-03 and savings of $126,000 (General Fund) in 2003-04. The savings comes from the elimination of two state positions. The Legislature denied the request for the Mid-Year Reduction.

No trailer bill language has been proposed for this action.

Constituency Concerns: County MHPs are concerned about this proposal because hospitals who want to appeal a County MHP denial of payment can go directly to the courts, and the DMH would no longer be involved in the case.

Subcommittee Staff Comment: The Administration's proposal continues the Administration's direction to further reduce the state's role in providing oversight of mental health services. In this case, oversight of inpatient hospital psychiatric services. **This is really a policy area that needs to be clarified more, rather than a fiscal, budgetary issue. Broader policy issues exist that affect the provision of inpatient psychiatric services and the payment for them.**

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

- **1.** Please explain your proposal and why the DMH should not be engaged in conducting secondary TAR appeals.

Budget Issue: Does the Subcommittee want to **(1)** require the DMH to introduce a policy bill so a comprehensive policy discussion can occur regarding the proposal, **(2)** reject the Governor's proposal, **(3)** adopt the Governor's proposal, or **(4)** create another option?

B. State Hospitals

Summary of Funding

Overall Background for the State Hospital Budget: The budget proposes **expenditures of $660.4 million ($513.4 million General Fund) for the State Hospitals for a *net* increase of almost $15.4 million (increase of $18 million General Fund and a decrease of $2.6 million in County Realignment funds) over the revised 2002-03 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.

Summary of Caseload

State Hospital Population—Overwhelming Majority Are Penal Code: The DMH estimates **a population of 4,640 patients** for 2003-04 (as of June 30, 2004) **at the four State Hospitals -- Napa, Metropolitan, Patton, and Atascadero**. Of this population, **almost 84 percent of the beds are designated for penal code-related patients** and 16 percent are to be purchased by the counties (i.e., Lanterman-Petris-Short beds), primarily Los Angeles County.

Who Are the Penal Code Patients: **Penal Code-related patients include individuals who are classified as (1)** not guilty by reason of insanity (NGI), **(2)** incompetent to stand trial (IST), **(3)** mentally disordered offenders (MDO), **(4)** sexually violent predators (SVP), 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.

Based on recent statistics, about 2,966 patients, or 62 percent, of the State Hospital patients have a diagnostic category of Schizoaffective Disorder, including Paranoid Schizophrenia. With respect to legal commitment categories, about 26 percent of the total patient population is Incompetent to Stand Trial, 25 percent is Not Guilty by Reason of Insanity, and 18 percent are Mentally Disordered Offenders. Only 18 percent of the patients were county commitments, with only 39 patients voluntarily committing themselves.

ITEMS FOR DISCUSSION

1. State Hospital Patient Population & Operating Expenses—Proposed Increase

Background--Current Year Section Letter Denied by Legislature: The DMH submitted a current year (2002-03) deficiency requesting an increase of $2.9 million (General Fund) due to an increase of 27 patients classified as Medically Disorder Offenders (MDO) at the State Hospitals. **The Joint Legislative Budget Committee denied this request because the overall patient caseload had not increased, only the MDO patients. Specifically, the number of beds needed for other patient categories was below the current-year budget level. As such a deficiency request was not justified to provide at this time.** Further, since the May Revision will provide an update in caseload for both the current year and budget year, it was determined to wait and see how the current year caseload progresses.

Governor's Proposed Budget—Too High: The DMH estimates a population of **4,640 patients** for the budget year which reflects **a proposed increase of 115 patients over the Budget Act of 2002 patient population** of 4,525 patients. **However, the proposed budget estimate assumed that the population trend proposed in the current-year section letter (see above) would continue and increase into the budget year; subsequently, it is overstated.**

The budget proposes a **net increase of $15.4 million (increase of $18 million General Fund and a decrease of $2.6 million County Realignment Funds) for an increase of 88 patients over the proposed revised 2002-03 budget *and* an increase for operating expenses and equipment (OE&E). Specifically, the DMH is seeking an increase of $8.5 million (General Fund) for the caseload and $9.5 million (General Fund) for the OE&E.**

The DMH contends that funds are needed for OE&E, such as for patient drugs, food, utilities, outside medical services and related items. The DMH notes that the State Hospital OE&E budget for 2001-02 spent about $11.4 million more than expected and as such, needs additional funding in this area to compensate for increased expenditures and usage for some of the OE&E items. **They note that their requested increase of $11.4 million ($9.5 million General Fund) is preliminary and that a revision on this estimate may be forthcoming at the May Revision.**

The proposed caseload for each State Hospital is as follows:

Hospital & Patient Type	Budget Act of 2002	Proposed Current Year	Revised 2002-03	Proposed Adjustment	Proposed 2003-04
Atascadero	**1,187**	**12**	**1,199**	**33**	**1,232**
Sexually Violent Predators	506		506	33	539
Penal Code	681	12	757		693
Metropolitan	**833**	**10**	**843**	**4**	**847**
County Patients	457		457	-16	441
Penal Code	376	10	386	20	406
Napa	**1,201**	**1**	**1,202**	**38**	**1,240**
County Patients	240		240	-10	230
Penal Code	961	1	962	48	1,010
Patton	**1,304**	**4**	**1,308**	**13**	**1,321**
County Patients	79		79		79
Penal Code	1,225	4	1,229	13	1,242
TOTALS	**4,525**	**27**	**4,552**	**88**	**4,640**
• **LPS**	**(776)**	**(0)**	**(776)**	**(-26)**	**(750)**
• **Penal**	**(3,749)**	**(27)**	**(3,776)**	**(114)**	**(3,890)**

Legislative Analyst's Office Recommendation—Reduce Funding: The LAO notes that more recent patient population data indicates that patient population growth for other categories of patients is not materializing. Specifically, the patient population as of December 2002 was 4,238—a net drop of 12 patients since current-year began. They believe this trend suggests that the budget year request is significantly overstated.

In addition, the LAO notes that the DMH has many vacancies at the State Hospitals which raises the question as to whether the DMH can fund some of the OE&E expenditures from salary savings. (This was done in 1999-2000 when a similar situation was occurring.) **The LAO also raises the issue as to whether the State Hospitals should be restructured to abolish certain vacant positions and to permanently shift personnel dollars to fund OE&E expenditures.**

As such, the LAO recommends to reduce the caseload funding by $14.1 million General Fund, and corresponding special funds to reflect lower caseload adjustments.

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

- **1. DMH**, Please provide a brief summary of the patient population funding request, including how the OE&E was calculated.
- **2. DMH, Will this be updated at the May Revision and is it likely that a decrease will be proposed?**
- **3. DMH, How does your OE&E estimating process compare with that used by the Department of Developmental Services for the state Developmental Centers?**
- **4. LAO, Please explain your recommendation to reduce by $14.1 million (General Fund), and your concerns with the OE&E methodology.**
- **5. LAO, Have you looked at what it could mean to consolidate the State Hospitals within the Department of Developmental Services since they operate the Developmental Centers? (At one time the State Hospitals and Developmental Centers were operated by the same state department.)**

Subcommittee Staff Recommendation: It is **recommended to (1)** adopt the LAO reduction of $14.1 million (General Fund), pending receipt of the May Revision, **(2)** direct the LAO to work with the DMH to craft a **restructuring proposal to improve accountability and more accurately reflect expenditures for OE&E and caseload be presented to the Subcommittee prior to the May Revision which,** and **(3)** direct the DMH to prepare the State Hospital budget for 2004-05 as a comprehensive "estimates" package, as presently done by the Department of Developmental Services for the state-operated Developmental Centers.

Budget Issue: Does the **Subcommittee want to (1)** adopt the Subcommittee staff recommendation, **(2)** want until the May Revision for revised patient caseload and OE&E expenditures, **or** **(3)** some other combination?

2. Administration Sponsored Language Regarding State Hospital Patient Population—*Informational*

Background: The Administration has sponsored language, as contained in AB 941 (Yee) as introduced, which among other things would modify the agreement crafted in 1997 regarding Napa State Hospital.

The original agreement contained in trailer bill legislation that accompanied the Budget Act of 1997 enabled the DMH to begin housing a significant level of Penal Code patients at Napa State Hospital. Specifically, it allowed up to a maximum of 980 Penal Code beds or about 80 percent of the total hospital beds at the facility.

This original agreement was arduously crafted after numerous community meetings and budget hearings.

The intent of this language was to ensure (1) the safety of the greater Napa community by requiring that if a significant number of Penal Code patients were to be housed at Napa that they be provided treatment in a secured setting (i.e., considerable security measures were specified), **(2)** that counties still had access to the hospital to make civil commitments and **(3)** that the Penal Code patient population would not exceed 980 beds.

Proposed Language Change: Among other things, the Administration is proposing to amend Section 7200.06 (a) of Welfare and Institutions Code pertaining to the original Napa agreement as follows (proposed changes shown in strike out and underline):

> (a) Of the total **~~patient population residing~~** **of 1,362 licensed beds** at Napa State Hospital **at least 20 percent of these beds shall be available** in any given fiscal year, **~~not more than 80 percent shall be patients whose placement has been required pursuant to the Penal Code~~** **for use by counties for contracted services.**
>
> (b) After construction of the perimeter security fence is completed at Napa State Hospital, no patient whose placement has been required pursuant to the Penal Code shall be placed outside the perimeter security fences, with the exception of placements in the General Acute Care and Skilled Nursing Units. The State Department of Mental Health shall ensure that appropriate security measures are in place for the general acute care and skilled nursing units.
>
> (c) After construction of the perimeter security fence is completed at Napa State Hospital, in no case shall the population of patients whose placement has been required pursuant to the Penal Code exceed 980.

According to the Administration, there are now only 224 county-purchased beds being used at Napa, or just **over 16 percent** (versus the original 20 percent). (This is due to the declining use of beds being purchased by the counties for civil commitments.) **As such, the Administration contends it needs to modify the statute in order to be able to fully use the 980 Penal Code beds. Specifically they note that as the number of county-purchased beds**

declines, fewer authorized beds are available for the Penal Code patients. Therefore the language change is desired to maintain the 980 beds.

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

- **1. DMH**, **has the Napa Community been contacted** regarding this proposed change to the carefully crafted original agreement? If so, whom?
- **2. DMH**, Please explain your proposal ***and*** any proposed changes you would like to make to the language.

Budget Issue: Does the **Subcommittee want to direct the DMH to work with the Napa Community and representatives from the area to ensure that the language is clear and that the intent of the language does not result in budget issues regarding the allocation of patients, staff or other related resources?**

3. Salinas Valley State Prison—Another Delay

Background and Governor's Budget Proposal: The Budget Act of 2002 and a subsequent adjustment provided $5.4 million (General Fund) support to the California Department of Corrections (CDC), with an equivalent amount of Reimbursement authority to the DMH to open a 64-bed psychiatric facility at Salinas Valley State Prison.

The Governor's budget proposes to provide full-year funding of $7.2 million for the operation of the facility, plus an augmentation to the CDC budget of $100,000 for various additional operating expenses.

Comparable to a longstanding arrangement between the two departments at the California Medical Facility at Vacaville, the new Salinas Valley Facility will be staffed and managed by the DMH to exclusively serve CDC inmates at the prison.

Legislative Analyst's Office Recommendation: The LAO recommends that the General Fund budget for the **CDC be reduced by $1.5 million, with an equivalent reduction to reimbursements in the DMH budget, to reflect savings from the delay in the activation of the new mental health unit at Salinas Valley Prison. In addition, the LAO notes that the CDC will present additional adjustments at the May Revision.**

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

- **1. DMH,** Please explain you proposal.
- **2.** LAO, Please explain your concerns.
- **3.** DMH, and respond to the LAO recommendation.

Budget Issue: Does the Subcommittee want to adopt the LAO recommendation and also discuss an additional adjustment at the May Revision?

MAJOR SOURCES OF PUBLIC MENTAL HEALTH FUNDING

	Realignment	Medi-Cal	CalWORKS	EPSDT	Integrated Services--Homeless Adults	Children's System of Care	Healthy Families Program
Purpose	Provides **medically necessary** mental health services to *target population, to the extent resources are available.*	Provides **medically necessary** psychiatric inpatient hospital, rehabilitative services and case management.	Reduces mental health barriers to employment.	Provides **medically necessary** specialty mental health services, such as behavior management modeling, medication monitoring, family therapy, and crisis intervention	Provides mental health services to homeless persons, parolees and probationers with serious mental illness.	Provides mental health services to children who are seriously emotionally disturbed.	Provides *supplemental* mental health services to children who are seriously emotionally disturbed.
Eligibility	Services provided on a sliding fee basis.	Enrolled in Medi-Cal.	Temporary Assistance for Needy Families (TANF) recipient.	Enrolled in Medi-Cal.	Adults with severe mental illness who are homeless, at risk of becoming homeless, recently released from jail.	Enrolled by county	Enrolled in Healthy Families Program and referred to that county.
Age Limits	None.	None.	16 (if not in school) through 59 years. Voluntary after age 59.	Under age 21 years	None.	Under age 21 years	Birth to 19 years
Severity of Disability	Focuses mainly on people with **serious and/or persistent mental illness** or serious emotional disturbance.	Requires a diagnosis of **severe impairment** in life functioning and not responsive to physical health care based treatment. Includes episodic users as well as people with serious disabilities.	Based on whether mental health is barrier to employment rather than severity of mental illness. Expect broad range of disability.	Requires determination of being **"medically necessary"** to correct or ameliorate a mental illness or condition. Includes episodic users as well as people with serious disabilities.	Focuses mainly on people with **serious and/or persistent mental illness**	**Serious emotional disturbance**.	**Serious emotional disturbance**.
Type of Funding	County Realignment Funds—Mental Health Subaccount—which consists of state sales tax and vehicle licensing fees.	Depending upon the service being provided, either Realignment funds or state General Fund moneys are used to draw a federal match.	For Medi-Cal eligible services, state General Fund moneys from an annual allocation amount (part of State's MOE for TANF).	Realignment funds are used up to a baseline amount established for each county and then state General Fund moneys are used beyond the baseline. These funds are used to draw a federal match.	State General Fund ($54.8 million)	State General Fund $20 million	Realignment Funds are used to draw a federal match.
Federal Funds	None.	About 50% match.	No. State's MOE to maintain federal TANF funds.	About 50% match.	None	None.	About 65% match.

Prepared by Diane Van Maren, Senate Budget & Fiscal Review Committee **March 10, 2003**

Senate Budget & Fiscal Review

Senator Wesley Chesbro, Chair

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

Senator Wesley Chesbro, Chair
Senator Gilbert Cedillo
Senator Tom McClintock
Senator Bruce McPherson
Senator Deborah Ortiz

Consultant, Ana Matosantos

Thursday, March 13, 2003
Upon Conclusion of Senate Floor Session
Room 4203

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, funded primarily with federal funds, to provide vocational services to persons with disabilities. Some of these services are provided through cooperative agreements with other state and local agencies including school districts, state and community colleges, mental health departments and county welfare departments. The department provides habilitation services, and vocational and supported employment services for persons with developmental disabilities. These services are funded by a combination of state funds and federal Home and Community Services Medicaid reimbursements. The department also provides support services for Community Rehabilitation Programs, including independent living centers.

The Department of Rehabilitation eliminated 123.5 positions between the 2001-02 and the 2002-03 fiscal years. The budget proposes the elimination of another 48.8 positions in the 2003-04 fiscal year. **The Department's budget is anticipated to be $343.8 million ($43.1 million General Fund), reflecting a decrease of 28.4 percent in total funds and a decrease in the general fund contribution of 72.1 percent.**

Summary of Expenditures (dollars in thousands)	2002-03	2003-04	$ Change	% Change
General Fund	$154,645	$43,100	-$111,545	-72.1
Vending Stand Account	3,360	3,421	61	1.8
Federal Funds	293,640	289,481	-4,159	-1.4
Reimbursements	28,691	7,818	-20,873	-72.7
Total	$480,336	$343,820	-$136,516	-28.4

ISSUE FOR INFORMATION ONLY

1. Vocational Rehabilitation Services: One-Stop Career Centers

Background: 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 One-Stop Center in each Workforce Investment Area.

In addition to assuring some 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 including:

- Acquired discretionary Workforce Investment Act funds for training and services to support improved access in local One-Stop Centers, including 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.

The Budget Act of 2002 required the Department of Rehabilitation to report by February 1, 2003, the cost it expects to expend to participate in California's One-Stop System for the 2002-2003 fiscal year. The budget requires that the department report on the number of staff committed and the total cost to participate in each one-stop. It also requires that the department coordinate with other state agencies to report the required information in a consistent format to facilitate the comparison of the state's expected contributions to one-stops. **The Subcommittee will consider this report and the status of California's One-Stop employment services' system as part of its consideration of the Employment Development Department's budget.**

2. Vocational Rehabilitation Services: Ticket to Work Act

Background: In December 1999, President Clinton signed the federal Ticket to Work and Work Incentives Improvement Act into law. The Ticket to Work Act was designed to increase work participation and reduce the use of benefits among persons with disabilities, particularly persons receiving Social Security Disability Insurance (SSDI) and Supplemental Security Income (SSI). It provides a ticket that may be used by SSI/SSDI beneficiaries to obtain employment services from a provider of their choice. The federal act reimburses providers only after the claimant obtains work. The act also provides that claimants can maintain Medi-Cal or Medicare coverage while working.

The federal government has been slow in initiating Ticket to Work authority to states. It has staged implementation of the act over a three-year period beginning in 2001. The current schedule is for California to begin its program at some point this calendar year. The Supplemental Report Language of the 2002 Budget Act required DOR to report in 2003 budget hearings about the status of planning and implementing the Ticket to Work Act in California. The Budget Act of 2002 requires that the department provide updates to the state's timetable for implementation, the impact of implementation on the DOR caseload, projections of participation by Californians in the federal program and a summary of budget and program impacts in the 2003-04 fiscal year. **The Department has completed drafting the report. However, the report is in the administrative review and approval process.**

Subcommittee request: The Subcommittee has requested that the Department of Rehabilitation provide the report on the state's implementation of the Ticket to Work Act required by the Budget Act of 2002 and that the department discuss its findings during the May Revise hearings.

3. Vocational Rehabilitation Services

Background: The Vocational Rehabilitation Services (VR) program assists individuals with disabilities to prepare for, enter into, and retain competitive employment. It is the Department of Rehabilitation's primary program and accounts for 93 percent of the department's proposed 2003-2004 budget. Vocational Rehabilitation Program services include client assessments, counseling and guidance, purchase of individualized rehabilitation services, job skills training and job placement services. Department staff members stationed in approximately 120 field offices throughout the state deliver program services to approximately 81,000 individuals who have a full range of physical and mental disabilities. The department also collaborates with school districts, county mental health programs, county welfare departments and state and community colleges to provide program services to persons mutually served by these agencies.

The VR program is not an entitlement program and lacks the necessary funding to serve all eligible clients. The department is currently funded to serve 99.1 percent of all eligible clients through June 30, 2003. Accordingly, the Department has established an Order of Selection (OOS) process to assess applicants and to grant priority for services 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. Thirty-eight percent of the cases served by VR in 2001-02 received SSI, SSDI or both. This percentage has been growing over recent years, confirming that the programs serve significantly disabled clients. The largest categories of clients include those with a psychiatric or substance abuse disability (23.2%), physical disability (27.4%) or learning disorder (16.3%).

Last year, **the budget proposed and the Legislature enacted a series of changes to increase efficiency in the provision of vocational rehabilitation services and to generate budgetary savings.**

The changes adopted included:

- Reducing the frequency and duration of medical examinations, psychological evaluations and vocational assessment evaluations.
- Reducing the cost of post-secondary education services by requiring clients to identify alternative education benefits; 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.
- Reducing the cost of Personal Social Vocational Adjustment services, which are services to train clients in appropriate work related behaviors.
- Reducing the cost of computer services provided to clients, by maximizing the use of bids and statewide or regional contracts to procure computer services.
- Suspending the provision of modifications to a consumer's home or work site deemed essential to enable the consumer to function in that setting.

The Budget Act of 2002 **required the department, by December 1, 2003, to report to the Legislature on the state's performance on federal vocational rehabilitation performance measures, including the impact of cost-efficiencies on the number of clients served or the performance success of rehabilitation services.**

The Vocational Rehabilitation Services Program is funded by combined federal, state, reimbursements and special deposit funds. The program receives approximately 4 dollars in federal funds for each state dollar invested and has a federally required match that can be met with general fund dollars, reimbursements or third-party in-kind dollars. In 2002-03, the federal grant was budgeted at $259 million, with a required match of $70.1 million. In 2003-04, the Department estimates that the federal grant will total $255 million, with a required match of $69 million.

Governor's Budget: The **budget provides $321.2 million ($42.6 general fund) in funding** for the Vocational Rehabilitation Program. **It reduces program funding from the 2002-2003 appropriation by $7.7 million ($1.8 million general fund)**. The proposed savings result from Supported Employment Program and Work Activity Program provider rate reductions and restructuring program components.

The budget proposes to maintain services to the categories of Most Significantly Disabled and Significantly Disabled clients through June 30, 2004. It estimates that caseload will remain at the current year level and does not propose adjustments based on caseload changes.

ISSUES FOR DISCUSSION

1. Work Activity Program – Suspension of Biennial Rate Setting

Background: The Work Activity Program (WAP) provides work experience and ancillary work-related services in a sheltered setting to persons with developmental disabilities. The program assists individuals in reaching and maintaining their highest level of vocational potential. WAP serves an estimated 12,000 consumers through not-for-profit agencies authorized and reimbursed by the Department of Rehabilitation. WAP is a component of both the Vocational Rehabilitation Services Program and the Habilitation Services Program.

WAP services are usually provided in a sheltered workshop and include both paid work and work related services. Providers are reimbursed for services on a per consumer day basis. WAP rates vary from provider to provider based on their WAP historical costs. Existing law requires the rate to be re-established every two years, based on the provider's cost of providing services. In other words, rates would be set for the 2003-04 fiscal year based on expenses incurred in the 2001-02 fiscal year.

Governor's Budget: The budget **proposes to suspend WAP rate adjustments for the 2003-2004 fiscal year to realize savings of $16.9 million ($12.3 general fund)**. Since WAP rates are adjusted biennially and 2003-2004 is a rate setting year, suspension of the rate adjustment will continue the current rates until the end of the 2005-2006 fiscal year.

Providers write in opposition of the rate suspension arguing that it may jeopardize provider programs as the gap between reimbursement and costs will continue to expand. The current rates are based on cost calculations from the 1998-99 fiscal year and do not account for increased costs such as higher energy costs and higher workers compensation costs. Providers assert that approving the proposed rate adjustment suspension will freeze rates for 7 years and will constitute a serious hardship for providers.

Subcommittee request and questions: The Subcommittee has requested that the Department of Rehabilitation briefly describe the proposed rate suspension and its estimated impact on provider participation in the Work Activity Program.

Budget issue: Does the subcommittee wish to approve the proposed Work Activity Program rate suspension?

2. Work Activity Program and Supported Employment Program – Rate Reduction

Background: The Work Activity Program and the Supported Employment Program provide a range of services to persons with developmental disabilities, and blind and deaf-blind individuals to assist them in reaching and maintaining their highest level of vocational potential. The Work Activity Program provides work experience and ancillary work related services in a sheltered setting. The Supported Employment Program provides clients competitive employment opportunities and provides training and ancillary support services to enable clients to learn job skills and maintain employment. SEP services are provided in individual or group settings. Not-for-profit entities and job coaches provide WAP and SEP services to approximately 28,000 clients statewide.

WAP and SEP are components of both the Vocational Rehabilitation Services Program and the Habilitation Services Program. 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. However, most WAP and SEP services are provided under the Habilitation program and target clients who are unable to benefit from VR services, or who have progressed through VR services and have continued long-term support needs in order to participate in 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 funds. The budget provides $37.6 million ($7.7 million general fund) to support VR WAP and SEP services. The Habilitation Services Program WAP and SEP are proposed to transfer to the Department of Developmental Services in fiscal year 2003-04 (See issue 4).

Governor's Budget: The budget **reduces provider rates in the Work Activity Program and the Supported Employment Program by 5 percent to realize savings of $6.3 million in general fund.** Rates in the Supported Employment Program will be lowered from $28.33 to $26.91 per job coach hour. Work Activity Program rates will vary from provider to provider based on their historical costs but will be reduced by 5 percent from their 2002-03 level.

Representatives of providers oppose the proposed rate reduction and argue that it will put at risk the continued employment of over 1,000 persons with developmental disabilities. They report that WAP and SEP service providers are currently incurring deficits to support the continued provision of program services. They argue that lower rates will increase providers' operating deficits, may lead at least two providers to closure and risk the future of the program. They assert that the proposed rate reductions will diminish provider participation in the programs and will most likely result in reduced program services.

Representatives of providers assert that the proposed rate reductions are not necessary to meet the projected WAP and SEP budget for the 2003-2004 fiscal year. The Department of Rehabilitation projects caseload in the WAP and SEP Vocational Rehabilitation Program to remain at its current year level and projects a 2.9 percent increase in the WAP and SEP Habilitation Services caseload. **Providers argue that the estimated program caseload is significantly overstated.**

WAP and SEP are employment-based programs that are directly affected by job availability. Given the state's economic status and high unemployment rates, WAP and SEP consumers, like many other Californians, have lost their jobs and are facing difficulties in securing new employment. **Last year, the loss of employment among WAP and SEP clients has contributed to the reversion of $7.6 million to the general fund. Providers argue that California's ongoing economic challenges will continue to result in depressed WAP and SEP program caseloads. They write that the estimated program caseload may not reflect the effects of job loss and the unemployment rate on demand for program services. As a result, the current estimate may overstate caseload.**

Subcommittee request and questions: The Subcommittee has requested that the Department of Rehabilitation answer the following questions:

1. Provide a brief summary of the proposed provider rate reductions.
2. Describe the effect of the proposed reduction on provider participation in WAP and SEP and the availability of services to consumers.
3. How do actual claims for reimbursement compare to the estimated caseload projections in the current year?
4. Does the estimated program caseload consider the experience in the current year, and the effect of job loss and high unemployment rates on the demand for program services?

Budget issue: Does the Subcommittee wish to approve the proposed 5 percent provider rate reduction? Does the Subcommittee wish to approve funding for WAP and SEP programs based on the estimated program caseload?

3. Habilitation Services Program Transfer

Background: The Habilitation Services Program (HSP) provides a range of services to persons with developmental disabilities, and blind and deaf-blind individuals to assist them in reaching and maintaining their highest level of vocational potential. The majority of HSP clients are persons with developmental disabilities referred to the program by Regional Centers. Program consumers receive work experience and ancillary work related services in a sheltered setting through the Work Activity Program or competitive employment opportunities, training and ancillary support services through the Supported Employment Program. Program services are considered an entitlement under the Lanterman Act.

Not-for-profit entities and job coaches generally provide Habilitation Services Program services. The Department of Rehabilitation is responsible for administering the program, monitoring compliance with program requirements and reimbursing providers. HSP serves over 18,000 clients annually and has a total budget of $132.8 million ($117.6 million general fund).

Habilitation Services Program's work activities date back to 1960s when parent organizations established day activity centers for adult consumers. The centers evolved into either work activity programs that provided paid work opportunities or day training activity centers that offered training in daily living skills. By the late 1960s, DOR was providing funding for work activity programs for consumers considered too disabled for competitive employment. Subsequently, administration of all adult day programs was transferred to the Regional Centers. In 1980, administration of the employment programs was transferred back to the Department of Rehabilitation through the establishment of the Habilitation Services Program.

Since1980 regional center consumers with WAP service needs identified in their Individual Program Plan have been referred to the Department of Rehabilitation to receive employment services through the Habilitation Services Program. Starting in 1986 these consumers have been able to receive WAP and supported employment services through the DOR's Habilitation Services Program.

Governor's Budget: The **budget proposes to transfer the Habilitation Services Program from the Department of Rehabilitation to the Department of Developmental Services** and to consolidate program administration. It **assumes increased administrative efficiencies as a result of the proposed transfer and estimates net savings of $1.5 million general fund.** The proposal does not assume any new funding to the Regional Centers for program administration. The budget transfers a total of $116 million to DDS.

According to the Administration **the proposed transfer is a result of a study required by the Budget Act of 2002.** The budget required the Department of Rehabilitation and the Department of Developmental Services to review the operation of the DOR's Habilitation Services Programs and other work activity programs in each department, as deemed appropriate by the departments. It directed the departments to examine the eligibility for consumer participation in each program, consumer outcome measures, and program provider rates and to make recommendations for streamlining and consolidating the programs. **DDS and DOR concluded that there is not a clear distinction between the programs that DOR funds and the employment services funded by regional centers** as both programs have shifted to a community integrated, "person-centered" model for all individuals, regardless of their disability. **The departments concluded that the primary distinction between the programs is the rate of payment provided and that it is appropriate to restructure the Habilitation Services Program at this time.**

The Administration argues that the proposed transfer of the Habilitation Services Program to the DDS will increase the ability of regional centers to coordinate available services to better meet consumer needs. They believe it will increase the potential for expansion of federal financial participation by consolidating within a single department administrative and program responsibility for all employment services funded by California's Home and Community Based Services Waiver. Lastly, the Administration contends that having a single agency that is responsible for all employment and day program "entitlement services" will facilitate current and future cost savings efforts.

Representatives of providers and consumers raise numerous concerns regarding the proposed Habilitation Services Program transfer. They argue that the existing program structure is not consistent with the Regional Center model, that regional centers will need additional resources to administer the program, and that the proposed transfer raises serious operational issues. They believe that if the operational issues are not appropriately address, the transfer will compromise program integrity and risk the continued employment of over 18,000 persons with developmental disabilities.

Currently the Department of Rehabilitation is the single entity responsible for authorizing, reimbursing and overseeing providers. The budget proposes that regional centers assume DOR's responsibilities, which will divide the task of reimbursing providers across 21 entities. Providers believe that the reimbursement process will become increasingly onerous, demanding that providers spend more time on program administration and away from providing services.

Providers argue that there are significant issues regarding the compatibility of the Habilitation Services Program and the Day Program Activities funded by Regional Centers. They cite reliance on different accreditation standards, varying reimbursement methodologies, and the fact that the DOR only contracts with not-for-profit entities while regional centers contract with both for profit and not-for-profit entities, as examples of factors that will affect program compatibility.

Providers raise concerns regarding the different expertise of the DOR and the DDS as a factor that may undermine the success of the program. DOR has a long-standing history of working with both employers and persons with disabilities to eliminate barriers to employment and increase the participation of persons with disabilities in the labor force. DDS and the regional centers do not have long-term experience working with employers and creating employment opportunities for persons with disabilities. They argue that the success of the program is largely contingent on the ability of the administering agency to work effectively with employers.

Providers cite that WAP and SEP are employment-based programs that require coordination of services to assure the continued employment of consumers. They argue that some regional center cost containment strategies, such as increased holidays, may limit the availability of services, such as transportation, necessary to support WAP and SEP consumers. They argue that the transferred program must continue to focus on employment and meeting the needs of WAP and SEP consumers.

Lastly, providers note that the WAP and SEP programs will remain divided between DDS and DOR as WAP and SEP services are offered through the Habilitation Services Program and the Vocational Rehabilitation Services Program. They state that providers will continue to work with both departments and that the programs will not be entirely consolidated.

The Department of Rehabilitation and the Department of Developmental Services have worked for three months to develop an implementation plan for the proposed transfer. They have recently begun working with representatives of regional centers and providers to address many of the previously discussed operational issues to increase the feasibility of the proposed transfer. Although some progress has been made, many significant factors affecting the functioning of the program remain unresolved.

Subcommittee request and questions: The Subcommittee has requested that the Department of Rehabilitation and the Department of Developmental Services answer the following questions:

1. Provide a brief description of the proposed program transfer.
2. Discuss the impact on consumers and providers of the proposed transfer.
3. Describe the process for addressing the operational concerns arising from the proposal and developing an implementation plan.
4. Discuss the process for including stakeholders in development of the implementation plan.
5. Are the proposed deadlines for the transfer realistic in light of the operational concerns that have been identified and other factors affecting the development of an implementation plan?

Budget issue: Does the Subcommittee wish to approve the proposed transfer of the Habilitation Services Program from the Department of Rehabilitation to the Department of Developmental Services and adopt the resulting net savings of $1.5 million general fund?

--- *FOR INFORMATION ONLY* ---

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) 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)	2002-03	2003-04	$ Change	% Change
State Council Services (Reimbursements)	$574	$515	($59)	-10.3
Total	$574	$515	($59)	-10.3

The SILC has a staff of three to support a Council membership of 18. The budget increased by 38 percent between the 2001-02 and the 2002-03 fiscal years. The budget proposes to reduce SILC support by 10.3 percent but maintains support for the council above the 2001-02 level.

The SILC is currently working with the Department of Rehabilitation to conduct a needs assessment necessary to develop the federally required state plan for independent living.

In addition to working with DOR to prepare of the state plan for independent living, 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. It also works with other agencies to promote independent living values and services. 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.

4130 Health and Human Services Agency Data Center
5180 Department of Social Services – Automation Issues

The Health and Human Services Agency Data Center (HHSDC) seeks to increase efficiency and effectiveness in the use of electronic data processing resources by providing services to departments and agencies within the Health and Human Services Agency in a consolidated manner. HHSDC is supported entirely by reimbursements from departments that contract with the data center for services.

The HHSDC has two general components: operations and systems management. The operations component provides computer services, telecommunications support, information systems, and training support to departments in the Health and Human Services Agency. The systems management component manages five major projects for the Department of Social Services. These include (1) the Statewide Automated Welfare System (SAWS), automating eligibility and administrative functions for CalWORKS, Food Stamps, Medi-Cal, Foster Care, Refugee and County Medical Services programs; (2) the Child Welfare Services/Case Management System (CWS/CMS) for the Child Welfare Services, Foster Care and Adoptions programs; (3) the Statewide Fingerprint Imaging System (SFIS) to identify duplicate applicants for CalWORKS and Food Stamps benefits; (4) the Electronic Benefit Transfer (EBT) program to deliver assistance benefits to eligible recipients through electronic funds transfer; and (5) the Case Management, Information and Payrolling System (CMIPS) for the In-Home Supportive Services program. The HHSDC budget is increased by $16 million in spending authority, an increase of 5.2 percent.

Summary of Expenditures (dollars in thousands)	2002-03	2003-04	$ Change	% Change
HHSDC Revolving Fund	$315, 587	$331,900	$16,313	5.2
(Operations)	[$133,134]	[$117,566]	[-15,568]	-11.7
(Systems Management Services)	[$182,453]	[$214,334]	[31,881]	17.5
Total	$315,587	$331,900	$16,313	5.2

ISSUES FOR DISCUSSION

<u>1. Operations and Infrastructure investments</u>

<u>Background:</u> The Health and Human Services Agency Data Center (HHSDC) seeks to increase efficiency and effectiveness in the use of electronic data processing resources by providing services to departments and agencies within the Health and Human Services Agency in a consolidated manner. The HHSDC has two general components: operations and systems management. The operations component provides computer services, telecommunications support, information systems, and training support to departments in the Health and Human Services Agency.

Governor's Budget: The **budget increases by $7.2 million the HHSDC spending authority to fund various increased operational costs including infrastructure improvements and changes to better meet customer needs.** The budget proposes to increase HHSDC spending authority to support the following activities:

a. **Establish an operational recovery services site to serve the Employment Development Department and the Department of Developmental Services ($1.2 million).** These services will assure that EDD can continue to operate its tax program system, Unemployment Insurance system and Disability Insurance system in case of a disaster such as a flood, a fire or sabotage. The services will also permit DDS to utilize the California Developmental Disabilities Information System, which the department uses to manage service delivery and provider reimbursements, in case of a disaster. **The HHSDC states that this proposal will allow EDD to comply with a federal requirement that it establish a contingency plan to assure the use of its databases in the case of a disaster.**

   The ***Legislative Analyst*** **recommends that the Legislature deny this proposal arguing that it is not consistent with the project's Feasibility Report and that HHSDC did not examine all viable options when developing the proposal.**

   Budget issue: Does the subcommittee wish to approve the proposed $1,152,000 increase in spending authority to support the establishment of an operational recovery services site?

b. **Purchase computer equipment and establish new positions to support the HHSDC increased activities ($4.7 million).** The increased spending authority will fund the upgrade of a shared central processing unit, augment the HHSDC enterprise disk storage capabilities, accommodate enterprise tape processing, distributed server, and UNIX growth. It will also fund fifteen new positions to accommodate the increase in the infrastructure workload and support workload growth in computing and cost recovery services.

   The ***Legislative Analyst*** **recommends denial of the augmentation since the requests do not relate to new projects and the method used to develop the proposal is based on past workload growth not current demand.** The HHSDC retorts that departments' requests and current demand confirm the need for additional equipment and staff funded by the proposed augmentations.

   Budget issue: Does the subcommittee wish to approve the proposed $4,727,000 increase in spending authority to purchase new equipment and establish new positions to accommodate workload increases?

c. **Establish 2 new positions to support workload growth in the Information Technology Security Branch ($207,000).** The increased spending authority will support two new positions necessary to accommodate workload growth in the

HHSDC security branch. The unit is responsible for IT security incidence reports, cyber security, resolution of IT security issues for HHSDC customer departments, and staying abreast of changing IT security and cyber terrorism issues. **The unit's workload has significantly increased as the number of computer hacking attempts and other incidents is on the rise.** This spending authority increase seeks to protect the integrity of the HHSDC program. The Legislative Analyst has raised no issues with this proposal.

Budget issue: Does the subcommittee wish to approve the proposed $207,000 increase in spending authority to establish two new staff positions in the Information Technology Security Branch?

d. Negotiate a new rental agreement ($1.1 million). The HHSDC's current lease is set to expire on May 31, 2003 and the Data Center is in the process of negotiating a lease renewal. The Data Center estimates that its rent costs will increase by $1,066,000 million per year.

Budget issue: Does the Subcommittee wish to approve the proposed $1,066,000 increase in spending authority for increased rent costs?

2. Report on Efforts to Lower Costs and Rates

Background: The Supplemental Reports of the 2002 Budget Act directed the HHSDC to perform a study to identify operations that should be improved and would result in reduced rates and costs. The information contained in this report may assist the Data Center and the Legislature in identifying efficiencies and reducing costs. The Budget did not specify a due date for the required report and the HHSDC has advised subcommittee staff that the report will likely be completed by June of 2003.

The Legislative Analyst comments in her analysis that unlike other departments whose budgets are based on reimbursements, the HHSDC has not proposed reductions to its spending authority outside those linked to the statewide elimination of vacant position and adjustments for completed projects. These HHSDC spending authority reductions amount to $15.6 million in the current year. The Analyst writes that unlike the Department of General Services, which decreases its spending authority by $17 million in the budget year, the HHSDC does not propose additional decreases to its spending authority outside those linked to the statewide elimination of vacancies and adjustments for completed projects. In addition, the HHSDC has not reduced the rates it charges departments.

Subcommittee request and question: The Subcommittee has requested that the HHSDC report on actions it has taken or will take to reduce its costs and the status of report required by the Budget Act of 2002.

3. Training Center – proposed budget bill language

Background: The HHSDC operates the state's IT training center which is used by both state and local governments. The HHSDC uses contractors to teach the training classes and only purchases contractor services after enough students have enrolled in the proposed classes. Based on past workload growth trends, HHSDC estimates that its current expenditure authority will be inadequate to meet the training needs of government agencies.

Governor's budget: The budget **proposes budget bill language that authorizes the Department of Finance to increase the HHSDC's expenditure authority to accommodate additional training requests.**

The ***Legislative Analyst*** **recommends deletion of the proposed budget bill language** as the HHSDC already has budget bill language that authorizes the Department of Finance to increase its authority for unanticipated workload.

4. IHSS – Case Management Information and Payrolling System

Background: The In Home Supportive Services (IHSS) program provides supportive services to eligible aged, blind and disabled persons that allow them to stay at home, 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 complexity of the system associated with new employer-of-record requirements for counties in the IHSS program.

Governor's Budget: The budget proposes to increase the HHSDC spending authority by $795,000 and to extend six limited term state positions through fiscal year 2003-04 to support planning efforts for the new CMIPS system.

Subcommittee request and questions: The Subcommittee has requested that the HHSDC report on the status of CMIPS and efforts to collaborate with key stakeholders in the development of the RFP.

Budget issue: Does the Subcommittee wish to approve the proposed spending authority increase?

5. Electronics Benefit Transfer Project

Background: Electronic Benefits Transfer (EBT) is the automation of welfare benefit authorization, delivery, redemption and reconciliation. The system will replace paper food stamp coupons and benefit checks with transfers and use of benefits through point-of-sale devices and automated teller machines. Federal welfare reform enacted in 1996 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 an EBT vendor for a year. A vendor was finally selected in July 2001. The rollout of implementation is now on schedule. According to the current schedule, which has been approved by the federal government, California will fully implement EBT by September 2004. California's failure to adhere to the implementation schedule is likely to result in a $400 million federal penalty.

Governor's budget: The **budget proposes to increase funding for the Electronics Benefits Transfer Project by $7.5 million and to establish one position to meet workload demands**. This funding will support the addition of 27 counties to the EBT system. A total of 46 counties will have implemented the EBT system by the end of the 2003-2004 fiscal year.

Budget issue: Does the Subcommittee wish to approve the $7.5 million increase in HHSDC's spending authority for continued implementation of the EBT Project?

6. Child Welfare Services/Case Management System – Expanded Adoptions Subsystem

Background: Federal and state laws require the state to provide automated case management support to child welfare workers. California accomplishes this goal through the Child Welfare Services Case Management System.

The state has already developed the main CWS/CMS system, which meets 61 of the 87 federally required functionality requirements. The state has plans to meet 15 of the remaining requirements within the existing system. It is also continuing to develop the system to meet all federal functionality requirements. The major components that remain to be developed include performing automated Title IV-E eligibility determinations, establishing interfaces to Titles IV-A and IV-D, and to Medi-Cal, and 5 requirements regarding financial management and policy guidance.

As part of its compliance with federal requirements and the continued development of the CWS/CMS system, the Administration proposes to develop an Expanded Adoptions Subsystem. This subsystem will permit caseworkers to track and report all adoption agency activities related to children who may be adopted, adoptive applicants (potential adoptive parents, and birth parents. CWS/CMS will also be expanded to automate the preparation of many case specific documents required by the adoptions process and the development of adoptions program statistical analysis.

The federal government monitors on a weekly basis California's progress in meeting federal CWS/CMS requirements. California's failure to meet standards may result in federal penalties amounting to one-time repaying of approximately $50 million in enhanced federal financial participation and an annual loss of $16 million in federal financial participation. It appears that the federal government is willing to abstain from issuing financial penalties as long as California continues to make measurable progress in meeting the federal requirements.

Governor's Budget: The budget proposes to increase HHSDC's spending authority by $35.2 million. This amount includes a $30.5 million increase for ongoing maintenance and operations needs of the CWS/CMS system and $4.7 for the design, development, integration and implementation of the Expanded Adoptions Subsystem.

Eleven million of the $30.5 million proposed increase for ongoing maintenance and operation of the CWS/CMS system is for hardware costs. The Legislative Analyst recommends that the HHSDC finance rather than purchase hardware which could substantially reduce costs for CWS/CMS maintenance and operations in the budget year.

The budget proposes to amend the current CWS/CMS contract for development and implementation of the Expanded Adoptions Subsystem. The Legislative Analyst recommends that the Legislature adopt budget bill language to direct HHSDC to examine alternative procurement options prior to amending the existing contract as these may result in reduced budget year costs.

Subcommittee request and questions: The Subcommittee has requested that the HHSDC answer the following questions:

1. Report on the status of CWS/CMS and the state's implementation plan
2. Discuss the state's communications with the federal government and the likelihood of the federal government assessing penalties on California
3. Briefly describe the budget year CWS/CMS proposals.

The Subcommittee has also requested that the Legislative Analyst discuss the proposed alternatives to the Governor's budget proposals.

Budget issue: Does the Subcommittee wish to approve the proposed increase in spending authority of $35.2 million to support ongoing maintenance and operations needs of the CWS/CMS system and to design, develop and implement the Expanded Adoptions Subsystem?

7. Statewide Automated Welfare System (SAWS)

Background: 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 is responsible for the state-level project management of the Statewide Automated Welfare System Consortium and provides oversight for the four consortia, including review of project documents and budgets, deliverables and risk management. The HHSDC provides computing, application maintenance and operational support services for the 35 ISAWS consortium counties. The Data Center is also responsible for assuring that state and federal control agency approvals are completed in a timely fashion. The budget contains the following proposals relative to the SAWS budget:

a. **Proposes budget bill language that authorizes the Department of Finance to increase the HHSDC's expenditure authority to cover costs associated with the procurement of a new application maintenance contract for the ISAWS Consortium.**

   The ISAWS consortium is the oldest in the SAWS system, and uses proprietary software that is expensive to change. The current contract for application maintenance ends in December 2003 and HHSDC is in the process of procuring a new application maintenance contract. It is anticipated that the new contract will exceed the funding in the current baseline budget for this activity. The increase is anticipated because consultant rates have increased since the previous procurement was conducted in 1996 and because funding will be required for a transition period during which both the current and new vendor will be providing services.

   The county consortium members in November of 2001 voted to end the ISAWS 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 Budget Act of 2002 contained 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. The HHSDC and DSS have been working to plan for the potential migration of ISAWS counties to one of the remaining SAWS consortia.

Although the ISAWS county consortium members have voted to migrate to another SAWS consortia system (either C-IV or WCDS) and the HHSDC and DSS have been working on a migration plan the current ISAWS system must continue to be maintained until migration is complete.

The proposed budget bill language authorizes the Department of Finance to increase the HHSDC's expenditure authority to cover costs associated with the procurement of a new application maintenance contract for the ISAWS Consortium. The language recognizes that the current ISAWS contract will end in December 2003 and that ISAWS counties will not have migrated to other systems by that time. By providing DOF authority to increase the HHSDC's spending authority, the budget facilitates the uninterrupted operation of the ISAWS system in the budget year.

Budget issue: Does the Subcommittee wish to approve the proposed budget bill language?

b. Shifts funding for conversion of data from the Los Angeles Eligibility, Automated Determination, Evaluation and Reporting System to the Welfare Data Tracking Implementation Project from 2002-03 to 2003-04 and increase the HHSDC's spending authority by $302,000.

The Welfare Data Tracking Implementation Project allows counties to track in an automated fashion recipient time on aid and contains the time clocks necessary to determine one-time and ongoing eligibility. Since the application was made available in June 2000, 55 counties have converted their data to WDTIP. Initial conversion activities for the remaining counties, excluding Los Angeles, continue. This budget proposal shifts county conversion funding to the 2003-04 fiscal year, as Los Angeles will no longer convert to WDTIP in 2002-03. The budget increases HHSDC's spending authority by $302,000 in the budget year. This proposal does not affect California's ability to comply with federal and state welfare-to-work time limits.

Budget issue: Does the Subcommittee wish to approve the proposed expenditure authority increase of $302,000 consistent with the delay in converting data from LEADER to WDTIP?

8. Electronics Benefits Transfer Project – Department of Social Services' staffing

Background: Electronic Benefits Transfer (EBT) is the automation of welfare benefit authorization, delivery, redemption and reconciliation. The system will replace paper food stamp coupons and benefit checks with transfers and the use of benefits through point-of-sale devices and automated teller machines. Federal welfare reform enacted in 1996 requires states to implement EBT for food stamps by October 2002.

Due to contracting challenges, California's implementation of an EBT system has been delayed. According to the current schedule, which has been approved by the federal government, California will implement EBT fully by September 2004.

Responsibility for development and implementation of the new EBT system is divided between the Health and Human Services Data Center and the Department of Social Services. The Data Center is responsible for technical development and operation of the system including working with the EBT vendor to implement the system in 27 additional counties by the end of the fiscal year. The Department of Social Services is responsible for protecting the fiscal integrity of the program and meeting federal requirements that the state have a higher degree of control in the issuance of benefits.

Governor's budget: **The budget proposes to increase the Department of Social Services' budget by $205,000 for EBT related staffing needs**. The funding increase will support the conversion of a limited term position to a permanent position and the establishment of a position to address program integrity issues, as well as the conversion of a limited term position to permanent and the establishment of a new position to provide fiscal oversight.

Budget issue: Does the Subcommittee wish to approve the proposed budget increase to the Department of Social Services of $205,000 to support EBT activities?

9. Statewide Fingerprint Imaging System (SFIS)

Background: 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. The law also establishes imaging as a requirement of eligibility for CalWORKs and a condition of issuance for Food Stamps. California's Statewide Fingerprint Imaging System was designed and implemented to meet the state law requirements.

The Statewide Fingerprint Imaging System works to identify duplicate applicants for CalWORKS and Food Stamps benefits. It seeks to protect program integrity by deterring or detecting duplicate-aid fraud. Specifically, SFIS matches fingerprint images of program applicants against a database containing fingerprint images of existing program participants. California has spent an estimated $53.7 million on SFIS and continuing program costs are estimated to be $10.7 million per year.

This program has been extremely controversial and legally contentious. A court decision issued in 2001 limited the capacity of the state to require fingerprints for certain non-aided adults in the household, but affirmed other elements of the program. The Court affirmed the requirement of a photo image of the applicant with the fingerprint and the requirement that a caretaker relative be fingerprinted and photo imaged. The state has appealed the decision and is awaiting the court's final ruling.

The California State Auditor recently evaluated the level of fraud detected through SFIS, the level of fraud deterrence resulting from the system and SFIS's deterrence of eligible applicants, and the system's cost-effectiveness. The Auditor found that the Department of Social Services did not know the extent of duplicate-aid fraud before implementing SFIS. The Auditor's review suggests that the extent of known duplicate-aid fraud before SFIS was implemented appears not to have been significant. The Auditor concludes that the level of detected duplicate-aid fraud has been very small, and that there is insufficient evidence to substantiate SFIS's cost-effectiveness. The Auditor also concludes that the system may run counter to legislative and federal efforts to increase participation in the Food Stamps Program among eligible individuals. The audit raises concerns about the system's goals and suggests that SFIS may be more effective at deterring eligible individuals from seeking assistance than protecting program integrity.

The Department of Social Services disagrees with the Auditor in a number of ways. First, the department believes that the Auditor gives the reader the impression that the Department of Social Services made the decision to implement SFIS on its own and ignores the years of legislative debate that led to enactment of legislation directing the department to develop and implement the system. The department also contests the conclusion that DSS did not have an adequate understanding of the extent of duplicate aid fraud or the potential cost/benefit of a statewide system. The department argues that the mandate to implement SFIS was based on an independent analysis conducted of the Los Angeles County Automated Fingerprint Imaging and Match System, which comprises 40 percent of the state's caseload. Lastly, the department argues that the budget assumes $68.6 million in savings as a result of fraud deterred by SFIS. The department estimates that the lost savings due to termination of the SFIS system would be significantly lower than the assumed savings (approximately $30 million) due to an assumed gradual return of the deterred caseload.

Governor's Budget: The budget includes $10.7 million in funding for ongoing maintenance and operation of the SFIS system.

Subcommittee request and questions: The Subcommittee has requested that the California State Auditor briefly present its audit findings and has requested that the department of Social Services answer the following questions:

1. What is the level of demonstrated cost savings associated with the SFIS system and how are these savings demonstrated?
2. To what extent does SFIS deter eligible beneficiaries from applying for food stamps or CalWORKs benefits?

Senate Budget & Fiscal Review
Senator Wesley Chesbro, Chair

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

Senator Wesley Chesbro, Chair
Senator Gilbert Cedillo
Senator Tom McClintock
Senator Bruce McPherson
Senator Deborah Ortiz

March 24, 2003

2:30 PM or Upon Adjournment of Session
Room 4203
(Diane Van Maren, Consultant)

Item	*Description*
4260	**Department of Health Services—*Selected Medi-Cal Issues***

Note: Only those items listed in today's agenda will be heard today. The Medi-Cal Program will be discussed again as **noted in the Senate File.** Thank you.

Note: Today's Hand Out package primarily consists of the Administration's proposed trailer bill language. If you do not obtain a copy of this package today (limited copies available), please obtain copies of the Administration's language by contacting either the DHS or DOF directly (it is their language). Thank you.

Pursuant to the Americans with Disabilities Act, individuals who, because of a disability, need special assistance to attend or participate in a Senate Committee hearing, or in connection with other Senate services, may request assistance at the Senate Rules Committee, 1020 N Street, Suite 255 or by calling 916-324-9335. Requests should be made one week in advance whenever possible.

I. 4260 Department of Health Services—*Medi-Cal Program*

A. BACKGROUND

Purpose and Summary of Governor's Proposed Budget on Medi-Cal

The federal Medicaid Program (called Medi-Cal in California) provides medical benefits to low-income individuals who have no medical insurance or inadequate medical insurance. **It is at least three programs in one: (1) a source of traditional health insurance coverage for poor children and some of their parents; (2) a payer for a complex set of acute and long-term care services for the frail elderly and people with developmental disabilities and mental illness (many of whom were once middle class); and (3) a wrap-around coverage for low-income Medicare recipients.**

Presently about 6.5 million people, or one in five Californians, are eligible for Medi-Cal in any given month. **According to the DOF, Medi-Cal provides health insurance coverage to 17.3 percent of all Californians.**

The Governor's budget for Medi-Cal proposes expenditures of $27.7 billion ($7 billion General Fund, $3 billion Reimbursements from Counties). This reflects a *net* decrease of almost $3.6 billion (General Fund), or 33.9 percent less than the revised 2002-03 budget.

This significant net reduction is attributable to several key factors, including the following:

- Transfers 15 percent of Medi-Cal benefit costs to the counties, along with a revenue stream, for savings of $1.6 billion (General Fund).
- Transfers fiscal responsibility, but not policy administration, of long-term care services to the counties along with a revenue stream for savings of $1.4 billion (General Fund).
- Reduces Medi-Cal and non-Medi-Cal provider rates by a total of 15 percent for savings of $1.427 billion ($720.5 million General Fund). The savings level assumes adoption of trailer bill language to enact a ten percent reduction as of April 1, 2003, and an additional 5 percent reduction (for a total of 15 percent) by July 1, 2003.
- Proposes legislation to rescind the 1931(b) Medi-Cal eligibility expansion (currently at 100 percent of federal poverty) and to reinstate the "100-hour a month work limit" for savings of $236 million ($118 million General Fund). These savings estimates assume that about 293,000 low-income, uninsured adults will not be eligible for Medi-Cal coverage in 2003-04. According to the DHS, this number will continue to grow at a rate of 19,000 individuals per month beginning in the next fiscal year.
- Proposes legislation to rollback the extension for the Aged and Disabled Medi-Cal eligibility category from 133 percent of federal poverty to the SSI/SSP income level for savings of $127.6 million ($63.8 million General Fund). This savings estimate assumes that 48,300 aged recipients and 20,540 disabled recipients are eliminated from Medi-Cal coverage.
- Proposes legislation to reinstate the Quarterly Status Report effective April 1, 2003 and to change statute regarding the determination of Medi-Cal eligibility for savings of $170 million ($85 million General Fund).

A. BACKGROUND (Continued)

Who is Eligible for Medi-Cal ?

Generally, Medi-Cal eligibles fall into four broad categories of people: (1) aged, blind or disabled; (2) families with children; (3) children only; and (4) pregnant women. Men and women who are not elderly and do not have children or a disability *cannot* qualify for Medi-Cal, no matter how low-income they are.

Medi-Cal eligibility is based upon family relationship, family income level, asset limits, age, citizenship and California residency status. Other eligibility factors can include medical condition (such as pregnancy or medical emergency), share-of-cost payments (i.e., spending down to eligibility), and related factors that are germane to a particular eligibility category.

States are *required* to include certain types of individuals or eligibility groups under their Medicaid state plans *and* they *may* include others—at the state's option.

With respect to federal law, the Medicaid Program is divided into three divisions: (1) Mandatory Categorically Needy, (2) Optional Categorically Needy, and (3) Medically Needy.

Federally required individuals (i.e., Mandatory Categorically Needy) include the following:

- ***SSI/SSP Cash Grants:*** These are Supplemental Security Income/State Supplemental Payment (SSI/SSP) recipients.
- ***Medicare Cost Sharing Programs:*** This means that Medi-Cal pays for **all or some** portion of an individual's federal Medicare coverage/premium. This includes all or partial payment for Medicare Part A (hospitalization), Medicare Part A (deductible), Medicare Part A (coinsurance), Medicare Part B (doctor visits, laboratory work, and more), Qualified Medi-Cal Beneficiary Program, Specified Low-Income Medicaid Beneficiary Program, and Qualified Individuals Program.
- ***Miscellaneous Disabled:*** This includes small categories of individuals who are (1) former SSI recipients who lost SSI due to a COLA change (i.e., Pickle Program), (2) considered part of the Disabled Adult Child Program, or (3) considered part of the Disabled Widow(ers) Program.
- **CalWORKS Cash Grants:** These are CalWORKS-linked individuals (women and their dependent children).
- ***Transitional Medi-Cal:*** Covers those discontinued from CalWORKS or Section 1931 (b) due to increased earnings, for up to one year. California provides an additional year (for a total of two years) at the state's option. The Administration is proposing to eliminate the second year in their proposed budget.
- ***Section 1931 (b) Individuals (Up to Poverty):*** These are families who are ***not*** receiving case-assistance **but who otherwise meet the state's CalWORKS eligibility requirements in effect on July 16, 1996** (date the federal Welfare Reform Act became law). These are low-

income families where the children are deprived by the absence, death, incapacity or unemployment of a parent. **Federal law allows for the "Section 1931 (b)" income standard to be as low as that in the former Aid to Families with Dependent Children (AFDC) state plan as of May 1, 1998. California currently sets our 1931 (b) standard at 100 percent of poverty. The Administration is proposing to lower this to the CalWORKS level (about 61 percent of poverty for applicants and 155 percent for recipients).**

- ***133 Percent of Poverty:*** These are **children ages 1 to 6 years** in families with incomes up to 133 percent of poverty.
- ***100 Percent of Poverty:*** These are **children ages 6 to 19 years** of age in families with incomes up to 100 percent of poverty.
- ***Children in Foster Care/Adoption:*** These are children who are in Foster Care or are adopted under the federal Title IV-E program.
- ***Pregnant Women & Infants up to 200 Percent of Poverty:*** These are pregnant women up to 200 percent of poverty and their infants up to the age of one year. Though federal law requires coverage up to 185 percent of poverty, **California must maintain the 200 percent** of poverty level in order to continue to receive our federal funds through Title XX--State Child Health Insurance Program (S-CHIP) (i.e., our Healthy Families Program). Federal S-CHIP law requires states to provide coverage to children in Medicaid (Medi-Cal) at the level that was provided prior to S-CHIP implementation.

States provide Medicaid coverage to the Optional Categorically Needy group as they deem appropriate. However, if a state wants to cover them, there are federal requirements associated with them. Their medical services are required to be no less in amount, duration or scope than those of the mandatory categorically needy. They share the characteristics of the mandatory categorically needy, but the eligibility criteria are somewhat more extended.

California provides coverage to the following Optional Categorically Needy groups:

- ***Aged, Blind and Disabled:*** This includes aged, blind and disabled individuals with income under 133 percent of poverty. Federal law sets the income standard at the SSI standard whereas state law (Section 14005.40 of W&I Code) provides that the income standard is set at 100 percent of poverty with an additional income disregard ($230 per individual or $310 per couple) which takes it to just under 133 percent of poverty. The Administration is proposing to roll this back in the budget year (discussed below in this agenda).
- ***Disabled Working Program at 250%:*** This program allows disable working **individuals to pay a premium to buy into full scope** (no share of cost) Medi-Cal. Eligibles must have family income below 250 percent of poverty (disregarding disability income). Federal law allows for the 250 percent income test to be based on gross income but also allows states latitude in disregarding income and property.
- ***Individuals with Developmental Disabilities Enrolled in the Home and Community Based Waiver:*** This includes individuals with developmental disabilities that meet certain criteria

(mainly at significant risk of being institutionalized). The Waiver does have an enrollment cap which was imposed by the federal CMS.

- ***Breast and Cervical Cancer Up to 200 Percent:*** This program is for uninsured women under age 65 (income below 200 percent of poverty) who are screened with breast or cervical cancer by a federal Centers for Disease Control and Prevention (CDC)-approved provider and need treatment.
- ***Individuals with TB who meet SSI:*** This includes individuals diagnosed as having TB who meet the SSI requirements for income and property. This is obviously needed for public health purposes.

The third category contained in federal law is the Medically Needy category. This is an optional federal program. **Generally, this program covers individuals who have too much income to qualify for a Mandatory or an Optional Categorically Needy group and are allowed to use the amount of their "excess income" (known as a "share-of-cost") to pay medical expenses.** Once the share-of-cost has been met, Medi-Cal will pay for the remainder of their medical expenses. **Individuals include:**

- The aged; blind; disabled (including those who are in long-term care);
- Pregnant women;
- Children up to age 21 years who are deprived by the absence, death, incapacity or unemployment of a parent; **and**
- A caretaker relative of a deprived child.

According to the DHS, if a state has a Medically Needy program, it must cover pregnant women and children under age 18 years who except for income and resources, would be Mandatory Categorically Needy. In addition, **states may choose** to cover the aged, blind, disabled, children (between 18 and 21), and caretaker relatives.

In addition to this Medically Needy category is the **Medically Indigent Program.** As noted by the DHS, this program has both a state-only as well as federal component. **It covers (1) children under age 21 years who are not deprived by the absence, death, incapacity or unemployment, (2) pregnant women with no deprived children, and (3) adults in long-term care that cannot be covered under any other program.**

A. BACKGROUND (Continued)

Summary of Caseload Information

The revised caseload for 2002-03 (current-year) of 6.5 million eligibles is 9.5 percent above the revised 2001 Budget Act level. However due to the Administration's proposed reductions in eligibility, the budget assumes a total of less than 6.3 million eligibles for 2003-04, for a *net* reduction of 209,000 eligibles, or 3.2 percent less from the revised 2002-03.

But as referenced below, if the Administration's proposed Medi-Cal eligibility changes are adopted, a total of 1.1 million individuals would lose Medi-Cal coverage in the budget year. These proposals are as follows:

- Rescinding the 1931 (b) eligibility category to eliminate about **293,000 people**;
- Reinstating the Quarterly Status Report to eliminate about **193,000 people**;
- Rolling back the Aged, Blind and Disabled Program from 133 percent to 100 percent of poverty to eliminate almost **69,000 people**;
- Establishing new standards for counties to make Medi-Cal redeterminations to eliminate about **563,000 people** in 2003-04 due to making timely redeterminations; and
- Eliminating the second-year of availability for Transitional Medi-Cal coverage to eliminate about **1,800 people** from coverage.

Major Medi-Cal Eligibility Category 2002-03 (Current Year) (LAO)	**Current Enrollees**	**Annual Benefit Cost Total Funds (Millions)**
Aged, Blind or Disabled		$13.728 Billion
• SSI/SSP	1,225,000	
• Medically Needy	254,000	
• Medically Needy—Long Term Care	69,000	
Families		$6.120 Billion
• CalWORKS	1,574,000	
• Section 1931 (b)-only (includes Medically Needy)	2,485,000	
Children & Pregnant Women		$1.201 Billion
• 200 Percent (Pregnant women & infants)	188,000	
• 133 Percent (Ages 1 to 6)	124,000	
• 100 Percent (Ages 6 through 18)	133,000	
• Medically Indigent (ages 6 to 18)	163,000	
• Medically Indigent Adults	6,000	
Emergency Only	760,000	$1.151 Billion

B. ITEMS RECOMMENDED FOR CONSENT

1. BabyCal—Administration's Proposal to Defer Outreach *(See Hand Out)*

Background and Governor's Proposal: The **Administration proposes to eliminate $6.2 million ($3.1 million General Fund)** for the BabyCal Program which educates high risk pregnant women about the importance of early and ongoing prenatal care, the consequences of smoking, drinking and drug use during the pregnancy, and the availability of programs that can help women achieve healthy birth outcomes. The Administration states that "prenatal care information is available through other public health resources."

Subcommittee Staff Recommendation: Due to the current fiscal situation, **it is recommended to adopt the Administration's proposal to eliminate funding for BabyCal and to change existing statute to have the program contingent upon annual appropriation through the Budget Act.**

2. Disproportionate Share Hospital Program Staffing

Background and Governor's Budget Proposal: The DHS administers the Disproportionate Share hospital (DSH) program that annually generates more than $2 billion of funding for California's safety net hospitals serving the uninsured, medically indigent, and low-income. DSH program funds are derived from local public hospitals and federal matching funds. No General Fund support is used for DSH.

The **budget is requesting an increase of $266,000** ($133,000 inter-governmental transfer funds and $133,000 federal funds) **to provide funding for three positions**—two Research Program Specialist I's, and a Research Program Specialist II.

The DHS states that these positions will be used to eliminate the backlog of delinquent DSH functions that are affecting the financial stability of DSH eligible safety net hospitals.

Subcommittee Staff Recommendation: These positions are needed and no General Fund augmentation is required. **No issues have been raised** by constituency groups or the Legislative Analyst's Office.

## C.	ITEMS FOR DISCUSSION

### 1.	Accrual to Cash Accounting —Discussion of Potential Shift for Medi-Cal Program

Background & Description of the Accrual to Cash Accounting Option: The **Medi-Cal Program is currently budgeted on an accrual basis**. **Under this method of accounting, expenses and revenues are accounted for when they are incurred or earned.** As such, when Medi-Cal services are rendered by a provider, the cost for these services are paid out of funding for that specific budget year, even if they are received after the end of that fiscal year.

Under a *cash basis* of accounting, the expenditures and revenues are recognized when they are paid or received. Therefore, funding for Medi-Cal expenses must be included in the budget for the year in which the services were provided to the beneficiaries.

When Medi-Cal began in 1966-67 it was on an accrual accounting basis. In 1971-72, Governor Ronald Reagan switched the accounting basis to cash. The change in accounting was made, in part, to help address a budget deficit problem similar to what the state confronts today.

Medi-Cal was on a cash basis until 1991-92 when Governor Pete Wilson switched to an accrual basis. The switch by Governor Wilson was for the same reason that Governor Reagan made the switch, to address a significant budget deficit. The switch under Governor Wilson was more comprehensive, revenues and expenditures were switched to accrual based accounting. Revenues and expenditures were increased because of the switch. However, the increased revenues for the General Fund more than offset the increase in expenditures, which was a result from the changeover.

The Federal Government requires the state to maintain the Medi-Cal Program on a cash basis, whereas the State Controller's Office requires the state to maintain programs on an accrual basis.

When the state went to accrual accounting in 1991-92 bond rating agencies were concerned the state was incurring debt without an approved budget when Medi-Cal deficiencies occurred. At that time there were deficiencies nearly every year and they automatically became an obligation that Medi-Cal had to pay.

Section 16531.1 of the Government Code created the Medi-Cal Providers Interim Payment Fund for the purposes of paying Medi-Cal providers, providers of drug treatment services for HIV patients and providers of developmentally disabled services, **during any portion of a fiscal year, prior to September 1 of that year, in which a budget has not been enacted. This section also appropriates up to $1 billion from the GF and up to $1 billion from the Federal Trust Fund, in the form of loans for these purposes.**

This existing provision could be modified to include payment of Medi-Cal providers in <u>any</u> fiscal year when a deficiency in GF appropriations exists in the last quarter of that fiscal year. The loans would similarly be repaid from the next fiscal year's Medi-Cal

appropriation. <u>In order to shift from accrual to cash, the loan authority would need to be increased to as much as $3 billion.</u>

Changing from an accrual to cash accounting system is part of the Senate Republican's budget proposal for addressing the current fiscal shortfall.

Based on technical assistance provided by the DHS, a General Fund savings of $1.128 billion could be achieved through this accounting change. (This level of savings assumes no enactment of the Governor's proposed Realignment **<u>and</u>** reflects savings obtained from all departments.)

<u>Governor's Proposed Budget:</u> No proposal for this change has been submitted for consideration.

<u>Subcommittee Request and Questions:</u> The Subcommittee **has requested the DHS/DOF to respond to the following questions from a technical assistance basis.**

- **1.** Generally, what would need to occur for this transition to be implemented?
- **2.** Would trailer bill legislation be required to implement this change appropriately?
- **3.** What, if any, concerns or reservations may the Administration have in making this shift?

<u>Budget Issue:</u> Does the Subcommittee **want to *consider the feasibility* of shifting from accrual to cash accounting for the Medi-Cal Program?**

<u>2. Administration's Proposed Realignment—ISSUE "A" and "B"</u>

<u>Governor's Proposed Budget—Summary Overall:</u> The Governor's proposed Realignment package consists of **four components in the health and human services area (over $7.9 billion), plus a court security plan for the Trial Courts ($300 million), for total expenditures of $8.2 billion.** The proposed new dedicated Realignment **revenues would stream from an increase in the Sales Tax (one percent), an increase in Personal Income Tax (10-11 percent bracket) and an increase in the Tobacco Excise Tax ($1.10 increase).**

The Administration proposes trailer bill legislation for each of these components. At this juncture, **the language is crafted broadly** to express the Legislature's intent to enact legislation to **(1)** transfer the specified program and its non-federal share of expenditures, **(2)** maintain state oversight of said programs, and **(3)** become operative only if dedicated revenues are enacted for this purpose.

The proposal assumes that 2003-04 fiscal allocations to counties would be based on the proposed level of funding for counties for each of the programs, absent Realignment, in order to avoid program disruptions in the budget year. However for 2004-05, the

Administration assumes that a single allocation would be made to counties based on a formula to be developed through discussions. **As such, this would potentially serve as a type of "block grant" to the counties whereby the counties could conceivably shift funding across programmatic areas.**

ISSUE "2-A"—Realignment: Proposed 15 Percent Transfer of Medi-Cal Benefits

Governor's Proposed Budget: As part of the **"Healthy Families" Realignment proposal**, the Administration proposes to **shift 15 percent (non-federal share) of Medi-Cal benefit costs to the counties for a savings of $1.620 billion (General Fund).** The counties would use revenues obtained from **newly proposed tax adjustments** (i.e., increased Sales Tax, increased Excise Tax on Tobacco Products and increased upper-income bracket) to fund this share of cost.

As presently proposed the state would retain authority regarding eligibility criteria, benefits offered, reimbursement rate levels and all other policy aspects of Medi-Cal administration.

Subcommittee Staff Comment & Recommendation: In reviewing this proposal within the context of the principles established in crafting the Realignment of 1991-92, it does not appear to be a constructive fit. **Medi-Cal is a complex program which is driven by federal law and regulation, case law and legal settlement agreements, state law and regulation, and trends in overall health care such as the absence of employer-sponsored coverage, continually rising health care costs and changes in the methods of medical practice.**

An entitlement program with the complexities inherent in the Medi-Cal Program does not afford local government with the opportunity to identify innovative ways to recast the program or even to shift expenditures to more of a community- based, lower cost model of service, as was effectuated under the mental health program Realignment of 1991-92. It is very unlikely that discretion of any modicum would be granted to counties due to the need to maintain certain federal requirements, particularly the need to ensure that Medicaid (Medi-Cal) recipients receive a like level of service no matter where they live in the state (i.e., the statewideness factor).

Question also arises as to the reliability of the revenue stream to sustain a 15 percent share of Medi-Cal benefit costs even in the near term. A recent study by the federal Centers for Medicare and Medicaid Services (CMS), **as published in *Health Affairs*, shows that overall health care spending in the United States rose by 8.7 percent from 2001 to 2002.** The major contributing factors sited were the rising cost of prescription drugs, hospital care and Medicaid expenditures, particularly for the aged, blind and disabled populations.

Changes in federal Medicare policy can also significantly affect policy choices and expenditures in Medi-Cal. For example, Medi-Cal provides long-term care services and pharmacy benefits whereas Medicare does not. As such, many elderly and disabled individuals who are dually eligible for both programs obtain these benefits through Medi-Cal.

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

- Please briefly explain the proposal to require counties to fund 15 percent of the Medi-Cal benefit costs.

Budget Issue: Does the **Subcommittee want to reverse the Governor's Realignment proposal in order to have a level playing field to begin overall restructuring/realignment discussions**?

ISSUE "2-B"— Realignment: Long-Term Care Nursing Home Services

Governor's Proposed Budget: As part of the **"Long-Term Care" Realignment** proposal, the Administration **shifts the cost (non-federal share) of skilled nursing facility care to the counties for General Fund savings of $1.4 billion. This includes all skilled nursing facilities** (freestanding as well as distinct-part facilities), but does not include Intermediate Care Facilities for the Developmentally Disabled (ICF-DD). Federally mandated benefits such as pharmacy would remain the responsibility of the state for those eligible individuals residing in these facilities.

Subcommittee Staff Comment On Proposal: Generally, **nursing home expenditures are primarily driven by the acuity of the patient, direct care staffing needs, the existing labor market, and quality assurance standards**. **Counties will have little, if any, control over these factors.**

This component of realignment suffers the same limitations as the proposal to shift 15 percent of the share of Medi-Cal costs to the counties. It does not offer local government the opportunity to identify innovative ways to recast the program or even to shift expenditures to more of a community-based model. It simply has the counties serve in a caretaker capacity with no where to go for program expenditures, except up.

Shifting expenditures for skilled nursing care to the counties runs contrary to recent sweeping changes enacted by the Legislature to make major reforms regarding quality of care issues, direct care nursing staff to patient ratios, and restructuring options for changing the existing Medi-Cal reimbursement rate methodology. Many of these reforms would be left in mid-stream or not completed at all if expenditures are shifted. Counties could be left in the untenable position of trying to fund program expenditures with no ability to modify policy.

In addition, it is unclear how the state's implementation of the United State's Supreme Court's decision in *Olmstead v L.C.* (527 US 581 (1999)) would be affected by this realignment proposal. Under Olmstead the court ruled, among other things, that an individual with a disability has a right to live in a community setting as long as certain conditions are met.

This would include some existing residents of nursing homes. **The California Health and Human Services Agency is presently crafting an Olmstead Plan, to be provided to the Legislature by April 1, 2003, in which options for meeting Olmstead needs are to be discussed. Therefore, it would be beneficial for the Legislature to review this plan in the context of this realignment proposal.**

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

- Please briefly explain the proposal to require counties to fund 15 percent of the Medi-Cal benefit costs.

Budget Issue: Does the Subcommittee **want to reverse the Administration's proposed Realignment proposal regarding the transfer of Long-Term Care expenditures in order to begin overall restructuring/realignment discussions**?

3. Administration's Proposed Reductions to Medi-Cal Eligibility—*ISSUES "A" to "D"*

Governor's Proposed Budget—Overall Reductions to Eligibility: **The revised caseload for 2002-03 (current-year) of 6.5 million eligibles is 9.5 percent above the revised 2001 Budget Act level. However due to the Administration's proposed reductions in eligibility, the budget assumes a total of less than 6.3 million eligibles for 2003-04, for a *net* reduction of 209,000 eligibles, or 3.2 percent less from the revised 2002-03.**

But as referenced below, if the Administration's proposed Medi-Cal eligibility changes are adopted, a total of 1.1 million individuals would lose Medi-Cal coverage in the budget year.

These proposals are as follows:

- Rescinding the 1931 (b) eligibility category to eliminate about **293,000 people**;
- Reinstating the Quarterly Status Report to eliminate about **193,000 people**;
- Rolling back the Aged, Blind and Disabled Program from 133 percent to 100 percent of poverty to eliminate almost **69,000 people**;
- Establishing new standards for counties to make Medi-Cal redeterminations to eliminate about **563,000 people** in 2003-04 due to making timely redeterminations; **and**
- Eliminating the second-year of availability for Transitional Medi-Cal coverage to eliminate about **1,800 people** from coverage.

ISSUE "3-A"—Reinstate Quarterly Status Reports & Change Determinations *(See Hand Out for Language)*

Background on the QSR and SB 87, Statutes of 2000: The **Budget Act of 2000 eliminated the Quarterly Status Report (QSR) process in favor of a streamlined system whereby families are required to self report within 10-days of any change in circumstance (such as a change in income).** Elimination of the QSR reduced administrative processing, maintained the families health care coverage, and simplified Medi-Cal to conform with the Healthy Families Program, as well as employer-sponsored coverage.

Under the QSR process, families participating in Med-Cal only (non-cash aid) are required to complete a detailed form about income and other personal information ***every*** **three months (quarterly), even if there is no change in the families circumstance.** Medi-Cal coverage is discontinued if the form is not returned.

According to the DHS, **a Medi-Cal recipient has 60-days in which to return their QSR form before they are terminated from the program. The DHS also states that they would use a new "simplified" form for this purpose. The specific QSR steps are as follows:**

- **First, if a Medi-Cal recipient does not return their QSR form within 20 days, the county is required to send a "notice of action" to the home;**
- **Second, the Medi-Cal recipient then has an additional 10 days to submit the QSR form.**
- **Third, if the QSR form is still not received by the county, then the Medi-Cal recipient is placed on hold for 30-days. (In essence, if they try to obtain services using their Medi-Cal card, it will not work.) At the end of this 30-day period, the Medi-Cal recipient is terminated unless the QSR form is returned.**

As illustrated below, all "non-exempt" recipients will be required to complete 3 QSRs and 1 Annual Redetermination during a 12-month reporting cycle.

DHS Provided: Sample reporting cycle

Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Month Medi-Cal granted	Start of QSR report cycle		**QSR Mail Month** (QSR mailed by 10th)	**QSR Due Month** (QSR due by 5th)		**QSR Mail Month** (QSR mailed by 10th)	**QSR Due Month** (QSR due by 5th)		**QSR Mail Month** (QSR mailed by 10th)	**QSR Due Month** (QSR due by 5th)	
Annual redetermination mailing month	Annual redetermination due month										

The DHS states that they will follow the SB 87 process (ex parte, attempted telephone contact and a Medi-Cal notice #355) for "non-exempt" recipients who return a signed but incomplete QSR. If the incomplete QSR cannot be resolved after the SB 87 process, the recipient will be sent a discontinuance notice of action. If the recipient returns the completed QSR within 30-days after discontinuance *and* continued eligibility exists, the QSR will be evaluated and the discontinuance action rescinded.

Prior to the elimination of the QSR, many Medi-Cal recipients were terminated from coverage even though they still qualified for services simply because they did not submit a QSR.

Chapter 1088, Statutes of 2000 (SB 87, Escutia), generally requires that in instances when Medi-Cal eligibility has been terminated on one basis, that a review must be conducted to determine if the individual is eligible for Medi-Cal under other circumstances. All avenues of potential Medi-Cal eligibility are to be reviewed to determine ongoing eligibility. It should be noted that under the Craig v Bonta' lawsuit, the court ruled in favor of the plaintiffs, and has, among other things, required the DHS to submit an implementation plan regarding compliance with Section 14005.37 of Welfare and Institutions Code regarding Medi-Cal eligibility redeterminations.

The Administration's proposed language would significantly erode existing statute (SB 87, Statutes of 2000) by deeming Medi-Cal recipients who fail to return the QSR as being uncooperative and automatically terminated from benefits. This aspect of the Administration's proposal <u>goes beyond</u> simply reinstating the QSR. <u>In fact it would mean that SB 87 rules would not apply to individuals who fail to return the QSR form. Individuals in this category (i.e., "failed-to-return") would be considered new applicants to Medi-Cal and have to complete new eligibility forms.</u>

<u>Governor's Proposed Budget:</u> The **Administration proposes legislation to reinstate the QSR effective April 1, 2003 *and* to change statute regarding the determination of Medi-Cal eligibility.** Savings of $5 million (General Fund) in 2002-03 and $85 million (General Fund) in 2003-04 are estimated for this action. **These savings estimates assume that 33,900 adults will be terminated from Medi-Cal coverage in 2002-03 and that 193,123 adults are dropped in 2003-04. With respect to the mid-year proposal, the Legislature chose to deny it and to focus on the budget year.**

Reinstatement of the QSR would achieve savings by terminating adults from Medi-Cal who are still likely eligible for Medi-Cal but simply did not return the QSR. **The majority of recipients affected by this change would be families (non-cash aid) enrolled in Medi-Cal managed care plans. It is estimated by the DHS that about 1 million people would be subject to the QSR process if reinstated as proposed.**

According to the DHS, individuals *<u>not</u>* <u>affected</u> by the proposed reinstatement of the QSR include the following:

- Women who are pregnant **<u>and</u>** enrolled in the Medi-Cal eligibility "pregnancy" aid codes (Women who are 1931 (b) eligible and then become pregnant **would be affected** by the QSR proposal.);
- CalWORKS-linked adults (They already have the CalWORKS paperwork requirements); **and**
- Aged, blind, and disabled Medi-Cal recipients.

Subcommittee Staff Comments: There are several concerns with this proposal. **First, these Medi-Cal recipients are very low-income wage earners—usually 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.** In addition, county eligibility offices can and often do monitor changes in Medi-Cal recipients' earnings using the state's automated wage reporting system; therefore, program eligibility can be checked prior to a recipients annual re-determination period.

Second, individuals dropped from Medi-Cal for not returning a QSR will likely seek medical assistance at county indigent health clinics or the emergency room. Safety net hospitals would lose Medi-Cal revenues and likely have to provide coverage to more uninsured.

Third, a key concern with this proposal is its interaction with the Administration's proposal to eliminate the 1931 (b) Medi-Cal eligibility category. If a Medi-Cal recipient (adult, non-cash aid) does not return their QSR and is dropped from Medi-Cal, they likely will *not* be able to re-apply for Medi-Cal due to the elimination of the 1931 (b) category. (This issue is discussed further in item 3-B below.

Fourth, elimination of the QSR was intended to reduce over time Medi-Cal Administration costs in order to make the program more efficient and effective. If the QSR is reinstated, counties may need substantially more funding in order to re-program computer systems, train eligibility workers, and hire additional staff to process the additional paperwork.

Fifth, it would severely erode existing statute (SB 87, Statutes of 2000) by deeming Medi-Cal recipients who fail to return the QSR as being uncooperative and automatically terminated from benefits. As such, these individuals would not have their eligibility status reviewed by the county, nor would they be eligible to receive Transitional Medi-Cal Program coverage even if they would otherwise quality (low-income) for the benefits.

Sixth, 37 other states allow parents participating in Medicaid to annually renew their coverage. In fact, a federal review conducted of California in 2000 expressed grave concerns that a significant number of Medi-Cal recipients were losing coverage because the QSR was not being returned. In response to this criticism, the Davis Administration noted that it was eliminating the QSR requirement to facilitate the retention of families.

Further, there could be *unintended* consequences for children if this proposal is adopted. Many families apply to Medi-Cal as a family unit (parents and children). Subsequently, unless county computer systems are modified to distinguish between family members who are subject to the QSR and family members who are not, children could lose their Medi-Cal coverage inappropriately through a processing error.

This is a realistic concern since a federal review conducted in California in 2001 found numerous inconsistencies in the operation of Medi-Cal computer systems across counties. In addition, parents receiving a Medi-Cal termination notice may mistakenly believe that their entire family, including children, are being dropped from enrollment.

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

- **1.** Please briefly explain the proposal.
- **2.** What are the county administrative costs for this proposal and have those expenditures been off-set from the Administration's proposed savings?
- **3.**

Budget Issue: Does the Subcommittee **want to adopt or deny the proposal?**

ISSUE "3-B"—Proposed Rescission of 1931 (b) Medi-Cal Eligibility

Background—Who are 1931 (b) Families: The Budget Act of 2000 extended eligibility for Medi-Cal to include families with income up to 100 percent of the federal poverty level.

This action was in response to a federal Welfare Reform law change (Section 1931 (b) of the Social Security Act) which enabled states to grant Medicaid 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).

The concept behind this federal policy was to maintain health coverage for families that leave welfare for work, eliminate the incentive to be on welfare in order to receive health care coverage, and to make health care available for working, very low-income families.

Governor's Proposed Budget: The Administration proposes legislation **to rescind the 1931 (b) Medi-Cal eligibility expansion (currently at 100 percent of federal poverty) *and* to reinstate the "100-hour a month work limit".** This proposal would limit eligibility to families with incomes up to about 61 percent of poverty (annual income of $11,041 for a family of four). With respect to employment, two-parent families would become *ineligible* for Medi-Cal if the principle wage earner works *more* than 100 hours a month (about 23 hours a week), no matter their low-income level.

The proposal assumed an April 1, 2003 implementation with savings of $12.4 million ($6.2 million General Fund) in 2002-03 and **$235.9 million ($118 million General Fund) in 2003-04. These savings estimates assume that 58,578 adults will not be eligible for Medi-Cal coverage in 2002-03 and that 292,890 adults will not be eligible for Medi-Cal coverage in 2003-04. After full implementation, the DOF estimates savings of $985.1 million ($492.6 million General Fund) annually.**

With respect to the mid-year proposal, the Legislature chose to deny it and focus on the budget year.

Examples of How Medi-Cal Eligibility Would be Changed Under this Proposal: Here are examples of how Medi-Cal eligibility would be changed **and made more complex** under this proposal:

- Two-parent working families **applying** for Medi-Cal where the primary wage earner works *more* than 100-hours per month will no longer qualify for Medi-Cal at *any* income level.
- Two-parent working families applying for Medi-Cal where the primary wage earner works *less* than 100-hours per month, will be eligible for the 1931 (b) category if their incomes are under 61 percent of poverty. If their incomes are between 61 percent and 75 percent, they would qualify for Medi-Cal under the Medically Needy category. If their income is above 75 percent of poverty, they would qualify under the Medically Needy category with a share-of-cost.
- Single-parent families and those two-parent families where one is disabled can qualify for the 1931 (b) category if their incomes are below 61 percent of poverty. If their incomes are between 61 percent and 75 percent, they qualify for the Medically Needy category. If their income is above 75 percent of poverty, they would qualify under the Medically Needy category with a share-of-cost.
- Families enrolled in Medi-Cal now (recipients) who rely on the applicant income test (families with unearned income, such as disability income) will only quality for the 1931 (b) category if their incomes are under 61 percent of poverty. If their incomes are between 61 percent and 75 percent, they qualify for the Medically Needy category. If their income is above 75 percent of poverty, they would qualify under the Medically Needy category with a share-of-cost.

Subcommittee Staff Comment: As illustrated by the eligibility examples provided above, **this proposed policy change serves as a *disincentive* to work full-time, to maintain family unity, and to move off of CalWORKS.** Many families would not qualify for Medi-Cal even though they meet the low-income test because they are working more than 100-hours a month. If they lose health care coverage, they can spiral back into CalWORKS and potential poverty. If desired, the 1931 (b) eligibility category could be reduced *without* reinstating the 100 hour a month work limit.

This proposal also interacts with the Administration's proposal to reinstate the Quarterly Status Report (QSR). If an existing 1931 (b) category recipient loses Medi-Cal because they do not return their QSR, they are dropped from Medi-Cal and likely would *not* be eligible for Medi-Cal due to the elimination of the 1931 (b) category. This is particularly true for those who are working more than 100 hours a month.

This proposal would be problematic for any future extension of the Healthy Families Program (HFP) to parents because the federal CMS requires California to continue to provide Medi-Cal eligibility to 1931 (b) individuals as a condition for approving the state's HFP Waiver. As such, it is very unlikely that California could ever proceed with the Waiver in future years if the 1931 (b) eligibility is rescinded.

This proposal also affects a families eligibility for Transitional Medi-Cal services. Currently when a family loses 1931 (b) eligibility because their income goes above 100 percent of poverty, they can still potentially obtain up to two years of coverage. The purpose of this federal law for transitional services is to assist families to move into self-sufficiency. However, families in the Medically Needy category are not eligible for Transitional Medi-Cal services. Subsequently families with incomes above 61 percent of poverty who will no longer qualify for 1931 (b) but will qualify for the Medically Needy category will *not* be eligible for Transitional Medical services.

The proposal would also require some families to pay a share of cost each month in order to obtain their Medi-Cal health care coverage. Families currently enrolled in the 1931 (b) program have no share of cost. Under the Administration's proposal families with incomes above 75 percent of poverty would have to pay a share of cost.

The proposal would also add additional complexity to Medi-Cal eligibility determinations. Changes to county computer systems, as well as county eligibility worker training, would be needed to implement this proposal. However the Administration's cost estimate does not take this into consideration.

The Administration's proposal would deny health care coverage through the Medi-Cal Program to hundreds of thousands of low-income, working families. These are families which are low-income, *not* receiving cash-assistance, and who need health care coverage because their employers do not provide it.

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

- **1. Please briefly explain your proposal and specifically whom would be affected by it.**
- **2. Please explain how the 1931 (b) issue interacts with the Healthy Families Parent Waiver expansion.**

ISSUE "3-C"—Roll Back the Aged, Blind and Disabled Eligibility *(See Hand Out)*

Background: The Budget Act of 2000 **extended "no cost" Medi-Cal eligibility to Aged, Blind and Disabled individuals with incomes up to 133 percent of federal poverty. These individuals have low-incomes but either do *not* qualify for, or choose not to participate in, the SSI/SSP Program.** Currently, individuals can have income of up to $969 per month and couples can have income of up to $1,332 per month and qualify for "no cost" Medi-Cal.

Governor's Proposed Budget: The **Administration proposes to roll this expansion back to cover only those eligibles with income up to the SSI/SSP income level or $708 per month for an individual (96 percent of poverty) and $1,225 per month for a couple (123 percent of poverty). The budget assumes savings of $127.6 million ($63.8 million General Fund) by eliminating 48,302 aged individuals and 20,538 disabled individuals from "no cost" Medi-Cal.**

Many of these individuals could still obtain coverage under Medi-Cal but they all would need to pay a share-of-cost each month to receive services. This share-of-cost payment would of course be significant for people on fixed, low-incomes. **(The share-of-cost is the amount by which that individual's income or assets exceeds the applicable Medi-Cal limits.)**

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

- **1.** Please briefly describe your proposal.
- **2.** Please describe what would be a typical share-of-cost for individuals to spend down to become eligible for Medi-Cal if this reduction is effectuated.

Budget Issue: Does the Subcommittee want to reject or adopt the proposal to reduce Medi-Cal eligibility?

ISSUE "3-D"—Rollback Second Year of Transitional Medi-Cal Coverage

Background and Governor's Proposed Budget: Effective October 1, 1998, California implemented a second year of Transitional Medi-Cal pursuant to trailer bill that accompanied the Budget Act of 1998. Federal Welfare Reform law requires a one-year minimum for coverage.

The second-year of coverage is a state-only program to encourage parents to seek employment and continue their Medi-Cal benefits until they can secure employer paid benefits.

The budget proposes to eliminate the state-only program, leaving the retention of one-year of transitional Medi-Cal coverage. On average 1,834 monthly eligibles are expected to be discontinued. The budget assumes savings of almost $2 million (General Fund) for this purpose.

Subcommittee Request and Questions: The Subcommittee has requested the DHS to briefly explain their proposal.

Budget Issue: Does the Subcommittee want to reject or adopt the proposal?

4. Administration's Proposal to Establish Standards for Medi-Cal Processing *(See Hand Out)*

Background: The state has not provided full funding for Medi-Cal county administrative functions for at least the past two years. For 2002-2003, county administrative funding was reduced by six percent. As a result of the reduced staffing counties are not able to meet statutory performance requirements. Among other things, annual re-determinations have not been completed on time, increasing the Medi-Cal caseload. Further, some counties are not able to complete the initial Medi-Cal eligibility determinations within the 45 day requirement period.

Governor's Proposed Budget (See Hand Out): The Administration proposes **enactment of legislation which would establish standards for counties to meet regarding Medi-Cal eligibility determinations and redeterminations, and assumes that because of these new standards 563,135 Medi-Cal recipients, or almost 9 percent of the eligibles, will be terminated from enrollment for savings of $388 million ($194 million General Fund) in local assistance**.

The proposal also requests an increase of $896,000 ($448,000 General Fund) for state support to fund 9 positions to oversee the counties activities and to measure their performance.

Initial trailer bill legislation obtained from the Administration would establish county performance standards in several areas, including:

- **Meet the 45 day requirement to complete eligibility determinations:**
  - 90% of all applications not specified below without significant applicant errors must be completed within 45 days.
  - 99% of all applications not specified below without significant applicant errors must be completed within 60 days.
  - 90% of applications with applicant errors must be completed within 60 days, exclusive of the time the applicant has the application for correction of applicant errors.
  - 99% of the applications with applicant errors must be completed within 75 days, exclusive of the time the applicant has the application for correction of applicant errors.
  - 90% of the applications for disability must be completed within 90 days.
  - 99% of the applications for disability must be completed within 105 days.
  - 90% of the newborn referral requests and the applications for pregnancy must be completed within 5 days
  - 99% of the newborn referral requests and the applications for pregnancy must be completed within 10 days.
- **Perform timely annual re-determinations:**
  - 90% of the annual re-determinations must be done by the end of the 13th month after initial application or anniversary date
  - 99% of the annual re-determinations must be done by the end of the 14th month after initial application or anniversary date

All of these processes would need to be completed within specified timeframes as noted in the legislation or a county may, at the department's discretion, have their Medi-Cal county administration allocation reduced by two percent in the following year. The performance standards are noted below:

In order to facilitate the counties meeting these proposed performance standards, the <u>budget provides an increase of $152.1 million ($76 million General Fund) over two years, including $54.9 million for 2002-03 and $97.2 million for 2003-04</u>.

The Administration contends that this adjustment would provide "full funding" for the counties to meet this potential obligation. The County Welfare Directors Association (CWDA) does not concur that this would be "full funding".

<u>Constituency Concerns:</u> As presently crafted, constituency groups are very concerned with the Administration's proposal for **they contend it has *several shortcomings*, including (1)** not being consistent with federal law and state mandates, **(2)** basing performance solely on caseload decline, and not considering appropriate caseload enrollment (including enrollment of eligible infants), **(3)** not offering to provide access to performance standards data so stakeholders can also access performance, and **(4)** not offering fiscal incentives to complete the standards effectively (only offers disincentives).

<u>Subcommittee Staff Comment:</u> Further **<u>detailed discussions need to occur</u>** in order to recast the proposal to make it more equitable to fully address Medi-Cal enrollment standards, not just disenrollment, to appropriately fund county administration, and to further clarify the standards in the context of federal law requirements. **This is a complex topic that needs substantially further work prior to any codification and budget action.**

As such, it is recommended for the Subcommittee to direct Subcommittee staff to work with constituency groups and the Administration to craft a potential compromise proposal.

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

- **1.** DHS--Please describe your proposal and why standards are needed.
- **2.** DHS--**Do *all* of the standards** the DHS proposes **comply with federal law and regulation?**
- **3.** CWDA—Please describe the Medi-Cal enrollment process from the viewpoint of a County Eligibility Worker.
- **4.** CWDA—Please provide your perspective on potential improvements to this proposal.

<u>Budget Issue:</u> Does the Subcommittee want to direct Subcommittee staff to work with constituency groups to craft a proposal to

5. Proposed Elimination of 18 Medi-Cal "Optional" Benefits—ISSUES "A" to "C"

Background Overall—What are Optional Benefits: The term **"Optional Benefits" is in reference to how federal law and regulation defines the service.** Under federal law, **certain medical services are required to be provided by states while others are provided at the state's "option"**. **The federal government mandates 13 services including:** inpatient hospital (excluding mental disease), outpatient hospital including certain clinics, physicians' services, pregnancy related services, X-Ray, laboratory testing, nursing home and home health care, family planning, and a few others.

In addition to those listed in the *chart below* (under the Governor's proposed budget), other "Optional Benefits" include: **Pharmaceuticals, Inpatient Psychiatric Services for adolescents under age 21, as well as several others.**

As noted in *Health Affairs* (volume 22, number 1, 2003), the comprehensive nature of Medicaid benefits is often misunderstood. The breadth of covered services reflects the complex needs of the disabled, aged, blind, mentally ill, medically needy children and pregnant women populations. Medi-Cal only reimburses for those "optional" services that are provided to individuals as a service.

Background Overall—Summary of California's Benefit Utilization Controls: Medi-Cal **covers medically necessary** health care services set forth in both federal and state law and regulation. **A Medi-Cal covered service must:**

- **Be adequate in amount, duration, and scope** to reasonably achieve its purpose;
- **Not vary based solely on a recipient's diagnosis, type of illness, or condition**; and
- **Be offered throughout the state** (referred to as "statewideness").

A service is "medically necessary" or deemed to be a "medical necessity" when it is reasonable and necessary to (1) protect life, (2) prevent significant illness or significant disability, or (3) alleviate severe pain.

The DHS states that **they determine "medical necessity" in three stages:**

- **Prior authorization**—i.e., before the service is rendered;
- **Prior to payment**—after the service is rendered but prior to payment; and
- **After payment**

Medi-Cal also employs **various utilization controls and review methods**, including:

- **Special utilization limits, which restrict the number of services a beneficiary may receive per month; and**
- **Restrictions on recipients found to be abusing the program.**

All inpatient hospital (except for obstetrical services of defined length mandated under state law), nursing facility, and Intermediate Care Facility (ICF) stays, require prior authorization and/or concurrent authorization.

California has a "Superior Systems Waiver" which describes the Medi-Cal Program's prior authorization process **for acute care hospital in-patient stays.** The DHS notes that the federal CMS recognizes that California's approach **under this Waiver is in fact, better than otherwise required under federal methodology.**

Many **<u>outpatient services</u> also require prior authorization**; these include the following:

- Certain out-patient hospital services;
- Certain Early Periodic Screening Diagnostic and Treatment Services (for full-scope Medi-Cal eligibles under age 21);
- Home Health Agency Services; and
- Allied Health services, including but not limited to—podiatry, chiropractic, optometry, occupational therapy, speech therapy, hearing aids, durable medical equipment, medical supplies, incontinence supplies over $165 per month, hospice, adult day health care, non-emergency medical transportation.

Certain services are reviewed through the <u>claims approval process</u>, including but not limited to:

- **Physician services**—subject to hundreds of edits and audits that limit payment including the number of high level (cost) visits a physician can bill for a patient;
- **Some laboratory, X-ray, and diagnostic testing services**; and
- **Medi-Cal's prepayment edits and audits** have been compared to those offered by commercial packages and done in other states. The DHS maintains that California has one of the **most extensive sets of edits and audits in the nation.**

Medi-Cal payments are also subject to extensive review after the claims are adjudicated. The DHS states that **pre-check write reviews** are performed to quickly detect mis-billing or fraud patterns. Payments are further reviewed by both the Audits and Investigations Division of the DHS and the State Controller.

<u>Governor's Proposed Budget—Eliminate 18 Optional Benefits:</u> The Administration proposed legislation effective April 1, 2003 to eliminate eight Medi-Cal Optional Benefit categories as part of the Governor's Mid-Year Reduction process for savings of $126.5 million ($63.3 million General Fund). This action was not taken.

For the budget year, ten additional benefits are slated for elimination for a total of 18 benefits for savings of $723.7 million ($361.8 million General Fund). These reductions are outlined in the table below.

Optional Benefit Category (Proposed to Eliminate)	**2002-03 Mid-Year Proposal** (April 1, 2003) (General Fund Savings)	**2003-04 Governor's Proposed** (General Fund Savings)
Adult Dental Services	$48.5 million	$211.8 million
Medical Supplies (diabetic supplies, IV supplies, wound care, asthma supplies, contraceptive supplies)	12.9 million	54.3 million
Van Transportation		31.5 million
Hospice		13.7 million
Durable Medical Equipment		12.5 million
Optician and Laboratory Services		14.5 million
Optometry		9.2 million
Podiatrist	995,000	4.3 million
Acupuncture	666,000	2.9 million
Prosthetics		2.1 million
Hearing Aids		2.9 million
Psychologist	57,000	229
Chiropractor	100,000	399
Independent Rehabilitation Facility	5,000	23
Occupational Therapy	4,000	15
Physical Therapy		30
Orthotics		640
Speech and Audiology		728
TOTAL GF SAVINGS	**$63.3 million**	**$361.8 million**

Subcommittee Staff Comment--Overall: Exempt from the proposal are services to children under 21 years of age and residents of long-term care facilities. Federal law precludes the elimination of these services from these individuals.

However, individuals with developmental disabilities would not be exempt from the Administration's proposal. As such, it is likely that Regional Centers would need to purchase these benefits for consumers at 100 percent General Fund expenditure, in lieu of obtaining partial matching federal funds. **Based on information just obtained from the Administration, an increase of $61.1 million General Fund will be needed for the Regional Centers in order to provide coverage for the 18 Optional Benefits if they are eliminated from the Medi-Cal Program. In addition, costs are still being calculated as to the potential affect on individuals residing in the state-operated Developmental Centers.**

As noted above, the three categories of adult dental services, medical supplies and van transportation (i.e., non-emergency medical transportation) account for over 80 percent of the proposed savings.

Legislature's Historical Rejection of Proposal: Elimination of selected Medi-Cal Optional Benefits has been proposed on six prior occasions—1990, 1992, 1993,1994, 1995 and 2001. **Even during these difficult fiscal times, the proposal was denied by the Legislature.**

ISSUE "5A"—Elimination of Adult Dental Services

Background—the "Denti-Cal" Program Overall: Individuals enrolled in Medi-Cal are eligible to receive a range of dental health care services. **Access to dental services for children under age 21 is required by federal law; whereas Adult Dental services are considered "optional".**

Over 90 percent of Medi-Cal recipients are eligible for fee-for-service care through the Denti-Cal Program. In addition, a few individuals—about 350,000 or so—receive dental services through managed care arrangements (including some areas of Sacramento, San Bernardino, Riverside and Los Angeles). **Currently, there are about 13,000 providers enrolled in the Denti-Cal Program.**

Generally, covered dental benefits for children and adults include: (1) diagnostic and preventive services such as examinations and cleanings, **(2)** restorative services such as fillings and **(3)** oral surgery services. **Many services, such as crowns, dentures and root canals require prior authorization. Certain other services, such as dental sealants, fluoride applications and limited orthodontic care are covered only for children under age 21.**

State law requires most Medi-Cal recipients to pay a co-payment for dental care. A $1 co-payment is required for services provided in a dental office a and a $5 co-payment is required for non-emergency care provided in an emergency room. **However, as contained in federal law, services cannot be denied to the recipient if a co-payment is not provided.**

It is also well recognized that the reimbursement rates currently paid under the Denti-Cal Program are very low—generally, about 40 to 50 percent of the usual and customary fee charged by dentists in California.

Background—Specific Denti-Cal Program Utilization Controls: In **addition to requiring prior authorization** (i.e., documentation to substantiate the medical condition and then DHS sanctioned approval of requested medical procedure) on numerous procedures as noted above, **the Denti Cal Program also has other utilization controls in place, include the following:**

- **Manual review** to determine if the procedure is needed or if it was done at all. This review can include: medical necessity (x-rays, documentation and study models), longevity (x-rays), arch integrity (x-rays), degree of difficulty to determine payment (x-rays or other documentation), and documentation of service to insure appropriate procedure paid.
- **Clinical pre and post-operative screenings** by Regional Screening Consultants to review for necessity, quality and actual delivery of services by direct examination;

- **Surveillance/Utilization Review System**—a separate unit which is used to determine quality of care, necessity of care and compliance with all standards and laws;
- **Frequently limitations** on certain services, such as once per lifetime on orthodontia, once per year for cleanings, as well as others;
- **Time limitations** (i.e., procedure allowed only after a specific length of time has elapsed from date of service of another procedure). For example, time limitations are in place for root planning and denture reline;
- **Procedure limitations** on dates of service. For example, two tissue conditioning procedures only prior to denture construction;
- **System edits** are used to detect and reject certain items. For example, when a tooth has been extracted so that other treatments can not be billed;
- **Similar procedures cannot be performed on the same date of service**. For example, when an extraction is done, the same tooth may not be billed for an emergency visit.

Background--Top Ten Procedures in Denti-Cal Program: The following chart displays the most common procedures by expenditure amount as provided under the Denti-Cal Program in calendar year 2001 (most recent actual data available).

Code #	Top Ten Procedures by Expenditure Amount	Medi-Cal Rate	Total Incidences 2001 Data	Total Dollars 2001 Data (rounded)
612	Two Surface Amalgam Restoration (re-filling of a cavity using silver)	$48	758,934	$36,366,000
452	Subgingival Curettage (deep cleaning)	$200	180,925	$36,076,000
653	Porcelain w/metal crown	$340	98,885	$33,538,000
645	Plastic Filling	$55	576,994	$31,677,000
050	Dental Prophylaxis (ages 13 and older)	$40	650,907	25,977,000
611	One Surface Amalgam Restoration	$39	666,911	$25,972,000
660	Full Cast Crown (gold)	$340	65,233	$22,136,000
010	Examination, Initial Episode of Treatment Only	$25	850,890	$21,211,000
513	Molar Root Canal Therapy	$330	57,123	$18,816,000
062	Topical application of fluoride (ages 6 to 17 years)	$40	472,202	$18,782,000

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.**

Budget Act of 2002—Reduction: 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 employer-based insurance. **However, the Budget Act of 2002 *rolled this back* by limiting adults to one cleaning per year and one office visit for savings of $7.8 million ($3.9 million General Fund).**

Governor's Proposed Budget: The budget **proposes to eliminate Adult Dental Services for savings of $423.6 million ($211.8 million General Fund). This proposed savings level assumes the following:**

- **Dental services to adolescents aged 21 and under are maintained**, as well as **services to individuals living in long-term care facilities (as required by federal law)**. **However,** since Adult Dental Services constitutes **over 80 percent** of the Denti-Cal Program, elimination of them **would most likely affect children's access to dental services because there would be fewer providers.**
- **About $221.9 million ($111 million General Fund) in expenditures, or about 35 percent of the Adult Dental costs, are assumed to be shifted to other services.** Though these other services are undefined, it can be generally assumed that these expenditures are shifted to emergency rooms, physician services, pharmacies and clinics due to the potential need to mitigate dental infections, pull teeth and treat dental pain.
- **No accounting of increased General Fund expenditures due to the need to continue to provide Adult Dental Services to individuals with developmental disabilities** who will need to receive these services through the purchase of services by the Regional Centers, as well as providing services in the state-operated Developmental Centers.

  Based on recent information obtained from the Administration, it is estimated that an increase of about $19.7 million (General Fund) will be needed for the budget year to account for expenditures that will be incurred by the Regional Centers to fund this particular service. (This $19.7 million is a subset of the $61.1 million referenced above regarding the effect of eliminating all 18 Optionals on individuals with developmental disabilities). In addition, costs associated with individuals residing in state-operated Developmental Centers are still in the process of being calculated.

Constituency Concerns: The Subcommittee **is in receipt of numerous letters expressing concern** with the elimination of Adult Dental Services. These letters have included comments from professional organizations, various advocacy groups, family members with loved ones who have developmental disabilities and require specialized care, schools of dentistry, and various others.

Most of the letters express health concerns that note how ignoring oral health can lead to needless pain and suffering, causing significant complications to an individual's well-being. **For example, the absence of adequate oral health has been linked to oral cancer, heart disease, pre-term delivery and low-birth weight infants, stroke, diabetes, osteoporosis, and even lung disease.**

It is further noted that elimination of these benefits will most likely lead to additional costs to the health care system in physician visits and emergency room visits due to the interplay of oral and systemic relationships.

Subcommittee Staff Comment & Alternative Proposal: Adult Dental Services are ***core services*** needed to maintain a basic level of wellness. Yet due to the fiscal situation options for reducing costs should be presented. After reviewing the "top ten procedures" and reviewing areas where costs could be reduced without harm to patients, the following is **presented as an option for consideration. The items recommended below would save $50.750 million (General Fund) and would have a sunset date of two years in order to allow for a reassessment.**

- ***1. Use Stainless Steel Crowns in Lieu of Porcelain for Adults (not children) on Posterior Teeth:*** Based on recent data obtained from the DHS (for procedure codes 653 and 660), an **annual savings** of $31.7 million **($15.9 million General Fund)** could be achieved by substituting stainless steel crowns in lieu of porcelain for posterior teeth. In addition, require that pre-treatment x-rays be provided for verification of need for the crown.

- ***2. Limit Access for "Deep Cleanings" ($200-- procedure 452) to LTC/Institutionalized Individuals:*** According to the DHS, this procedure is performed almost exclusively on adults and is a frequently over utilized procedure by some practitioners. As such, it is recommended to limit this procedure to individuals residing in nursing homes or similar institutional settings. Based on data provided by the DHS, it is estimated that **a savings of about $34 million ($17 million General Fund) could be achieved.**

- ***3. Reinstate X-Rays for Cavities:*** According to the DHS, from 1973 to 1991 (pre-Clark v Kizer litigation), **the Denti-Cal Program required radiographs (x-rays) to be submitted along with the Medi-Cal claim before the provider was reimbursed.** When this requirement was eliminated, **expenditures for this procedure went up substantially—by as much as 40 percent—due to increased utilization.**

  Under this proposal, the filling can still be provided by the dentist at the time of the patient visit (i.e., this would not be a prior authorization process), but the submitted radiograph must clearly show that decay exists in order to receive payment. The Denti-Cal Program would inform providers not to fill a tooth that does not exhibit decay. **This would serve as a strong "anti-fraud" component as well.**

  If one assumed a **20 percent reduction** by reinstating the use of radiographs for cavity reimbursement, a savings of **about $33.2 million ($16.6 million General Fund)** could be achieved. **This change would apply to procedures for both adults and children.**

- ***4. Cost Savings from Re-Enrollment of Dentists into Medi-Cal:*** Through substantive statutory changes enacted through trailer bill language which accompanied the Budget Acts of 1999, 2000 and 2001, the DHS was provided with broad authority to, among other things, re-enroll Medi-Cal providers into the program as an anti-fraud measure**. The DHS is presently in the process of developing <u>emergency dental regulations</u> to proceed with the re-enrollment of Dentists, as well as with incorporating <u>additional criteria</u> to better assess one's "established place of business" (to deny unscrupulous providers enrollment).**

  No savings have been captured in the budget for this purpose for the DHS believes that additional resources are needed in order to implement. Specifically, **they contend that a**

total of $1.7 million ($570,000 General Fund) is needed to (1) increase funding for the Delta Dental Contract ($1 million total funds) to do provider enrollment (with state direction), (2) hire five DHS staff to conduct application reviews and background checks of providers, and (3) hire four audits and investigations staff to conduce re-enrollment inspections of provider applications, investigate suspected fraud schemes and related matters.

The DHS states that if these additional resources are provided, a savings of $3 million ($1.5 million General Fund) could be achieved in 2004-05, for a net savings of almost $1.3 million ($750,000 General Fund). The DHS states that savings for the re-enrollment of dentists would result in only a 5 percent savings (of the $60 million cost savings projections obtained from the health care side).

Subcommittee staff would recommend moving forward on the Dental Contract adjustment ($250,000 General Fund increase), and to temporarily redirect some DHS staff to commence with the dental provider enrollment in the budget year. It is the Subcommittee's staff belief that re-enrollment of dental providers will be more straightforward than that of re-enrolling some other provider groups. **As such, it is assumed that half of the estimated savings can be obtained in the budget year. Therefore, a *net* saving of $1.250 million (General Fund) is assumed.**

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

- **1.** Please **briefly explain** some of the **existing control containment** strategies presently **used in the Denti-Cal Program.**
- **2.** Please **explain your proposal and the calculation used to determine the cost-shift aspect of the proposal**.
- **3.** Please **briefly explain the impact this proposed reduction would have on individuals with developmental disabilities.**
- **4. From a technical assistance standpoint, please comment on the above outlined staff recommendation.**

Budget Issue: Does the **Subcommittee want to (1)** direct Subcommittee **staff to further investigate options for reducing expenditures** for Adult Dental Services, **(2)** reject the Administration's proposal outright, ***or*** **(3)** adopt the Administration's proposal to eliminate this service?

ISSUE "5B"—Elimination of Medical Supplies

Background: The Medi-Cal Optional benefit category of **Medical Supplies** is very encompassing. It includes such **items as the following: incontinence supplies, diabetic supplies, catheters, needles and syringes, bandages, ostomy supplies gloves, urinary drainage supplies, feeding tubes, condoms, contraceptive creams and foams, diaphragms, vaporizers, breast pumps, nebulizer, and asthma supplies.**

Current statute and regulatory provisions establish the maximum reimbursement rates for medical supplies, incontinence medical supplies, durable medical equipment and prosthetic and orthotic appliances. **Generally, the methodology for establishing the maximum reimbursement rates for these products consists of adding the provider's established acquisition cost to an allowable percentage markup. This methodology was established under the assumption that providers operate under market conditions (acquire retail products from legitimate distribution channels in the open market). However, the DHS has found this not to be the case.**

As such, the DHS is proceeding with emergency regulation changes that enable the DHS to enter into exclusive or nonexclusive contracts on a bid or negotiated basis with manufacturers, distributors, dispensers, or suppliers of appliances, durable medical equipment, medical supplies or other product-type health care services.

In addition, **the Bureau of State Audits presented an analysis (December 2002, report 109) regarding suggestions and recommendations on how the DHS could better control the pricing of durable medical equipment and medical supplies.**

Governor's Proposed Budget: The budget proposes **elimination of Medical Supplies for savings of $108.6 million ($54.3 million General Fund).** This savings level assumes the elimination of benefits to all adults, except for those in long-term care. **As such, an increase in General Fund support of $15 million would need to be provided to the Regional Centers in order to appropriately fund individuals with developmental disabilities who require these services.** (This General Fund figure is a subset amount of the $61.1 million as referenced above.) **Next to Adult Dental Services, this is the largest Optional Benefits category being proposed for elimination.**

Constituency Concerns: The Subcommittee is in receipt of numerous letters requesting the Subcommittee to reject the Governor's proposal and to retain the benefit.

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

- **1. Please provide a brief description of your proposal.**
- **2. Would elimination of Medical Supplies also affect the Family PACT Program?**
- **3. How would individuals with developmental disabilities be potentially affected?**
- **4. Please briefly explain the emergency regulations for medical supplies. Could the DHS potentially use contracts more and obtain Medical Supplies at reduced costs?**

- **5. Please provide an update on how the DHS is responding to concerns raised by the Bureau of State Audits in their analysis. From a technical assistance standpoint, could more be done? Please be specific.**

Budget Issue: Does the **Subcommittee want to direct the DHS and Subcommittee staff to report back on other options for reducing expenditures for Medical Supplies prior to any elimination of said benefit?**

ISSUE "5C"—Elimination of The Other 16 Optional Benefits

Governor's Proposed Budget: Listed below are the additional Optional Benefits the Governor has proposed for elimination. Exempt from the proposal are services to children under 21 years of age and residents of long-term care facilities. Federal law precludes the elimination of these services from these individuals.

Optional Benefit Category	2002-03 Mid-Year Proposal (April 1, 2003) (General Fund Savings)	2003-04 Governor's Proposed (General Fund Savings)
Van Transportation		31.5 million
Hospice		13.7 million
Durable Medical Equipment		12.5 million
Optician and Laboratory Services		14.5 million
Optometry		9.2 million
Podiatrist	995,000	4.3 million
Acupuncture	666,000	2.9 million
Prosthetics		2.1 million
Hearing Aids		2.9 million
Psychologist	57,000	229,000
Chiropractor	100,000	399,000
Independent Rehabilitation Facility	5,000	23,000
Occupational Therapy	4,000	15,000
Physical Therapy		30,000
Orthotics		640,000
Speech and Audiology		728,000
TOTAL GF SAVINGS	**$1.8 million**	**$95.7 million**

Constituency Concerns: The Subcommittee is in receipt of numerous letters regarding the potential loss of these services. Van transportation is a primary mode of transportation for patients needing dialysis. Patients need wheelchairs, hearing aids, prosthetic devices, glasses, and rehabilitation-oriented services. Many of these services are needed in order to ameliorate a chronic condition so it does not get progressively worse.

As noted previously, **Regional Centers that provide services to individuals with developmental disabilities would need substantially increased funding** (total of $61.1 million

General Fund for all 18 Optional Benefits) in order to provide these services if Medi-Cal does note.

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

- **1.** Please **briefly explain** your proposal.
- **2.** How would **individuals with developmental disabilities be affected**?
- **3.** If these services were eliminated, how would a Medi-Cal recipient potentially obtain the needed service?
- **4.** From a technical assistance basis, **are there any potential cost containment measures that could be instituted for any of these services to reduce expenditures?**

Budget Issue: Does the Subcommittee want to direct Subcommittee staff to develop options for cost containment for some of these services?

6. Proposal to Reduce Medi-Cal Rates by 15 Percent *(See Hand Out)*

Governor's Proposed Budget: The Administration proposed legislation to **reduce *both* Medi-Cal *and* Non-Medi-Cal provider rates by 10 percent across-the-board effective April 1, 2003** to achieve savings of $479.3 million ($90.4 million General Fund) within the Medi-Cal Program for 2002-03, **and by a total of 15 percent for 2003-04 to achieve savings of $1.428 billion ($720.5 million General Fund) within the Medi-Cal Program for 2003-04**. The **legislation would continue the reduction for three years through 2005-06 (ending as of July 1, 2006).**

This is the first time that an across-the-board rate reduction has been proposed. For Medi-Cal providers, the rate reduction includes nursing home facilities, Intermediate Care Facilities for Developmentally Disabled (ICF-DD), physician services, pharmacy, dental services, managed care plans, home health, medical transportation, and other medical services.

The rate reduction also includes **Non-Medi-Cal programs**, including the California Children's Services (CCS) Program, the Family Planning, Access, Care and Treatment Program (Family PACT), the State-Only Family Planning Program, the Genetically Handicapped Persons Program, and the Breast and Cervical Cancer Early Detection Program. ***(These proposed rate reductions will be discuss at a later Subcommittee hearing in April.)*** **The proposed trailer bill legislation would also provide the Director of the DHS authority to identify in regulations *other* programs in which providers shall be paid rates of payment that are identical to the rates paid under Medi-Cal.**

The following table summarizes the rate reduction affect to Medi-Cal Programs for 2003-04.

Medi-Cal Service Category	2003-04 Governor's Proposed (July 1, 2003) (15 percent) (General Fund Savings)
Nursing Home Facilities (including ICF-DD)	$253.2 million
Managed Care Plans	211.5 million
Physicians Services	76.6 million
Other Services (adult day health, hospice, hearing aids, AIDS waiver, and others)	46.3 million
Other Medical Services (podiatry, occupational therapy, acupuncture and others)	30.1 million
Pharmacy Services	23.7 million
ICF-DD Facilities	30.4 million
Dental Services	23.8 million
Home Health	13 million
Early Periodic Screening Diagnostic and Treatment (EPSDT) Services	2 million
Medical Transportation	9.8 million
TOTAL SAVINGS	**$720.5 million**

Exempt from the reduction are: hospital inpatient services, hospital outpatient services, state operated facilities—i.e., Developmental Centers and State Hospitals for the mentally ill—, and Federally Qualified Health Centers/Rural Health Centers. Hospital inpatient services are exempt since the state negotiates inpatient services through the CMAC, and hospital outpatient services are addressed in the Orthopaedic Settlement Agreement. Federal law prohibits an across-the-board rate reduction for FQHC/RHC facilities since a cost-based or prospective payment system is used.

In the Budget Act of 2000, most services provided under Medi-Cal received rate adjustments. This action was not an across-the-board rate increase, but instead targeted services for which Medi-Cal physician rates were relatively low in comparison to the Medicare Program. Generally, other than annual adjustments for nursing home rates, there had not been a rate increase for most Medi-Cal services prior to the Budget Act of 2000 since 1986.

Sub committee Staff Comment: There is evidence that the rates paid to providers could affect access to health care and the quality of care to patients. A recent national analysis of Medicaid physician rates by The Urban Institute concluded that physician fee levels affect both access and outcomes for Medicaid patients.

A Pricewaterhouse study completed last year found that, even after accounting for the rate increase provided in 2000, Medi-Cal rates continue to lag behind those of other purchasers of health care coverage in California. Another study released last year found that while the 2000 Medi-Cal rate increases were substantial, they collectively only brought the Medi-Cal provider rates from 58 percent to 65 percent of California's average Medicare payment rates.

This is the first time that nursing home facilities have been included in a rate reduction. Inclusion of nursing homes, **particularly ICF-DD facilities** (almost 100 percent Medi-Cal based), is particularly problematic due to staffing standards and wage requirements, federal regulations, and the industry's dependence on Medi-Cal payments (two-thirds of the over 1,500 nursing homes depend on Medi-Cal reimbursement). In addition, a State Plan Amendment would be required since the federal government requires these rates to be developed on an annual basis through a methodology contained in the state's Medicaid State Plan.

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

- **1.** Please briefly describe the proposal.
- **2.** Why were nursing homes, including ICF-DD facilities, included in the rate reduction?

Budget Issue: Does the Subcommittee want to modify or adopt the proposal?

7. Proposed Elimination of the Supplemental Wage Payment for Long-Term Care *(See Hand Out)*

Background and Governor's Budget Proposal (See Hand Out): Through the Budget Act of 2001 and accompanying trailer bill legislation, an appropriation was provided to serve as a supplemental wage adjustment for long-term care facilities which have a collective bargaining agreement or contract to increase salaries, wages, or benefits for certain staff. Under this proposal, participating providers needed to provide proof of a binding written commitment and a method of enforcement of the commitment. **The program was intended to terminate when the DHS implemented a facility-specific reimbursement methodology for non-hospital based nursing facilities (i.e., freestanding facilities).**

It should be noted that the Supplemental Wage Payment has *never* been allocated to the facilities.

The budget proposes to eliminate funding for this proposal for savings of $42 million ($21 million General Fund). This level represents what the updated amount would be if allocated.

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

- **1.** Why has the **Supplemental Wage Payment never been implemented?**
- **2. What would it take to implement?**
- **3.** Please step through the Administration's proposal trailer bill language.

Budget Issue: Does the Subcommittee want to adopt or deny the Administration's proposal?

8. Quality Assurance Fee for Intermediate Care Facilities for the Developmentally Disabled (ICF-DD Facilities)

Background—What Are ICF-DD Facilities and How are They Paid: Intermediate Care Facilities for the Developmentally Disabled (ICF-DD) are health facilities licensed (state requirements) and certified (federal requirements) by the Department of Health Services to **provide 24-hour per day care**. **Generally, ICF-DD facilities provide assistance to individuals with significant medical needs.**

Based on information provided by the DHS, there are a total of **964 ICF-DD facilities in California of which 957 are "privately-operated" facilities and seven are state-operated (i.e., the Developmental Centers).**

ICF-DD facilities are unique from other long-term care nursing facilities in that the clients who receive services are almost always enrolled in Medi-Cal. As such, there is no other third-party reimbursement available—the facility is reliant on Medi-Cal reimbursement.

According to the DHS, the average daily rate reimbursed by Medi-Cal is $166 per patient per day for privately-operated facilities and $524 per patient per day for the state-operated Developmental Centers.

Background--Governor's Proposed 15 Percent Reduction on Long-Term Care, including ICF-DD: The Administration is proposing to **reduce rates by 15 percent**, as discussed in Agenda Item 6, above. Under this scenario, privately-operated ICF-DD facilities **would receive a $141 per patient per day reimbursement. State-operated Developmental Centers would not have their rates reduced at all.**

Governor's Mid-Year Proposal—Denied Pending Clarification: As part of the Mid-Year Reduction package, the Administration proposed **to enact legislation** effective April 1, 2003 which **required ICF-DD facilities and state Developmental Centers to pay the state a Quality Assurance Fee of 6.5 percent.** The Legislature postponed enactment pending resolution of the Governor's proposed 15 percent Medi-Cal rate reduction (which includes ICF-DD facilities) and its impact on this proposal, as well as a need to clarify how Developmental Center rates would be affected.

Since this time, the Administration has had an opportunity to revise their proposal.

Revised Governor's Budget Proposal—Assessment Fee and Rate Reduction: The Administration is proposing to require ICF-DD facilities and state Developmental Centers **to pay the state a Quality Assessment Fee of 6 percent on the total rate per patient day. This assessment amount would then be used by the state to obtain a portion of federal matching funds. A portion of these new federal funds would be used to offset General Fund expenditures and to provide for a rate adjustment to ICF-DD facilities.**

The Quality Assessment Fee would be a per diem "add-on" to the regular reimbursement rate and would be added for each patient day during the quarter. **This add-on would be computed to return at least 100 percent of the fee paid by the facility at the end of the particular quarter.**

According to the Administration, if one assumes the 15 percent rate reduction *and* the 6 percent Quality Assurance Fee, a total net General Fund gain of $19.5 million can be obtained, or a savings of $1.7 million more than originally anticipated. (The Governor's January budget assumed a net gain of only $17.8 million). Of the $19.5 million amount, $12.4 million is attributable to the state Developmental Centers and $7.1 million is attributable to the privately-operated ICF-DD facilities.

It should be noted that the state-operated Developmental Centers would not be receiving any rate adjustment due to the Quality Assurance Fee proposal, nor are they subject to the proposed 15 percent long-term care rate reduction in Medi-Cal.

In addition to the need for statutory change, the state would need to submit a Medicaid State Plan amendment to the federal CMS for approval. **It should be noted that several other states have implemented similar programs for their ICF-DD populations.**

How Are Privately-Operated ICF-DD Facilities Affected by Administration's Proposal: The 6 percent Quality Assurance Fee would require **privately-operated ICF-DD facilities to pay an average daily fee of $8.46 per patient per day.** (This assumes that the average daily rate drops to $141 due to the 15 percent rate reduction; therefore, 6 percent of $141 equals $8.46.)

In return for this payment, the state would ensure that **each privately-operated ICF-DD facility received their Quality Assurance Fee payment back plus a portion of the federal fund amount** (i.e., **a net amount back or rate adjustment**). **According to the DHS, this net amount would equate to about 25 percent of the federal fund amount, or about a 1.9 percent rate adjustment across the board.**

In actuality, each facilities' rate adjustment would vary depending on the number of Medi-Cal patient days and patient occupancy.

Therefore according to the DHS calculations, instead of receiving a rate reduction of the across-the-board 15 percent, privately-operated ICF-DD facilities would experience on

average a 13.07 percent rate reduction (due to the interaction of the Quality Assurance Fee).

Constituency Concerns: Constituency groups **are interested in enacting the Quality Assurance Fee, though concerns with the 15 percent rate reduction cannot be ignored.**

Among other issues, the industry is **seeking to modify trailer bill language to make it clear that ICF-DD providers must receive a rate adjustment before they can pay the Quality Assurance Fee to the state for the providers have no ability to "float" the state revenue.** They contend that their proposed language is needed in order to provide 100 percent of **the net** from the Quality Assurance Fee on privately-operated ICF-DD facilities back to the providers.

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 briefly walk-through the Administration's *revised* proposed trailer bill language**
- **3. Is it the intention of the Administration's proposal to pay for normal rate items, or are these funds to be used for quality improvement? Please explain.**

Subcommittee Staff Comment: Many states use the quality assurance fee concept and have been obtaining increased federal funds for many years through this process. **It meets all federal law requirements and provides assistance to facilities, as well as to the state. As such, it is recommended to adopt the proposal including the revised trailer bill language (as placeholder language until final technical adjustments are made). (This proposal should be treated separate and apart from the 15 percent rate discussion.)**

Budget Issue: Does the **Subcommittee want to adopt the Administration's proposal in concept and direct Subcommittee staff to work with the Administration and constituency groups to finalize the trailer bill language?**

9. Proposed Implementation of New Controls on Selected Services *(See Hand Out)*

Governor's Proposed Budget: The budget proposes **to implement new utilization and payment controls in the Medi-Cal Program for savings of $76 million ($38 million General Fund).**

Specifically, the DHS is proposing the following four items which equate to this amount:

- ***A. Reduction of Medi-Cal Rates to 80% of Medicare Level for Laboratory Services ($20 million total) (See Hand Out for Trailer Bill Language):*** **An across the board rate reduction of the Medi-Cal rate to 80 percent or less than the current federal Medicare rate is being proposed.** The DHS **contends that $20 million ($10 million General Fund)** can be obtained from this reduction. **It should be noted that any rate reduction must be done in concert with current laboratory contracting processes.**

The Administration **is proposing trailer bill language** to implement this provision. **(See Hand Out).**

Though authority was provided to the DHS to contract out for laboratory services in the omnibus health trailer bill (AB 442) of the Budget Act of 2002, contracting has not yet been implemented. The DHS states that it **will be initiating** contracts with laboratory providers in **three phases—(1)** clinical laboratories (not affiliated with either hospitals or clinics) that perform moderate and/or high complexity tests, **(2)** physician and physician groups, and **(3)** clinical laboratories that are affiliated with clinics that perform moderate and/or high complexity tests. *(It should be noted that due to the Orthopaedic Settlement Agreement, hospital outpatient laboratory services will not be included as part of this proposed reduction.)* **The contracting language will require that contracted laboratories accept reimbursement at no more than 80 percent of Medicare reimbursement for each laboratory test.** Authority was provided to the DHS in AB 442, Statutes of 2002 (omnibus health trailer bill)

However, because the contracting process will take time to implement, the Administration wants to reduce reimbursement now, via statutory change.

- ***B. Rate Review and Adjustments ($35 million total) (See Hand Out for Trailer Bill Language):*** The **DHS intends to methodically research and eliminate obsolete Medi-Cal codes that are currently reimbursed.** In theory, legitimate providers may still accidentally bill for such procedures, or unscrupulous providers are doing so fraudulently. **These codes may be obsolete due to medical advances such as medications, products, or equipment that is no longer manufactured, or physician procedures that are no longer in practice.** For example, the elimination of payment for services not medically justified such as elastic stockings as a Medi-Cal benefit. **The budget assumes savings of $35 million ($17.5 million General Fund) from this process.**

- ***C. Procedure Code Restriction ($16 million total) (See Hand Out for Trailer Bill Language):*** The DHS **intends to limit a provider's ability to cause secondarily referred services to be billed by a physician, pharmacy, laboratory, or durable medical equipment provider**. The DHS contends that they have observed cases where a non-Medi-Cal provider has been administratively sanctioned or banned from the Medi-Cal Program yet is still causing the downstream occurrence of a large amount of paid claims through deferrals, prescriptions, or requisitions. Current sanction's do not limit a provider's ability to refer patients to other non-sanctioned providers. As a result, direct payments to the providers in question may cease, but payments made on behalf of their actions (i.e., referrals to other providers) may continue or actually increase. **The budget assumes savings of $16 million ($8 million General Fund) for this purpose.**

- ***D. Link Reimbursement to Net Purchase Price of Products ($5 million total):*** The DHS requires that Medi-Cal billings by providers for medical supplies, incontinence supplies, durable medical equipment and prosthetic and orthotic appliances be based on the net purchase price of these products, not the estimated acquisition cost or the weighted average cost of the negotiated contract price which both presume operation of market conditions. Therefore, the DHS intends to link reimbursement to the net purchase price of these products through an audit process. **They estimate savings of $5 million ($2.5 million General Fund) from this proposal.**

Subcommittee Staff Recommendation: Due to the existing fiscal situation, it is recommended to adopt these proposals in concept and to work with constituency groups regarding any potential adjustments to trailer bill language.

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

- **1. Please explain *each* component of your proposal.**
- **2. Do any of these proposals require statutory change? If so, please explain.**
- **3. Since no additional DHS staff have been requested for this purpose, it is assumed that none are needed. Is this correct?**

Budget Issue: Does the Subcommittee want to adopt or modify the Administration's proposal?

LAST PAGE OF AGENDA

Senate Budget & Fiscal Review
Senator Wesley Chesbro, Chair

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

Senator Wesley Chesbro, Chair
Senator Gilbert Cedillo
Senator Tom McClintock
Senator Bruce McPherson
Senator Deborah Ortiz

Consultant, Ana Matosantos

Thursday, March 27, 2003
Upon Conclusion of Senate Floor Session
Room 4203

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5180 Department of Social Services

The Department of Social Services administers a series of programs designed to protect children from abuse, neglect and exploitation, to deliver necessary services to children in out of home care, and to support the adoption of children with special needs. These programs serve an average of 323,001 youth each month. The programs are overseen by the Department of Social Services and operated by county welfare departments. The Governor's Budget provides $4.6 billion in combined federal, state and county funds to support children and family services programs. The vast majority of these funds are federal or local as the budget proposes to realign most of these programs to counties.

Summary of Expenditures (dollars in thousands)	2002-03	2003-04	$ Change	% Change
Program				
Child Welfare Services	1,943,668	2,077,269	133,601	6.87
Foster Care	1,639,922	1,783,398	143,476	8.75
Adoptions	504,085	582,499	78,414	15.56
Kinship Guardian Assistance	76,232	100,792	24,560	32.22
Child Abuse Prevention	19,983	21,815	1,832	9.17
Total Program Expenditures	4,183,890	4,565,773	$381,883	9.13
Fund Source				
State funds	1,320,691	112,476	-1,208,215	-91.5
Federal funds	1,898,249	2,058,627	160,378	8.4
County funds	926,773	2,357,642	1,430,869	154.4
Reimbursements	38,177	37,028	-1,149	-3
Total	$4,183,890	$4,565,773	$381,883	9.13

ITEMS FOR DISCUSSION

1. California Child and Family Services Review

Background: The federal Adoption and Safe Families Act of 1997 made sweeping changes to state child welfare services programs and foster care programs. Among other changes, the Act required the establishment of a new outcome based evaluation process to assure states' substantial conformity with federal foster care, child protective services and adoptions services requirements. The new review process requires the completion of a statewide self-assessment, analysis of statewide data regarding the safety, permanency and wellbeing of children, as well as an on-site federal review of cases. The review assesses state performance on seven outcomes pertaining to safety, permanency and well being, and on seven systemic factors including training of foster parents and caseworkers, data systems, and quality assurance. The review establishes fiscal penalties for non-compliance and may affect federal financial participation in the future. Given the high standards of the new federal review system and states' performance on the review, it is most likely that the federal government will not assess penalties immediately and will provide states an opportunity to improve their program outcomes.

The federal government completed its review of California's child and family services in January 2003. The review examined multiple state programs and services including child protective services, foster care, adoption, family preservation, family support and independent living. It included a statewide self-assessment, which the state completed by July 2002, and an onsite federal review of 49 cases, which was conducted in Los Angeles, San Mateo and Stanislaus counties.

The federal government concluded that California is not operating in substantial conformity in all evaluated outcome areas and five of the seven evaluated factors. California is in substantial conformity with requirements regarding agency responsiveness to the community and having a statewide information system that meets specified criteria. **The review also identified a series of programmatic strengths** including timeliness of initiating investigations of reported maltreatment, providing services to prevent the removal of children, reducing the risk of harm to children, placing siblings together in foster care, conducting caseworker visits, and meeting children's physical health needs. **The federal government concluded that California is not in substantial conformity with the following outcomes and factors**:

Outcomes
- Children are, first and foremost, protected from abuse and neglect.
- Children are safely maintained in their homes whenever possible and appropriate.
- Children have permanency and stability in their living situations.
- The continuity of family relationships and connections is preserved for children.
- Families have enhanced capacity to provide for their children's needs.
- Children receive appropriate services to meet their educational needs.

Factors
- Status of Case Review System
- Status of Quality Assurance System
- Status of Training
- Status of Service Array
- Status of Foster and Adoptive Parent Licensing, Recruitment and Retention

Federal law requires that California negotiate a Program Improvement Plan (PIP) with the federal government to address system deficiencies and improve the state's outcomes. The state's plan will outline specific steps California will take to improve its children and family services system.

The PIP must include timeframes for achieving program improvements. **Given California's overall performance, the review's findings strongly suggest that the negotiated PIP will require new programmatic investments to achieve compliance. California is required to submit its PIP to the federal government by April 10, 2003.**

In addition to the state's work to complete its Program Improvement Plan by the April 2003 deadline, California is engaged in an effort to revamp the way in which it measures county outcomes. Assembly Bill 636 (Steinberg) required that California establish an outcome-based system to evaluate county operations of the child welfare services system. The Health and Human Services Agency has convened an advisory group to develop a new Child Welfare Services Outcome and Accountability System based on the new federal review standards. The Agency will submit to the Legislature by April 1, 2003 a work plan for implementation of AB 636. In April, the DSS will work with the advisory group to develop the new system to be implemented in January 2004.

Subcommittee request and questions: The Subcommittee has requested that the Department of Social Services answer the following questions:

1. Briefly describe the recent federal review of California's child and family services including the federal government's findings.
2. Describe the status of California's Program Improvement Plan including, stakeholder participation in its development, and examples of the planned improvements.
3. Report any additional costs associated with California's Program Improvement Plan.
4. Discuss the possible ramifications if California remains out of compliance with federal requirements.
5. Discuss the interactions between California's performance in the federal review, the state's PIP and the proposed realignment of child and family services.

Budget issue: This item is primarily informational. There is no Subcommittee action required at this time.

2. Child Welfare Services Stakeholders Group

Background: In 2000, the Administration and the Legislature established the Child Welfare Stakeholders Group to examine California's child welfare services programs, processes and outcomes, and to recommend changes necessary to achieve programmatic goals. The group has been working together for three years and will finalize its work by June 30, 2003.

In the first year the group adopted a vision, a mission and values to guide the child welfare system redesign process. The group also developed a conceptual framework for the system redesign. The department issued its first progress report in June 2001. The report outlined the activities of the Stakeholders Group and discussed the group's findings. The Group found that new service approaches are needed. The report identified the values of a redesigned system, and developed concepts that will support changes to the children's services 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.

In the second year the group established multiple workgroups to develop in more detail the framework established in year one, and to discuss what the redesigned system would look like and how it would operate. The department issued its second progress report in May 2002. The report discusses strategies to effectuate many of the goals identified in year 1 such as the creation of stronger partnerships at the state and local level to prevent child abuse and neglect, efforts to improve the successful transition of youth out of the system, and strategies to reduce the time youth spend without a safe or permanent placement. The report identifies barriers to achieving the established goals and defines system changes necessary to achieve the desired program outcomes.

The department plans to issue the Stakeholders Group final report by July 2003. The department also plans to incorporate many of the ideas developed through the Stakeholders process into California's federally required Program Improvement Plan.

Subcommittee request and questions: The Subcommittee has requested that the Department of Social Services answer the following questions:

1. Briefly discuss the status of the Child Welfare Stakeholders Group.
2. Report any additional costs associated with Group's anticipated recommendations for system redesign.
3. Discuss the interactions between the Group's proposed system redesign, the federally required PIP and the proposed realignment of child and family services.

Budget issue: This item is primarily informational. There is no action required.

3. Child Welfare Services

Background: The Child Welfare Services (CWS) system provides a range of services to protect children from abuse, neglect and exploitation. The services are designed to prevent, help alleviate and remedy the problems that cause abuse, neglect or exploitation of children. The services also work to 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 CWS system includes Emergency Response, Family Maintenance, Family Reunification and Permanent Placement services.

The Department of Social Services is responsible for oversight of the state's CWS system. County welfare departments administer and operate CWS programs, and deliver program services to children and their families. The DSS and its county partners serve an estimated 171,000 youth each month.

Governor's budget: The budget **provides $2.08 billion total federal, state and county funds ($69.3 million general fund) to support the CWS system. Funding for the Child Welfare Services system is based on 2000-2001 county costs and does not include a cost-of-doing business adjustment to local child welfare services providers. The budget makes the following funding assumptions:**

a. Realigns Child Welfare Services to counties virtually eliminating general fund support for the program. This budget issue is discussed on page 26 as part of a broader realignment discussion.

b. Maintains counties at their prior year funding level.
The budget provides $1.32 billion in total funds for the basic CWS program. It assumes a CWS caseload decrease of 2.2 percent and provides modest increases and decreases to the base allocation to account for caseload changes within each program component. The budget essentially funds counties at their prior year levels and calculates costs to maintain each county's prior year social worker funding level.

The Legislative Analyst recommends that the Legislature reduce by $11 million funding for the Child Welfare Services program to account for the reduced program caseload. The Analyst further recommends that the department abolish the "hold harmless" method of budgeting basic CWS costs. The hold harmless budgeting method was established during the implementation of the Child Welfare Services Case Management System in response to concerns about the accuracy of the data system's caseload data. **The department maintains this budgeting methodology partly out of its recognition of the significant funding and staffing needs, and the extent of caseworker overburdening in the CWS program.**

Subcommittee request and questions: The Subcommittee has requested that the Department of Social Services briefly discuss the proposed basic funding level for CWS and the reasoning underlying its budgeting methodology. The Subcommittee has also requested that the Legislative Analyst briefly present her recommended reduction.

Budget issue: Does the Subcommittee wish to approve the proposed basic funding for the CWS program?

c. Senate Bill 2030, the CWS Augmentation and Social Worker Training.
Senate Bill 2030 (Costa), Chapter 785 of the Statutes of 1999 required that the Department of Social Services conduct an independent evaluation of the adequacy of the state's child welfare services budgeting methodology, and funded caseload and service levels, and to make recommendations to the Legislature. **The SB 2030 Child Welfare Services Workload Study found that caseworkers were seriously overburdened and carrying much larger caseloads (2 times as many) as were ideal.** The study recommended that California implement minimum caseload standards, devise and implement a staff recruitment plan, as well as revise its budget methodology.

Assembly Bill 2876, Chapter 108, Statutes of 2000 required the DSS to develop a plan to implement the recommendations of the SB 2030 study. **Among the actions proposed by a workgroup formed to advise the department as part of its required implementation plan was the adoption of minimum caseload standards and phased-in augmentations to reach the proposed minimum standards** by the 2005-06 fiscal year. The implementation plan also included a series of action steps including expanded slots for all levels of social work education and additional support for training of social workers.

Beginning in 1998, the Legislature and the Administration provided an augmentation to the CWS program to address program under funding and provide workload relief. Assembly Bill 1656, Chapter 324, Statutes of 1998 authorized an initial CWS program augmentation of $40 million general fund. Assembly Bill 1740, Chapter 52, Statutes of 2000 provided an additional augmentation of $34.3 million general fund. **Last year, citing the state's fiscal situation, the Governor reduced the CWS augmentation by $17.2 million general fund and reduced CWS program funding by another $10.8 million general fund for a total reduction in state funding for CWS of $28 million.**

Subcommittee request and questions: The Subcommittee has requested that the Department of Social Services discuss California's current caseload levels in comparison to the SB 2030 recommended standards and discuss the impact on services of overburdened workers.

Governor's budget: The budget reduces the CWS augmentation by another $2.5 million due to a decreased level of federal financial participation.

d. Relative Home Assessment

A recently enacted **state law requires that counties conduct an in-home assessment prior to placing a child in the home of a relative, or the home of a non-relative extended family member.** Further, **the federal Adoption and Safe Families Act requires that counties conduct additional in-home assessments when one or more relatives or non-relative extended family members seek approval to have related foster children placed with them.** During these in-home assessments counties evaluate the safety of the home and the ability of the relative to care for the child's needs. **Counties are required to visit all willing relatives or non-related extended family members to fairly establish viable placement options.**

Governor's Budget: The **budget provides a $6.7 million increase in state and county funds to support these new required relative caregiver home assessments**.

The budget assumes that counties will take an additional three hours to complete the new relative home assessment requirements. Counties report that the new assessments take considerably longer. Counties have identified two types of cases, regular and complex. Completing assessments takes an average of 6 to 8 hours and 16 hours accordingly. About 90 percent of the cases are complex and require 13 more hours than the budgeted time. Counties further note that the budget estimate does not account for travel time, which ranges from 2 to 4 hours.

Subcommittee request and questions: The Subcommittee has requested that the Administration briefly describe the new requirement, the proposed funding and whether the assumed additional 3 hour time frame for completing home assessments bears what counties have been experiencing.

Budget issue: Does the Subcommittee wish to approve this item as budgeted?

e. CWS/CMS maintenance and operations

Federal and state laws require the state to provide automated case management support to child welfare workers. California accomplishes this goal through the Child Welfare Services Case Management System.

Governor's Budget: The **budget proposes to augment the CWS/CMS budget by $43.5 million ($21.7 general fund).** This amount includes a $38.1 million ($19.1 general fund) increase for ongoing maintenance and operations needs of the CWS/CMS system and $5.3 million ($2.7 general fund) for the design, development, integration and implementation of the Expanded Adoptions Subsystem.

The Legislative Analyst recommends that the state finance rather than purchase hardware, which could substantially reduce costs for CWS/CMS maintenance and operations in the budget year. The Subcommittee as part of its deliberations on the Health and Human Services Data Center's budget referred the Analyst's recommendation to the action agenda.

Budget issue: Does the Subcommittee wish to conform to its previous action and refer the Analyst's recommendation regarding CWS/CMS to the action agenda?

f. Promoting Safe and Stable Families

The federal government funds a specific program within the child welfare services system 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 $2.1 million, for a total of $50.1 million in the budget year. The required match is provided through the existing state Family Preservation Program.

Budget issue: Does the Subcommittee wish to approve program funding as budgeted?

4. Child Abuse Prevention, Intervention and Treatment Program (CAPIT)

Background: The Child Abuse Prevention, Intervention and Treatment Program funds prevention and intervention services for children at risk of abuse and/or neglect. Specifically, the program supports contracts with community-based public and private agencies to provide services to high-risk children and their families.

CAPIT funds are provided through county allocations. In addition to providing funds to support the aforementioned services, the budget provides $1 million for innovative services contracts issued through a competitive bid process. The budget also provides a small amount of funds for training and technical services to support program administration and to provide for regional training on various child abuse issues. **Funding for the budget year is $21.85 million ($1.8 state funds).**

The budget proposes this program for realignment. This issue is considered in more detail on page 26.

Budget issue: Does the Subcommittee wish to approve the proposed funding for this program?

5. Foster Care Program

Background: The **Foster Care program provides support payments for children in out-of-home care as a result of a judicial order or a voluntary placement agreement.** The program provides payment to foster care service providers, including foster homes, foster family agencies, residential treatment for seriously emotionally disturbed children and group homes. The program is administered by the Department of Social Services and operated by county welfare departments. **It serves an estimated average of 76,400 youth a month, reflecting a 2.2% increase in caseload.**

Governor's budget: The budget **provides $1.78 billion total federal, state and county funds ($78,000 general fund) to support the foster care system. The budget makes the following funding assumptions:**

a. Realigns the Foster Care Program to counties virtually eliminating general fund support for the program. This budget issue is discussed on page 26 as part of a broader realignment discussion.

b. Foster Care Program – Compensation for County Services
The **budget provides $94.8 million to support county delivery of Foster Care Program services.** This amount reflects a $3.8 million increase in local assistance due to increased program caseload. **The proposed compensation for county services is based on 2000-2001 county costs and does not include a cost-of-doing business adjustment.**

c. Foster Care Program – Compensation for Provider Services
The **budget provides $1.6 billion for basic foster care payments. This amount reflects a $127 million increase in compensation to foster care service providers** due to increased program caseload. **The budget suspends cost of living adjustments for foster care providers and maintains their 2001-02 level.**

Providers argue that the standard foster care rates are 17 percent below the 1990 rates adjusted by the California Necessities Index (CNI) and 18 percent below rates adjusted by the Consumer Price Index (CPI). Further, providers argue that the comparison to the CNI and CPI adjusted rates underestimates the inadequacy of the current rate structure as it does not account for increases in energy, workers' compensation and insurance costs.

Providers request that the state adopt a series of changes to enhance their ability to manage the proposed COLA suspension. First, providers suggest that the Legislature permit agencies operating group homes to modify their staffing patterns to reflect the lack of a 2003-04 COLA. They also request that California hold group homes "harmless" from audit exceptions and resulting state actions when the agency can demonstrate that it used all of the foster care funds (AFDC-FC) it was paid during a fiscal year on the operation of its group home program.

Subcommittee request and questions: The Subcommittee has requested that the Department of Social Services briefly describe the proposed COLA suspension, discuss the impact of the proposed suspension on provider participation in the foster care program, and comment on the provider proposals.

Budget issue: Does the Subcommittee wish to approve this item as proposed in the budget?

d. Foster Care Ombudsman Office Increase
The Foster Care Ombudsman program was established in 2000 to provide an autonomous, independent means for resolving issues related to the care, placement and services of foster youth. Among other activities, the Foster Care Ombudsman Office disseminates information regarding the services it provides and the rights of children and youth in foster care. The Office received 8,623 contacts from youth and assisted in the resolution of 716 complaints and 706 referrals from May 2001 to May 2002.

Governor's budget: The budget proposes a $295,000 increase for the Foster Care Ombudsman Office to convert 4 limited term positions to permanent positions.

Budget issue: Does the Subcommittee wish to approve the proposed increase?

e. Group home affiliated leases

Since 1997, **the Department of Justice has been required to review group home affiliated lease agreements**, also known as self-lease agreements, to determine whether the lease is fair and reasonable. If the rent and other allowable shelter costs paid for by the group home under the lease are fair and reasonable, the DOJ sends an approval letter to the Department of Social Services. The DSS then sets a reimbursement rate for the group home. **The DOJ review seeks to assure procedural correctness and financial propriety, as well as continued federal financial participation for group home self-lease agreements.**

The required lease review is part of the process whereby the DSS sets foster care rates for group homes. Accordingly, since the inception of the review requirement the DSS has compensated DOJ for its review of the group home leases.

Governor's budget: The **budget proposes to eliminate the DSS contract to compensate the DOJ for completing the statutorily required review of group home self-lease agreements.** This proposal generates general fund savings of $75,000.

The DSS reports that few group homes benefit from the services provided by the DOJ. Under the proposal, benefiting homes will be required to pay the costs associated with the leasing activities performed by the Department of Justice.

The Department of Justice opposes the elimination of the DSS contract because it would result in unreimbursed costs to DOJ for activities that further a DSS program. The DOJ argues that funding for the contract should be restored or the requirement that DOJ review group home self-lease agreements should be eliminated.

Subcommittee request and questions: The Subcommittee has requested that the Department of Social Services briefly describe the proposal, discuss its projected impact on group homes and its impact on the Department of Justice.

The Subcommittee has also requested that the Department of Justice discuss the rationale for their opposition to this budget proposal and their recommendations.

Budget issue: Does the Subcommittee wish to approve the proposed elimination of the contract between the DSS and the DOJ?

6. Adoptions Services

Background: The **Adoptions program provides a range of services to encourage and facilitate the adoption of children who have been relinquished by their parents or who have become wards of the state due to the termination of parental rights as a result of abuse or neglect.** The program is overseen by the state and administered locally by county welfare departments.

Program funds seek to maximize the adoption of children in foster care for whom family reunification is not a viable option. 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, the Department reported that the Initiative 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. The initiative 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 shifted to a focus on concurrent services planning, kin adoption, and the use of uniform and comprehensive assessments of applicant families. Since the goals of the Initiative were reached, funding for the initiative is included in the basic Adoptions Program budget.

Governor's budget: The **budget provides $78.7 million ($41.3 general fund) to fund the Adoptions Program.** The funding reflects a 2.9% increase over the current year budget largely due to an increase in available federal adoptions incentive funds to be expended in the beginning of the budget year. The budget reflects an overall decrease in the amount of federal Adoptions incentive funds available to California in the 2003-04 fiscal year.

Adoptions Services is the only children's services program component that the Administration excludes from its comprehensive realignment proposal. The Legislative Analyst recommends that the Legislature consider the Adoptions Services Program as a candidate for realignment. The Analyst comments that realignment of Adoptions Services is consistent with realignment of the other children's services programs and assures that counties assume increased financing responsibilities for the entire children's services system.

Budget issue: Does the Subcommittee wish to approve program funding as budgeted? Does the Subcommittee wish to consider this program as a candidate for realignment?

7. Adoption Assistance Program

Background: 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.

Governor's Budget: **The budget provides $503.8 million in combined federal and county funds for AAP grant payments. It provides an increase of $54 million total funds for the AAP program. The budget assumes that the estimated caseload will be 60,811 in the budget year, a 12% increase over current year. The budget does not provide cost-of-living adjustments for this program.** The caseload of this program has increased by an average of more than 13% each of the last three years. Such an increase in the AAP caseload is considered a desirable public policy goal as it means children have permanently transitioned out of the foster care system.

The Legislative Analyst's independent review of the Adoption Assistance Program's caseload found that the budget overstates caseload by at least 1.1 percent. The Analyst found that caseload growth in the AAP program has slowed and that actual caseload data shows a growth rate of 10.5 percent, not the12 percent growth rate that the budget assumes. **The Analyst recommends that the Legislature reduce the AAP budget by $4.6 million to reflect slowing in the caseload growth rate of the AAP program.**

The budget proposes to realign this program to counties. This issue will be discussed in more detail on page 26.

Subcommittee request and questions: The Subcommittee has requested that the Legislative Analyst answer the following questions:

1. Briefly discuss your findings regarding rate of caseload growth for the AAP program and the fiscal impact of your findings.
2. Discuss the impact of a decreasing rate of growth in the AAP program and the caseload of other children's programs, such as the Foster Care program.

The Subcommittee has requested that the Department of Social Services answer the following questions:

1. Briefly comment on the Analyst's findings regarding caseload growth in AAP.
2. Discuss how the projected caseload growth assumed in the budget compares to recent actual caseload data.
3. Discuss the impact of the potential decrease in caseload growth rate in the AAP on the caseload of other children's program and on the state's performance on the new federal outcome standards.

Budget issue: Does the Subcommittee wish to approve the Adoption Assistance Program funding at the level budgeted?

8. Kinship Guardianship Assistance Program (KinGAP)

Background: The **KinGAP program provides stable guardian placement for children in foster care, who are placed with relatives and for whom the placement is their permanent plan.** 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. Similar to the Adoption Assistance Program, **KinGAP provides guardians a monthly payment at the basic foster care rate for which the child would otherwise be eligible.** Children are eligible for KinGAP when they have been living with a relative for at least twelve months. **The budget estimates an average monthly caseload of 16,140 children.** This constitutes a caseload growth rate of 24.1% from the current year to the budget year. This growth generates savings due to decreased case supervision costs, and improved permanency and stability for children.

Governor's budget: **The budget for the KinGAP program is estimated to grow by a total of $19.5 million, reflecting an increase of 24%.** The increased funding supports the program's growing caseload. The budget does not assume provision of a cost-of-living adjustment or a cost of doing business increase. The budget provides a total of $100.8 million in federal and county funds to support the program. The aforementioned budgeted amount does not reflect savings in CalWORKs and Foster Care expenditures resulting from the child's stable placement through the KinGAP program.

The budget proposes to realign the KinGAP program to counties as part of the proposed 2003 realignment. This issue will be discussed in more detail on page 26.

Budget issue: Does the Subcommittee wish to approve the approve KinGAP funding at the level budgeted?

9. Independent Adoptions Program

Background: The **Independent Adoptions Program facilitates adoptions of children when an agreement has been reached between birth and adoptive parents.** Essentially the Department of Social Services (DSS) serves as the investigative arm of the Court and makes a recommendation to approve or deny a petition for adoption. As part of the investigation, the DSS adoption specialist, within a specified timeline, completes a safety and welfare check, interviews petitioners and all persons required to consent to the adoption, and conducts a full investigation to assess the appropriateness of the adoption.

Through the Independent Adoptions Program, the department assists in the adoption of 1,200 children each year. Parents who adopt children through this program tend to be older, have somewhat lower earnings, and are less likely to be married than parents who adopt through private adoption agencies. Parents who adopt through IAP are far more likely to be related to the child than parents adopting through private agencies. **Reportedly, the Independent Adoptions Program may serve parents who seek a**

lower cost alternative to adopt children, as independent adoptions tend to cost less than private adoption agencies adoptions. Private agency fees can range from $2,500 to $30,000.

The Department of Social Services currently charges a $1,250 fee to cover part of the costs associated with its IAP activities. The fee can be waived, reduced or deferred if the department, delegated county adoption agency or the court determine that the payment would cause economic hardship to the prospective adoptive parents and would be detrimental to the welfare of an adopted child. Administrative criteria result in the adjustment of the fee for families whose annual adjusted gross incomes are above the state median income. In the 2001-02 the department waived the fee for 543 adoptive parents or 47.5% of independent adoptions. Fee revenues finance approximately 62 % of program costs. It is projected that state would need to provide $3.8 million in general fund support to supplement fee revenues and cover program costs.

Governor's budget: The **budget proposes to eliminate this program to realize savings of $3.8 million.** The Governor proposes legislation to authorize private adoption agencies to assume the responsibility for completing independent adoptions, a responsibility currently fulfilled by the Department of Social Services. Specifically, the legislation authorizes private adoption agencies to conduct investigations on behalf of the court and to make a recommendation to approve or deny a petition for adoption.

The Subcommittee may wish to consider to raising the fee to $3,100 to support the continuation of the program. This proposal would fund the program entirely with fee revenues. Independent Adoptions would remain significantly cheaper than the private adoption agency process. According to estimates provided by the DSS, the Subcommittee would need to eliminate the option for waiving the fee or raise the fee beyond the proposed $3,100 level to realize the necessary level of program support.

Recent federal law changes will increase the maximum federal tax credit for adoption costs from $5,000 to $10,000. Effective January 1, 2003, taxpayers can reduce their federal tax liability by up to $10,000 for qualifying expenses to adopt an eligible child. Qualifying expenses include reasonable and necessary adoption fees, court costs, attorney fees, and other expenses directly related to the adoption of an eligible child. Eligible children include children who are 18 years of age or younger or a child who is physically or mentally incapable of caring for himself or herself. This increased tax credit may mitigate the effect of higher Independent Adoption fees.

Subcommittee request and questions: The Subcommittee has requested that the Department of Social Services respond to the following questions:

1. Briefly describe the proposed program elimination and its impact on adoption rates in California.
2. Discuss how this proposal may affect the rate of children served by the state through other children services programs such as the foster care program.
3. Discuss the feasibility and advantages or disadvantages of raising program fees as an alternative to program elimination.

Budget issue: Does the Subcommittee wish to approve or modify the proposed program elimination?

10. Maternity Care

Background: Since 1977, **the Licensed Maternity Home Program has provided residential care, counseling and maternity-related services to pregnant, unwed residents of the State who are under 18 years of age when admitted to the program.** The Department of Social Services contracts with four faith based organizations to provide program services.

Governor's budget: The budget provides $600,000 general fund to support the program.

Subcommittee request and questions: The Subcommittee has requested that the Department of Social Services respond to the following questions:

1. Briefly describe the program and the services it provides.
2. How many young women does this program serve each year?
3. What are the program's outcomes and how are those measured?

Budget issue: Does the Subcommittee wish to approve funding for the Maternity Program as budgeted?

11. Foster and Adoptive Home Recruitment Program

Background: The Foster and Adoptive Home Recruitment program supports community based organizations in recruiting individuals from under represented minorities to participate as foster and adoptive parents in the state's children services programs. The Department of Social Services plans to enter into four contracts with community based organizations in the budget year to fulfill the program's requirements.

Governor's budget: The budget provides $392,000 ($242,000) general fund to support the program in the budget year.

Subcommittee request and questions: The Subcommittee has requested that the Department of Social Services respond to the following questions:

1. Briefly describe the program and the services it provides.
2. How many foster and adoptive parents do community based organizations recruit each year?
3. What are the program's outcomes and how are those measured?
4. To what extent are counties and foster family agencies required to recruit a diverse group of individuals and families to serve as foster and adoptive parents?

Budget issue: Does the Subcommittee wish to approve funding for the Foster and Adoptive Home Recruitment Program as budgeted?

5175 Department of Child Support Services

The Department of Child Support Services (DCSS), established as of January 1, 2000, administers the child support enforcement program operated by local child support agencies. The Department provides state direction to assure that child support amounts are established, collected, and distributed to families, including securing child and spousal support, medical support, and determining paternity. The Department continues to have responsibility for addressing federal fiscal sanctions related to California's failure to develop adequate systems in the past. The department oversees local program and fiscal operations, administers the federal Title IV-D state plan for securing child support, and establishes performance standards for California's child support program. The budget anticipates collections of $2.3 billion in the budget year. The department's overall budget decreases by $17.8 million (1.5 percent) in the budget year.

The Subcommittee will consider the Department's budget in its totality on April 10th.

1. Foster Parent Training Fund

Since 1984, the Chancellor's Office of the California Community Colleges has operated a training program for foster parents. Beginning as a voluntary training program, the Community Colleges' program was significantly expanded in 1996 when all foster parents were required to obtain education and training. Parents were required to obtain education and training at the pre-service and ongoing service levels. Training was also expanded to include kinship care providers.

Today, **the expanded Foster and Kinship Care Education program provides training to facilitate the development of foster family homes and small family homes to care for children who have special needs.** It is the state's primary training program foster parents and kinship care provides, and assists foster parents in meeting licensing training hour requirements.

Sixty-seven 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	$ 2,967,000
Community College Local Assistance	$ 1,866,000
Federal Reimbursement	$ 6,812,783
Total funding	$11,645,783

Most state funding provided for this program comes from the Foster Parent Training Fund. Essentially California transfers the difference between the state share of child support foster care collections and the base level of the estimated share of child support foster care collections, up to a maximum of $3 million, to the Foster Parent Training Fund. **These funds support the colleges' foster parent training programs and are used to leverage $4.2 million in federal matching funds.**

The Foster Parent Training Fund was historically housed within the Department of Social Services. Legislation in 2000, following the creation of the new Department of Child Support Services transferred the fund from the DSS to the new Child Support Department. Since the Department of Child Support Services assumed responsibility for the fund, the Administration has twice proposed to eliminate the transfer of child support foster care collections to the Foster Care Training Fund.

A recent federal audit of California's Child Welfare Services System found that California is not operating in substantial conformity in all evaluated outcome areas and five of the seven evaluated factors. The areas reviewed include whether California protects children from abuse and neglect, keeps children safely in their homes whenever possible, provides children permanent and stable living situations, and provides children appropriate services to meet their educational, mental health and physical needs. The audit identified foster parent training as an area where California needs to improve.

Governor' s budget: The **budget eliminates the transfer of child support collection revenues to the Foster Parent Training Fund for an increase of $2.6 million general fund revenue.**

Subcommittee concerns and questions: The Subcommittee has asked the Department of Child Support Services, the Department of Social Services and the Chancellor's Office of the California Community Colleges to respond to the following questions:

1. Briefly describe the proposed elimination of the Foster Parent Training Fund and the reasoning behind this proposal.
2. Discuss the impact of the proposal on the availability of training for foster parents.
3. What amount of state funding does the budget provide for foster parent training and development?
4. How will a reduction in foster parent training funds affect the ability of counties and the state to attract and retain foster parents?
5. How may reductions in the number of foster homes participating in the foster care program affect program reimbursement rates? Will the state need to provide higher cost care to accommodate a reduced participation of foster family homes?
6. How will this proposal affect California's ability to meet the new federal outcome standards for Child Welfare Services?
7. Why was this fund transferred to the Department of Child Support Services from the Department of Social Services in 2000?

5180 Department of Social Services

Food Programs and Adult Protective Services

1. Food Stamps Program and California Food Assistance Program

Background: **The Food Stamps program provides eligible low-income families and individuals food stamps benefits at no cost.** The program is overseen by the Department of Social Services and is administered by the counties. **The Food Stamps program will serve an estimated 1.9 million persons, approximately 144,000 more than last year.** The projected caseload increase is mostly the result of the restoration of federal food stamp benefits to immigrants who lost benefits as a result of the welfare reform law. Currently, the federal Food Stamps Program serves approximately 53% of all eligible Californians.

The U.S. Department of Agriculture funds the total benefit value of food stamps. The federal government also funds 50 percent of the program's administrative costs. The remaining 50 percent is split between the state and counties at a ratio of 70 percent to 30 percent respectively.

In addition to administering the Food Stamps program, **California funds and operates the California Food Assistance Program (CFAP). CFAP is a state-only food stamp program for legal non-citizens that serves individuals who became ineligible for the federal Food Stamps program following the 1996 enactment of the federal welfare reform law.** Last year, the federal government restored food stamps benefits to legal permanent residents. **This restoration of federal food stamps benefits to legal immigrant will dramatically reduce the number of CFAP beneficiaries in the budget year.** The estimated caseload at the end of the budget year is approximately 5,000.

Governor's budget: The budget provides $720.9 million ($5.2 general fund) for administration of the federal Food Stamps program ($708.7 million) and support of the California Food Assistance program ($11.2 million).

The budget proposes to realign Food Stamps Administration and the CFAP program to counties as part of the 2003 realignment. This issue is discussed in greater detail on page 30.

a. Federal Food Stamps Penalty

The Food Stamps program faces substantial federal penalties due to California exceeding the federally established maximum error rate. Although the state has initiated reforms in efforts to reduce its error rates (such as the implementation of prospective budgeting approved by last year's budget) California is currently liable for significant federal penalties. The state is making progress in reducing its error rates, however it is likely to face similar penalties in the foreseeable future.

Under current regulations, counties are liable for 90 percent of the federal penalty. Under realignment, counties will likely be responsible for 100 percent of future penalties and for financing system changes necessary to implement the state's plan for corrective action. The budget does not propose any funding to pay the federal penalty.

Subcommittee request and questions: The Subcommittee has requested that the Department of Social Services respond to the following questions:

1. Briefly discuss the status of California's food stamps penalty and negotiations with the federal government regarding last year's penalty.
2. Discuss the state's plan for corrective action.
3. What is the state's current error rate and do you expect the state to incur another penalty in the budget year?
4. When will the state be required to pay past penalties and when will funds to pay the penalty be included in the Budget Act?
5. How are recent reductions in compensation for county eligibility services likely to affect the state's high error rates?

b. Restoration of benefits to legal immigrants

Recent changes in federal law restored Food Stamps eligibility for tens of thousands of legal immigrants. Many of these individuals who have become eligible for the federal Food Stamps program are currently enrolled in the California Food Assistance Program. They are receiving food stamps benefits that are entirely financed by the state. Given that the federal government finances Food Stamps benefits, it is in California's best financial interest to transition eligible individuals from CFAP to Food Stamps promptly.

Effecting the transition of beneficiaries from CFAP to the federal Food Stamps program will require significant resources at the local level. Counties will need to determine whether current CFAP beneficiaries are eligible for the federal food stamps program, and assist beneficiaries in establishing eligibility for the federal program.

Governor's Budget: The budget assumes that 87,000 individuals will transition from CFAP to Food Stamps by October 2003. This shift in caseload will result in general fund savings for the CFAP program of $21.4 million in the current year and $99.7 million in the budget year. The savings will be partially offset by increased costs in Food Stamps Administration estimated at $24.8 million (12.4 state and local funds) in the budget year.

Subcommittee request and questions: The Subcommittee has requested that the Department of Social Services answer the following questions:

1. What are your projections regarding the rate of transition of individuals from CFAP to Food Stamps and how will this transition be realized?
2. Does the budget propose any funding to support county redeterminations of food stamps eligibility and expedite the transition of eligible individuals from CFAP to Food Stamps?

c. Elimination of face to face

State law requires food stamp applicants to complete a face-to-face interview with a caseworker prior to receiving food stamp benefits. These interviews almost always take place in the county food stamp office during regular business hours, when many prospective applicants are at work. Reportedly, limited office hours and the requirements that applicants complete face-to-face interviews prior to receiving benefits significantly affect the rates of food stamp participation. **Research by the United States Department of Agriculture has documented that applicants spend average of 5 hours and make 3 trips to the food stamp office to enroll in the Food Stamp program.**

Overall, only half of all eligible Californians get food stamps, and working families, who comprise 71 percent of eligible households, are especially unlikely to participate in the program. Informed observers and administrators suggest that the number of administrative barriers applicants must overcome to access the program may contribute to the depressed level of participation by eligible individuals. Concurrently, budget reductions in county administration funding may result in a loss of county staff, make it more difficult for counties to complete in-person interviews and process applications in a timely manner and may further reduce the number of eligibles who access the program.

Current federal law allows states to exempt certain households from a face-to-face interview if they meet certain conditions that impede their going to the food stamps office. Such conditions include, having a job that conflicts with office hours, transportation difficulties, or residing in a rural area. Under this law, applicants can complete the interview over the phone. They must continue to provide the same written verification of income and household situation as other program applicants.

Although the state has adopted these exemptions, advocates report that counties rarely use them. They recommend that the state strengthen these options and work with counties to increase the number of individuals who benefit from exemptions of the face to face requirements. For example, the state could clarify the conditions that constitute a hardship and facilitate the process for providing applicants an exemption from the face to face requirement.

Subcommittee request and questions: The Subcommittee has requested that the Department of Social Services respond to the following questions:

1. Briefly describe the federal option to exempt applicants from the requirement that they complete a face-to-face interview prior to receiving food stamps benefits.
2. Does California exercise this federal option and to what extent do counties grant such exemptions?
3. Discuss the programmatic and state fiscal impact of increasing the number of exemptions from the face-to-face requirement provided to food stamps applicants.

Budget issue: Does the Subcommittee wish to adopt placeholder legislation to facilitate the food stamps application process by clarifying the process for exempting applicants from the face-to-face requirement?

d. Transitional Benefits

Last spring, the federal government granted states an opportunity to provide five months of transitional food stamp benefits for people leaving cash assistance. Like transitional Medi-Cal or childcare, transitional food stamp benefits could assist California's families in making a successful transition from welfare to work.

As food stamps benefits are federally funded, the state would be required to fund a 50 percent of the administrative costs associated with providing transitional food stamps. The cost of providing temporary benefits to Californians transitioning from welfare to work is estimated to be between $8 and $10 million total fund ($4 to 5 million state and local funds).

Subcommittee request and questions: The Subcommittee has requested that the Department of Social Services answer the following questions:

1. Briefly describe the federal option to provide transitional benefits to welfare leavers and the estimated costs to implement this option in California.
2. Discuss how this option may affect families in their transition from welfare to work, particularly how it may affect their rate of return to CalWORKs and their standard of living upon exiting CalWORKs.
3. Discuss the interaction between this proposal and the proposed realignment of food stamps administration costs to counties.

Budget issue: Does the Subcommittee wish to amend the proposed budget act to provide funding for the provision of transitional food stamps benefits to CalWORKs leavers?

13. Adult Protective Services

Background: The Adult Protective Services (APS) program serves adults who may be victims of abuse or neglect in their homes or in community care facilities. The program is overseen by the Department of Social Services and administered by the counties. Legislation in 1998 expanded the program and created the current statewide system. The Legislation expanded the categories of people required to report suspected abuse, and defined the types of abuse required to be reported. It also required counties to provide emergency response systems, emergency shelter and food, and in-home protective services to elderly and dependent adults in danger of or known to be abused, neglected or exploited. The law established a county maintenance of effort requirement of $10.9 million, which represents the amount counties were spending on services prior to 1998.

Funding for the program increased in the years following enactment of the 1998 reforms. Total funding since 1999-00 has remained relatively stable until fiscal year 2002-03, when the program's general fund contribution was decreased by $5.6 million. According to county estimates, current program funding is $15.6 million less than needed to provide mandated services.

Governor's budget: The budget provides a total of $103.1 million for Adult Protective Services: $30.9 under the County Services Block Grant and $72.2 million in additional funds. The budget assumes an average monthly caseload of 14,200 persons, slightly decreased from the current year caseload.

The budget proposes to realign the Adult Protective Services Program to counties and to grant counties full discretion in operating the program. This issue is discussed in more detail on page 30.

14. Compensation for County delivered services

Background:

The Department of Social Services contracts with California's 58 counties for the delivery of a wide range of services to children and their families. Counties locally administer and operate the Adoptions Assistance Program, CalWORKs, the Foster Care Program, and the Medi-Cal program. Counties are also responsible for Adoptions Services, Adult Protective Services, Child Welfare Services and the collection of child support. Lastly, the state contracts with counties for certain licensing activities including licensing foster family homes, other foster care providers and some childcare providers.

California reimburses counties according to established budgeting methodologies, which consider the workload of implementing state and federal requirements adjusted by program caseload. These methodologies vary across the programs and consider different activities depending on the program. For example, the state establishes differing methodologies for reimbursing counties for the provision of employment services than for the provision of eligibility services. Most of the state's reimbursement methodologies have been in place for over 10 years. Some have been adjusted to reflect new program requirements. Generally they seek to compensate counties for their actual costs.

In addition to establishing and adjusting these reimbursement methodologies, the state has established an annual evaluation process to consider increases in the cost of doing business and compensate counties for the actual costs of services delivered. Through this process the state considers increases in county costs including higher costs for workers compensation, health benefits, employee retirement contributions, energy, and lease. The state's decision to provide a cost-of-doing business adjustments to counties is generally discretionary. The state makes a determination to provide or suspend such adjustments during the annual budget process. Given the state's financial situation, the state has suspended county cost of doing business adjustments across programs. Additionally, the state has enacted reductions to county compensation for services rendered.

The suspensions of cost of doing business adjustments and the additional reductions have decreased county reimbursements for administering the Food Stamps, Child Welfare Services, Foster Care, Adoptions and Adult Protective Services programs by $289.6 million ($134.3 general fund).

The chart below illustrates the cumulative effect of suspending county cost of doing business adjustments and of additional reductions in county compensation:

Program	Suspended CODB Increases		Enacted Program Reductions		Total Program Cuts, 2001-03	
	Total	State GF	Total	State GF	Total	State GF
Food Stamps	$143.1 m	$50 m	$16.5 m	$6.8 m	$159.6 m	$56.8 m
Child Welfare Services	$22.4 m	$10.8 m	$27.1 m	$17.2 m	$49.5 m	$28 m
Foster Care	$27.5 m	$9.6 m	--	--	$27.5 m	$9.6 m
Adoptions	$5.2 m	$3 m	$12.8 m	$12.8 m	$18 m	$15.8 m
Adult Protective Services	$17.3 m	$13.3 m	$17.7 m	$10.8 m	$35 m	$24.1 m
TOTALS	$215.5 m	$86.7 m	$74.1 m	$47.6 m	$289.6 m	$134.3 m

According to representatives of counties the recent reductions in county compensations have limited the ability to counties to deliver program services and to meet state and federal requirements. For example, the reduction in compensation for administering Food Stamps translates into a reduction of 1,542 food stamps workers, which delays the provision of food stamps benefits to 632,000 children and their families every year. Similarly reductions in compensation for adoption services translates into 143 fewer adoption workers, which could delay the adoptions of 1,700 children in foster care.

While the state has significantly reduced compensation to counties, it has not relaxed requirements that counties must fulfill. For example, while compensation for child welfare services has been reduced by almost $50 million, counties are required to continue visiting youth on a monthly basis and perform a series of activities to transition the youth into a permanent and safe situation.

<u>Governor's budget:</u> The **budget suspends county cost of doing business adjustments for the budget year** for the Adoptions, Adult Protective Services, Child Welfare Services, Food Stamps and Foster Care programs. The **budget also proposes to realign most of these programs at their current level of funding.**

Subcommittee request and questions: The Subcommittee requests that the Department of Social Services respond to the following questions:

1. Briefly describe the proposed compensation to counties for services delivered to children and families.
2. To what extent are counties compensated for their actual costs?
3. How have reductions in county compensation affected program outcomes and availability of program services?
4. What is the effect from a programmatic standpoint of realigning programs at their current level of compensation?

15. Governor's Proposed Realignment and Legislative Analyst's Options

Background: The Governor's budget proposes a major realignment package, which consists of **four components in the health and human services arena (over $7.9 billion),** and a court security plan for the Trial Courts ($300 million), for total expenditures of $8.2 billion. The **budget proposes new dedicated realignment revenues totaling $8.3 billion,** including an increase in the Sales Tax (one percent), an increase in Personal Income Tax (10-11 percent bracket) and an increase in the Tobacco Excise Tax ($1.10 increase).

Many of the programs proposed for realignment including Adoptions Assistance, Child Welfare Services, Food Stamps, and Foster Care were already realigned as part of the 1991-92 State-Local Realignment. The proposed realignment simply shifts a bigger portion of the responsibility for financing these programs to counties and includes additional programs within the State-Local realignment modality. **The Administration states that the proposed 2003 Realignment builds on the success of the previous realignment, protects core government services and encourages county innovation in the delivery of program services.**

The budget proposes implementing legislation for each of the proposed components of realignment. At this juncture, the language is crafted broadly to express the Legislature's intent to enact legislation to (1) transfer the specified programs and their non-federal share of expenditures to counties, (2) maintain state oversight of said programs, and (3) become operative only if dedicated revenues are enacted for this purpose.

The budget proposes that the 2003-04 fiscal allocations to counties be based on the proposed level of funding for counties for each of the programs, absent realignment. Beginning in 2004-05, the Administration assumes that a single allocation would be made to counties based on a formula to be developed through discussions with key stakeholders. **As such, the realignment funds serve as a type of "block grant" to counties whereby counties could shift funding across programmatic areas.**

The proposed realignment lacks critical details regarding its functionality and raises a series of programmatic considerations. However, realignment may provide opportunities for developing new models of service delivery, adapting programs to better meet local needs, and improving the quality of available program services. When evaluating the proposed realignment, the Legislature may wish to consider the following principles:

1. Any transfer of program and fiscal responsibility should be designed to assist both the state and counties in maximizing their service delivery responsibilities. If service delivery is maximized, the program participants will likely be better served and program efficiencies are more likely to occur.

2. The dedicated revenues provided for the program transfers should have a growth rate that is comparable with the anticipated growth of the program being transferred. If this is uncertain, a trigger mechanism may be considered in order to bring forth an expenditure or revenue discussion. The Realignment of 1991-92 included a "poison pill" provision for this purpose.

3. The programs transferred should be programs that allow counties and constituency groups flexibility to craft innovative approaches for service delivery. Under the Realignment of 1991-92, mental health services were re-focused and shifted from a model heavily reliant on state hospital services to a model that now offers a broader array of community based options. Both fiscal incentives and policy flexibility were made available to allow for innovation and some experimentation. Realignment may provide counties an opportunity to increase resources dedicated to the prevention of child abuse and neglect rather than spend more funds to serve youth after they have been abused or neglected.

a. Children and Youth

The budget proposes to realign $2.37 billion in costs to counties to support the following Children and Youth Programs:

Adoption Assistance	$217 million
Child Abuse Prevention, Intervention and Treatment	$13 million
Child Care	$1,031 million
Child Welfare Services	$596 million
Foster Care Administration	$34 million
Foster Care Grants	$460 million
Kin-GAP	$19 million

The realignment of these programs generates $2.3 billion in general fund savings.

Most programs proposed to be shifted to counties as part of the Children and Youth component of realignment are currently overseen by the Department of Social Services.

Generally the programs are administered by counties and already require a county share-of cost for their financing.

The following chart summarizes key components of the programs proposed for realignment as part of the Children and Youth component and overseen by the Department of Social Services:

Program	**Program Description**	**Total Funding**	**Caseload**
Adoption Assistance	Adoption Assistance provides subsidies to promote the placement of hard-to-place adoptive children.	$505.8 million	61,000, increased by 12 %
CAPIT	CAPIT provides grant funds to local agencies for prevention and intervention.	$21.8 million	N/a
Child Welfare Services	Child Welfare Services (CWS) provides programs to protect children from abuse, neglect and exploitation. Programs include Emergency Response, Family Maintenance, Family Reunification and Permanent Placement.	$2.08 billion	171,000
Foster Care	Foster Care provides support payments for children in out-of-home care, including foster homes, foster family agencies, residential treatment for seriously emotionally disturbed children and group homes.	$1.78 billion	76,400, increased by less than 1 %
Kin-GAP	Kin-GAP provides support to children in long-term stable placements with relatives.	$100.8 million	16,140 increased by 24.1 %

Adoption Assistance, Child Welfare Services and Foster Care are federally required programs that deliver critical services to youth in need of protection and support. These programs are partially funded with federal funds and are administered by counties in accordance with federal and state requirements. The CAPIT program is a federal and state supported program that emphasis prevention of child abuse and neglect. The program operates in accordance with federal requirements and state priorities. Lastly, the Kin-GAP program is a state established program that is funded by a combination of state and county moneys. Counties administer Kin-GAP in accordance with state statutory and regulatory criteria and guidelines.

The programs proposed for realignment are governed by a series of state and federal laws and regulatory requirements. For example, federal law establishes an entitlement for foster care grants and services for youth who have been separated from their families due to abuse or neglect. Federal law requires that states establish a single agency to implement the Foster Care, Adoptions and Child Welfare Services programs and implement these federal programs according to uniform statewide criteria. Additionally, the state has established program requirements, generally spurned by serious allegations regarding the safety of youth in the state programs, court orders or media coverage of serious program shortcomings. Some of these state established program criteria include the requirement that counties visit foster youth on a monthly basis and the requirement that counties investigate immediately allegations of serious child abuse or neglect. The degree of county flexibility in the operation of these programs depends on the number of state and federal requirements governing program implementation.

The chart below illustrates some examples of federal and state programmatic requirements that affect county flexibility:

Program	**Federal requirements**	**State requirements**	**County Flexibility**
Adoption Assistance	Establish eligibility for assistance - Title IV-E	Establishes additional eligibility criteria for Title IV-E and the state-only program	Very Limited.
CAPIT	None	Counties must spend program dollars on child abuse prevention, intervention and treatment.	Substantial, as long as funds are used for the state established purpose.
Child Welfare Services	• Establish outcome measures • Require visits to youth once every 6 months • Require that a case plan be developed within 60 days • Require an emergency response system	• Establish outcome measures and monitor performance on federal outcome measures • Require social worker visits to youth once a month. • Requires that a case plan be developed within 30 days. • Require that counties respond immediately to some reports of abuse or neglect and within 10 days for other reports.	Establishing a service delivery system that meets the federal and state requirements.
Foster Care	Establishes eligibility under Title IV-E	• Expands to voluntary placements. • Establishes eligibility for the state-only program. • Establishes provider reimbursement rates.	Very limited.
Kin-GAP		Establishes eligibility criteria and program guidelines.	Very limited.

Most programs proposed for realignment as part of the Children and Youth component were already realigned in 1991-92 and require a county share-of cost for their financing. The required county share of cost varies across the programs and is generally based on the amount of local control of the program.

The following chart summarizes existing state and county ratios for program financing:

Programs	Current County Sharing Ratio	Realignment County Sharing Ratio
Adoption Assistance	25%	100%
CAPIT	0%	100%
Child Welfare Services	30%	100%
Foster Care Administration	30%	100%
Foster Care Grants	60%	100%
Kin-GAP	50%	100%

The degree of local control and county flexibility for program administration affects the ability of counties to manage program expenditures, assume risks, and be innovative in the delivery of services. The degree of risk counties will assume in the context of realignment is also affected by projected caseload growth and by the scope of the fiscal and programmatic issues the realigned programs face.

Caseload growth varies across the Foster Care Program, Kin-GAP, Adoption Assistance, and Child Welfare Services programs. The Kin-GAP program is experiencing the most rapid growth at a rate of 24.1 percent in the current year. The Adoptions Assistance program caseload is growing at the second fastest rate with a projected caseload increase of 12 percent in the budget year. The Foster Care Program has experienced a modest caseload increase in the recent past (2.2% in the budget year). This trend may change as historically the Foster Care Program rate of increase and decline has been precipitous and unpredictable. Generally, expenditures for the aforementioned programs have increased in the recent past.

The Foster Care Program, Adoption Assistance, and Child Welfare Services are facing different kinds of challenges and developments likely to alter program operations. For example:

- A 1999 workload study found that social worker caseloads in California are excessively high and provide for minimal levels of case management services for vulnerable children and families. The optimal caseload standards are half of the current budgeting standards. As a result of this study, the state provided increases to support workload relief. This funding was reduced in the current year and is proposed for realignment in the budget year. The current staffing levels may compromise the ability of social workers to do their job and will likely have a negative impact on California's ability to meet the new federal performance standards.

- The Adoption Assistance Program is adapting to a recent emphasis on expediting and increasing the number of adoptions. Recent federal legislation will likely reinforce these trends, as it requires courts to expedite the termination of parental rights after a shorter reunification period. The federal Adoptions and Safe Families Act created a new outcomes accountability system, which threatens penalties for states that do not meet or show significant improvement towards meeting the new federal outcomes. The new federal outcomes include timely establishment of permanent situations for foster children.

- The Foster Care Program, among other challenges, is facing a serious shortage of providers, particularly foster family homes and intensive treatment facilities for seriously troubled children. These provider shortages limit the ability of counties to provide appropriate placements for foster youth.

- Children's services programs, particularly foster care, must adapt to a new federal focus on outcomes that coincides with a relative decrease in federal funds to support the base program activities. Since federal Title IV-E dollars, the primary federal funding source for foster care, are linked to the cash assistance levels in place before welfare reform, they have become a declining source of revenue for children's services programs.

Generally, the proposed revenue for realignment will grow at a rate comparable to the projected growth of the Foster Care Program, Kin-GAP, Adoption Assistance, and Child Welfare Services absent significant program changes. However, the range of state and federal programmatic issues these programs face, such as the new outcome based system for evaluating children's services programs and declines in the percentage of foster care expenditures covered by federal funds, may expand the need for increased state or local program expenditures. Additionally, the limited flexibility counties have in administering the programs proposed for realignment affects the ability of counties to assume risk and manage future program expenditures.

The Legislative Analyst conducted a thorough analysis of the Governor's proposed realignment. The Analyst made the following point in her analysis:

1. Realignment of the proposed children and youth programs is workable.
2. The Legislature may wish to consider realignment of Adoptions Services along with the other children and youth programs proposed for realignment by the Governor.
3. The Legislature may wish to establish a new county share of cost to cover state automation costs for the realigned programs.

4. Program control should be commensurate with the required county share of cost. Counties should be granted additional flexibility if they are required to fund the realigned programs.

Subcommittee requests and questions: The Subcommittee has requested that the Department of Finance and the Department of Social Services answer the following questions:

1. Briefly describe the proposed realignment of Children and Youth programs.
2. Discuss factors such as caseload growth and outstanding programmatic issues that may affect the need for future increases in program expenditures.
3. How would program operations change at the state and county level as a result of realignment?
4. What type of flexibility can the state grant counties? What type of flexibility does the state envision providing counties?
5. What would the role of the state be in the context of realignment?
6. What reductions in state operations expenditures has the Administration identified as a result of the proposed realignment?

The Subcommittee has requested that the Legislative Analyst respond to the following questions:

1. Discuss your analysis of the Governor's proposed realignment
2. Briefly describe your proposed changes to the Governor's realignment and the reasoning underlying your recommendations.
3. How would program operations change at the state and county level as a result of your realignment proposal?
4. What type of programmatic flexibility can the state grant counties? What may be the impact of granting such flexibility on program services and program beneficiaries?
5. What reductions in state operations expenditures may be identified as a result of the proposed realignment?

Budget issue: Does the Subcommittee wish to approve the proposed realignment?

b. Healthy Communities

The budget proposes to realign $2.73 billion in costs to counties to support a series of programs categorized as "Healthy Communities Programs". The Healthy Communities component of realignment includes public health programs, a share of cost for administering the Medi-Cal program, the Cash Assistance for Immigrants program, various components of the CalWORKs program and the following programs:

Adult Protective Services	$61 million
California Food Assistance Program	$15 million
Food Stamp Administration	$268 million

The realignment of these Healthy Communities programs is estimated to generate $2.67 billion in general fund savings.

The Adult Protective Services, CFAP and Food Stamp programs are currently overseen by the Department of Social Services and are administered locally by county welfare departments. The Food Stamps program is a federally established and primarily federally funded program. The CFAP and Adult Protective Services programs are state programs that are entirely supported by the state general fund.

The following chart summarizes key components of some of the programs proposed for realignment as part of the Healthy Communities component and overseen by the Department of Social Services:

Program	Program Description	Total Funding	County Share	Caseload
Adult Protective Services	The Adult Protective Services (APS) program seeks to protect adults who may be victims of abuse or neglect in their homes or in community care facilities.	$103.1 million	0%	14,200
California Food Assistance Program	CFAP provides food stamps benefits to legal non-citizens who became ineligible for the federal Food Stamps program following the 1996 enactment of federal welfare reform.	$11.2 million	0%	5,000
Food Stamp Administration	The Food Stamps program provides eligible low-income families and individuals food stamps benefits at no cost. The federal government funds actual benefit costs. The state and counties finance 50% of administration costs.	$720.9 million	15%	1.9 million persons

The Adult Protective Services, California Food Assistance Program and Food Stamps Administration provide varying amounts of state and county flexibility in program administration. **The Food Stamps program is a federally established and primarily federally funded program. As such, most program requirements are established at the federal level.** States are given some discretion in the administration of the program. For example, states establish the resource requirements for food stamp applicants and recipients and define some of the information applicants must provide when establishing eligibility for benefits. Federal law requires that the Food Stamps program be administered by a single state entity and that states administer the program according to uniform statewide criteria. Counties have very limited flexibility in administering the food stamps program. **The state may grant significantly more flexibility to counties in the administration of the CFAP and Adult Protective Services programs as these programs are established by the state and operate according to state laws and regulations.**

The varying degree of local control and county flexibility for program administration affects the ability of counties to manage program expenditures, assume risks, and be innovative in the delivery of services. The degree of risk counties will assume in the context of realignment is also affected by projected caseload growth and by the scope of fiscal and programmatic issues the realigned programs face.

DSS please provide info summarizing caseload trends.

The programs proposed for realignment as part of the Healthy Communities component face the following fiscal and programmatic issues:

- The Food Stamp program faces substantial federal penalties due to California exceeding the federally established maximum error rate. Although the state has initiated reforms in efforts to reduce its error rates (such as the implementation of prospective budgeting approved in last year's Budget Act) California is currently liable for significant federal penalties. The state is making progress in reducing its error rates, however it is likely to face similar penalties in the foreseeable future.

  Under current regulations, counties are liable for 90 percent of the federal penalty. Under realignment, counties will likely be responsible for 100 percent of future penalties and for financing system changes necessary to implement the state's plan for corrective action.

- Recent changes in federal law restored Food Stamps eligibility for tens of thousands of legal immigrants. Many of these individuals who have become eligible for the federal Food Stamps program are currently enrolled in the California Food Assistance Program. They are receiving food stamps benefits that are entirely financed by the state. Given that the federal government finances Food Stamps benefits, it is in California's best financial interest to transition eligible individuals from CFAP to Food Stamps promptly. Effecting the transition of beneficiaries from CFAP to the federal Food Stamps program will require significant resources at the local level.

- Demand for Adult Protective Services has significantly increased in the recent past. Legislation in 1998 expanded the program, created the current statewide system, expanded the categories of people required to report suspected abuse, and defined the types of abuse required to be reported. It also required counties to provide emergency response systems, emergency shelter and food, and in-home protective services to elderly and dependent adults in danger of or known to be abused, neglected or exploited. Since the passage of the 1998 legislation funding for the program has increased. Total funding since 1999-00 has remained relatively stable until fiscal year 2002-03, when the program's general fund contribution was decreased by $5.6

million. According to county estimates, current program funding is $15.6 million less than needed to provide mandated services.

Generally, the proposed revenue for realignment will grow at a rate comparable to the projected growth of the Adult Protective Services and Food Stamps programs. However, state and federal programmatic issues, such as the Food Stamps penalty and increased demand for adult protective services, may create a need for additional program expenditures. Additionally, decisions regarding the degree of local control of the programs will affect the ability of counties to manage future program expenditures and may jeopardize the continued existence of some of the programs.

The Legislative Analyst conducted a thorough analysis of the Governor's proposed realignment. The Analyst made the following point in her analysis:

1. Food Stamps Administration expenditures should not be increased beyond 50% of the non-federal share due to the counties limited program control.
2. The California Food Assistance Program should not be realigned as it is a statewide program that should continue to have uniform standards and statewide benefit levels.
3. The Adult Protective Services program is a good candidate for realignment. However, counties should be granted additional flexibility if they are required to fund the realigned program.

Subcommittee requests and questions: The Subcommittee has requested that the Department of Finance and the Department of Social Services answer the following questions:

1. Briefly describe the proposed Healthy Communities component of realignment, particularly the proposed shift of APS, CFAP and Food Stamp Administration.
2. Discuss factors such as caseload growth and emerging programmatic issues that may affect the need for future increases in program expenditures.
3. How would program operations change at the state and county level as a result of realignment?
4. What type of flexibility can the state grant counties? What type of flexibility does the state envision providing counties in the context of the proposed realignment?
5. What would the role of the state be in the context of realignment?
6. What reductions in state operations expenditures has the Administration identified as a result of the proposed realignment?

The Subcommittee has requested that the Legislative Analyst respond to the following questions:

1. Discuss your analysis of the Governor's proposed realignment.
2. Briefly describe your proposed changes to the Governor's realignment and the reasoning underlying your recommendations.
3. How would program operations change at the state and county level as a result of the proposed realignment?
4. What type of programmatic flexibility can the state grant counties? What may be the impact of granting such flexibility on program services and beneficiaries?
5. What reductions in state operations expenditures may be identified as a result of the proposed realignment?

Budget issue: Does the Subcommittee wish to approve the proposed realignment?

Senate Budget & Fiscal Review
Senator Wesley Chesbro, Chair

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

Senator Wesley Chesbro, Chair
Senator Gilbert Cedillo
Senator Tom McClintock
Senator Bruce McPherson
Senator Deborah Ortiz

Consultant, Kimberly Collins

Thursday, April 3, 2003
Upon Conclusion of Senate Floor Session
Room 4203

AGENDA

0559 Secretary for Labor and Workforce Development Agency

Description: The Secretary is a new cabinet-level appointment authorized by SB 1236 (Alarcòn), effective January 1, 2003. The Secretary is appointed by the Governor and subject to conformation by the Senate. The Secretary is responsible for coordinating and enforcing labor in the state.

SB 1236 also created the Labor and Workforce Development Agency, which consists of the Department of Industrial Relations (DIR), Employment Development Department (EDD), Agricultural Labor Relations Board (ALRB), and Workforce Investment Board (WIB). The bill specifies that funding for the agency come from the reallocation of existing resources allocated to the various entities prior to formation of the agencies. No funds may be reallocated from the Agricultural Labor Relations Board. It also specifies that no appropriation of new General Fund moneys would be permitted to implement the bill.

Purpose: The agency is responsible for overseeing and coordinating the policies, activities and budgets for the state's labor and employment programs.

The authorizing statute did not change or modify the basic structure or management of the departments and boards placed within the agency. To consider possible statutory or administrative changes to the departments and boards, the Governor established a Workforce Development Review and Reform Taskforce. The taskforce gathered citizen input through its web site. The taskforce is considering – and has invited comment on – the following 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.

Question from committee:

What has been the progress to date of the Workforce Development Review and Reform Taskforce?

Governor's Budget: The budget proposes an appropriation of $2.3 million for the first year of the agency. The agency has 16 personnel years.

Update on Start-Up. The agency began functioning under the terms of the Governor's Reorganization Plan Number 1 (2002) on July 2, 2002. As such, the secretary and his staff will have had some experience running the agency. An acting secretary has been appointed. However, according to the Rules Committee, the Governor's office has not announced a candidate for Senate confirmation.

Questions from subcommittee:

- What are the agency's plans for meeting its statutory duties and responsibilities? How does the agency expect to measure its performance in meeting its statutory duties and responsibilities?
- The agency has been functioning for almost a year. Most new agencies and departments need statutory changes after it has had some experience managing its programs. Will the department need changes to its statutory authority?
- When does the Administration expect to nominate a secretary for consideration by the Senate?
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7100 Employment Development Department

Description: The Employment Development Department (EDD) links employers and job seekers. The department provides services through four main functions: (1) employment-related services; (2) tax collections and benefit payments; (3) employment training programs; and (4) Workforce Investment Act activities.

Purpose: The Employment Development Department (EDD) is responsible for administering the Employment and Employment Related Services (EERS), the Unemployment Insurance (UI), and the Disability Insurance (DI) programs. The department collects taxes and pays benefits under the UI and DI programs. The department collects from employers (1) their UI contributions, (2) the unemployment Training Tax, and (3) employee contributions for DI. EDD also collects personal income tax withholding and pays UI and DI benefit to eligible claimants. Pursuant to Chapter 859, Statutes of 2002 (SB 1236, Alarcòn), which implemented the Governor's Reorganization Plan Number 1, the EDD is part of the new Labor and Workforce Development Agency.

Governor's Budget: The Governor proposes a budget of $10.6 billion ($21.5 million General Fund), a decrease of 17.9 percent from the current year. This decrease primarily results from the expectation that costs associated with extended benefits under the unemployment insurance program in 2002-03 will not occur in 2003-04.

Summary of Expenditures (dollars in thousands)	2002-03	2003-04	$ Change	% Change
General Fund	$22,898	$21,550	($1,348)	-5.8
Benefit Audit Fund	0	0		
EDD Contingent Fund	18,751	17,888	($863)	-4.6
Employment Training Fund	83,867	75,313	($8,554)	-10.1
Welfare to Work Fund-Federal	3,608	0	($3,608)	-100.0
Disability Fund	3,472,701	3,590,935	$118,234	3.4
Consolidated Work Program Fund	631,931	582,166	($49,765)	-7.8
Unemployment Administration-Federal	618,659	602,316	($16,343)	-2.6
Unemployment Fund-Federal	7,998,753	5,662,509	($2,336,244)	-29.2
School Employees Fund	84,416	57,560	($26,856)	-31.8
Reimbursements	24,928	25,040	$112	.4
Total	$12,960,512	$10,635,277	($2,325,235)	-17.9

INFORMATION ITEMS

Disability Program
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.

School Employees Unemployment Caseload
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.

Unemployment Insurance Appeals Board
The budget proposes an increase of $283,000 Unemployment Compensation Disability Fund and 4.2 personnel years for Disability Insurance workload increase. 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.

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. 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.** 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.

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. The Bush Administration has created a While House Office of Faith-Based and Community Initiatives, charged with the task of strengthening and expanding the role of these organizations and creating a "faith-

friendly" environment where faith-based organizations can "complete equally" to provide government-sponsored services.

To further this agenda President Bush created centers for Faith Based (and Community Based Incentives in six departments: Health and Human Services, Agriculture, Education, Housing and Urban Development, Justice and Labor. **The Governor proposed $4.0 million in additional funds from the WIA discretionary funds to provide additional funding for the Faith Based Initiative.**

The Legislature last year requested that EDD report by February 1, 2003, on the grants made under this initiative, 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.

Questions from committee:
Please update the committee on the status of the reports.

Employment Related Services. The program facilitates a match between employers' needs and job seekers skills. Services are delivered through California's One-Stop Career Systems.

- Governor's Budget replaced $25.1 million of contingency funds with Reed Act funds for Job Services
- ***Continuation of Reed Act Funds for the Job Service Program.*** The budget continues $25.1 million in federal Reed Act funds in 2003-04 for the Job Services Program. In 2002-03, these funds were reduced from EDD's Contingent Fund and were replaced by Reed Act funds.
- ***Continuation of Reed Act Funding for Unemployment Insurance Administration.*** The budget appropriates $15.4 million in Reed Act funds to replace the discontinued Special Reed Act distributions formerly used to augment federal Unemployment Insurance funding.

EDD's Employment Training Programs.
EDD administers the Employment Training Tax from employers who participate in the Unemployment Insurance system, and uses the funds in performance-based contracts to provide training to unemployed workers in high-wage, high-skill jobs, and to retrain incumbent workers in businesses challenged by out-of-state competition. EDD administers federal Welfare to Work funds from the Department of Labor, providing transitional assistance for recipients of CalWORKs. EDD coordinates the Workforce Investment Act, which provides federal funds for Adult Employment and Training, Youth Activities and Dislocated Workers Employment and Training. The majority of these funds are administered through local Workforce Investment Agencies; up to 15% is reserved for discretionary projects at the statewide level. **Governor's Budget proposes a reduction of $612,000 and 11.0 personnel years.**

ITEMS FOR DISCUSSION:

Tax Collection and Benefit Payments
EDD administers this program to form monetary relief to individuals who undergo periods of unemployment or temporarily disability. This program contains two systems; the Unemployment Insurance (UI) program and the Disability Insurance (DI) program. These systems are based upon insurance principles, with the employer and employee paying tax contributions to funds that provide benefits. The system includes the following activities: collecting taxes, determining benefit eligibility based upon claims, managing caseloads, processing payments to claimants recovering overpayments, and disputes involving claims or tax liabilities.

Data Collection. The budget directs the department to consult with researchers, employers groups, labor organizations and other state agencies on the feasibility of collecting additional data from employers. The department will report to the Legislature by **December 31, 2003**. The department also will assess and report on the capability of and cost of enhancements for the current database system, cost of revising forms and/or questionnaires, personnel costs for collection and inputting the data, and additional time required to collect, input and process the additional data collected.

Questions from subcommittee:
Please update the committee on the department's progress on improving its information technology systems for the purposes of improving tax collection.

Steps taken to improve fraud problem. There have been recent reports in the media regarding payroll and personnel record theft from private employers.

- What impact, **if any**, is this having on the UI fund?

- What is the Department doing to prevent UI fraud?
- What Changes have been made to improve processing of claims?
- Has fraud increased since UI went to telephone claim filing?

Unemployment Insurance Benefits.. 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 Governor's budget proposes

- Reduction per section 31.60 of $17 million and 328.0 personnel years
- $3.7 million Unemployment Insurance Trust Fund for decreased Unemployment Insurance workload and benefit payments.
- Increase of $15.4 million Reed Act Funds for federal Unemployment insurance administration funding.
- Replace $9.3 million of Benefit Audit Funds with Reeds Act Funds to be used for recovery of benefit overpayments.
- Increase of $487.2 million Unemployment Compensation Disability Fund and 135.6 personnel years for Disability Insurance caseload and workload adjustments.
- Increase of $10.9 million School Employees Fund for school employee Unemployment Insurance benefits.

Congress passed an economic stimulus bill to restructure the administrative financing of the unemployment insurance system. The proposed changes include:

- Cutting the Federal Unemployment Tax Act (FUTA) payroll tax by 25 percent or $1 billion in 2005, with additional reductions over the following four years.
- Shifting administration funding for UI from the Federal government to the states. The administration would give states $5.4 billion to phase in the new system over five years.
- Retaining funds to pay federal loans to states that run short of funding to pay UI benefits

Question from subcommittee:

- How would the federal proposal effect the tax collection program?
- Please update on UI fund solvency.

SB 40 (Alarcòn) required EDD to contract with a nonprofit, nonpartisan independent research organization to study the most effective and efficient means of capturing recent employee wages for the purposes of establishing eligibility for UI benefits.
The study was to be completed and submitted to the Legislature by December 31, 2002.

- What is the status of the study?
- When will the Legislature Receive the study?

Employment Tax Service Review.

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 department is to provide a report on project, and the budget anticipates that recommendations will be available by January 1, 2003.

Questions from subcommittee:

- What is the status of this report?
- What are the department's ideas for upgrading the system?

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.

Supplemental Report language has been 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.

Supplemental Report Language of the 2002 Budget Act required EDD to consult with researchers, employer groups, labor organizations, and other state agencies on the feasibility of collecting additional data from employers and present a report to the Legislature by December 31, 2002.

Questions from subcommittee:

- What are cost associated with gathering information? Is there a timeline for getting this information?
- What is the status of the report requested through supplemental report language?

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, 2003**, 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.

- 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.

Questions from subcommittee:

- Please provide an update on audit and steps taken to improve call centers? How is the department dealing with language differences in providing customer service?
- What is 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 the call center system to assure that the department has sufficient resources to upgrade the call centers.

Employment Training Panel

Description. The Employment Training Panel (ETP) is funded by the Employment Training Fund. The Employment Training Fund (ETF) generates revenues by receiving 0.1 percent of wages **(cap of $7 per year per employee)** from the Employment Training Tax levied on California employers' contributions to the unemployment insurance system.

The portion of the fund allocated to ETP 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: (1) to retain current employees of firms facing out of state competition, (2) to train new hires who are Unemployment Insurance recipients or who have exhausted their UI benefits within the pervious 24 months, and (3) to train in areas of high unemployment, with an emphasis in the working poor.

Grants from the ETP 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 earn 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 ETP 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. The ETP concentrates on high-wage, secure employment. **The budget proposes an appropriation of $67.5 million, a reduction of $8.4 million from last year's budget.**

For several years, funds have been transferred from the ETF to CalWORKs, as part of the state's Maintenance of Effort for Welfare Reform. The current-year budget appropriated $30 million for this purpose. This year's budget proposes to transfer $21.4 million from the fund to CalWORKs. Of this amount $2.9 million is allocated to EDD for the State and Local Labor Markets Information Program, $4.8 million is allocated to EDD for collection of the employment training tax, and $2.9 million is allocated to DIR for administrative support of division of Apprenticeship standards.

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 approves training for nurse workforce, in partnership with WIA funds, where appropriate.

Purpose: The Panel's focus is to ensure that California businesses have trained workers to compete in the ever-changing global economy and that workers are trained to secure high-wage employment. No funds are earned until trainee completes all of the training and employment retention for 90 days.

Governor's Budget: The Governor's budget proposes a reduction of $8.4 million reducing their budget from $76 million to $67.5 million. Fund available to ETP from the ETF have been reduced because of lower interest earnings and diversions of ETF money to other programs.

Questions from committee:

- What is the success rate of new and retrained workers?
- What is ETP role in the service of small business contracts?

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. **The Federal Governments 2004 budget proposal announced combining of the three programs- the WIA Adult program, the WIA Dislocated Worker program and the Employment Services state grants (Wagner-Peyser) into one block grant of $3.1 billion to states**. This eliminates the Employment Services as a distinct entity.

The rationale for consolidating these programs into a single grant is to increase flexibility and coordination and to reduce duplication and inefficiency that exists with the current multiple funding streams and the Administration cited unexpected balances for WIA programs as the reason for funding changes and proposed to utilize these funds to make up for funding shortfalls.

According to the Department of Labor (DOL) the calculation of the total for the block grant funding amounts for the redesign requested by the President is the same amount of the 2003 and represents significant cuts in funding for these activities, a 5 percent cut for adult programs and more than a 10 percent cut for dislocated worker program.

Questions from subcommittee:

- The President's proposal would fold the Job Services program into a WIA block grant. Can the department explain how the $112.6 million for Job Services proposed for 2003-04 would be allocated to support labor exchange services?
- What portion is spent for state level services? What portion is devoted for local services?
- What portions of EDD 's local job service staff and resources are dedicated to local one-stop career centers? Are there remaining job services office locations? **If so why?**
- What effect will the president's proposal have on WIA funding?
- EDD will report on steps taken to expedite rapid response time for dislocated workers.

<u>Youth Funding</u>
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. **The President's 2004 budget proposal further defines the Youth Funding by narrowing service only to out-of school youth, currently funding is for both in school and out of school**.

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 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.

Questions from committee:

- The two departments should describe the universal access activity.
- EDD should identify what is needed to assure that the access analysis is a regular, ongoing monitoring activity.
- What is the status of the requested report due February 2003? (DSS, DOR, EDD)?

WIA Discretionary Funds. As described above, WIA sets aside 15 percent 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.

$2.3 million is used for administration of WIA, including both EDD and CWIB expenditures. Other federally-required activities are budgeted for $25.5 million budget year. The balance in each year is used for various programs selected by the Administration as a priority.

Questions from subcommittee concerning discretionary funds:

- What is the status of the nurse workforce initiatives?
- What is the 2003-04 discretionary fund amount and does this amount include 2002-03 carry-over?
- Has the Governor proposed projects to be funded by the discretionary fund for 2003-04 ?

7120 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 requires a comprehensive performance accountability system for workforce development programs.

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. There is a federal act that specifies at a minimum, the CWIB is to assist the Governor in certain activities.

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.

<u>Policy Role of the CWIB</u>

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:

- 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 distributing 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 report requirement. 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 help the board set priorities and help it develop a strategic plan for the board.** 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.

- **Question from subcommittee**

- When will the board publish the protocols requested by the Legislature?

7300 Agricultural Labor Relations Board

The Agriculture Labor Relations Board (ALRB) collects secret ballot elections to determine collective bargaining representation in agriculture and for investigating and resolving unfair labor practice disputes. The ALRB is divided into two major programs: (1) Board Administration of the Agricultural labor Relations Act; and (2) General Counsel Administration of the Agricultural Labor Relation Act. Recent legislation, Senate Bill 1156 and Assembly Bill 2596, add the Agricultural Employer-Employee Collective Bargaining and Mediation Law to the Labor Code. The legislation requires the board to mediate certain collective bargaining agreements.

Questions from subcommittee:

- What is ALRB caseload?
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7350 Department of Industrial Relations

The Department of Industrial Relations (DIR) is intended to protect the workforce, improve working conditions, and advance opportunities for profitable employment in California. The departments major areas of responsibility include labor law, workplace safety and health, apprenticeship training, workers' compensation, statistics and research and mediation and conciliation.

Summary of Expenditures (dollars in thousands)	2002-03	2003-04	$ Change	% Change
General Fund	$125,097	$63,278	-$61,819	-49%
Special Funds	81,890	77,489	4,401	18
Workers' Compensation	45,689			
Administration Fund		103,702	58,013	127
Total	$252,676	$244,469	-$124,233	-31%

<u>Division of Workers' Compensation</u> (<u>DWC</u>). California's workers compensation system was established by the Legislature in 1913 and provides the exclusive remedy for industrial injuries, irrespective of the fault of the employee or employer. All employers in California, except the state, must secure payment of workers' compensation insurance by purchasing of an insurance policy or by obtaining a certificate for self-insurance from DIR. Injured workers receive medical treatment without cost as well as a variety of benefits to compensate for injuries arising out of and in the course of employment.

The Division of Workers' Compensation (DWC) is the lead state agency that oversees the administration of workers' compensation benefits to approximately 1.5 million Californians who are injured on the job each year. One of DWC's core responsibilities is the administration of California's exclusive judicial system for resolution of work injury claims.

Questions from subcommittee:

- What percentage of workers' compensation claims are outstanding and how does DWC recapture money from EDD?
- What is DWC doing about the high cost of medical treatment and determining the level of permanent disability of injured workers?

Implementation of AB 749. On February 15, 2002, the Governor signed into law a , Assembly Bill 749 (Calderon), Chapter 6, Statutes of 2002. The bill increased workers' compensation benefit levels by specified amounts over a four-year period and thereafter indexes benefits to increases in the State average weekly wage to prevent more erosion of benefits by inflation. In addition, AB 749 makes substantive, technical and clarifying changes to the entire workers' compensation system, many of which are designed to provide cost savings to employers**. DIR seeks a budget augmentation of $9.3 million to implement the provisions of AB 749**.

The Legislature augmented the department's budget last year to begin the implementation of the bill. Although the Governor vetoed aspects of the augmentations, he did agree to begin implementation. As a result of the veto, certain aspects of the implementation of AB 749 were deferred until 2003-04. Now, however, because the December Revision deferred the start-up of AB 749 in the current year, it is not clear what aspects of the AB 749 mandates can be implemented in the budget year.

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Increase User Fees for Workers' Compensation Program. The budget eliminates General Fund support for the Workers' Compensation Division, for a General Fund savings of $24.6 million in 2002-03 and $73.7 million in 2003-04. The General Fund support is replaced with revenue from a fee imposed on employers. To implement this provision, the Administration proposes a statutory law change to increase the fees.

The Administration proposes a significant increase in the fee imposed on employers for the workers' compensation program. The proposal would raise employer costs by $24 million (half year) in the current year and $70 million in the budget year. The fee proposal was introduced in the First Extraordinary Session, as SB 10x, but was not taken up when the Senate considered the December Revision.

Question from the committee:

If the fee increase is not approved but the Legislature does not augment the budget with General Fund money, what will the department do to close the $70 million hole in its workers' compensation division?

- ***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. A recent 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.**Division of Occupational Safety (loan repayment)** The department is requesting budget language to extend repayment terms of the General Fund loan for the Permanent Amusement Ride Safety Inspection Program in the amount of $875,000 for ayear, until June 30 2004, due to delays in receipt of program revenues.

- **Division of Labor Standards Enforcement (loan repayment)** The department requests an extension on the payment of a General Fund loan for the Garment Manufacturers Regulation Program . It would delay repaying the General Fund$1,047,000 until June 30, 2004, due to delays in receipt of program revenues.

Workers' Compensation disaster services workers

Existing law sets forth a program for providing a disaster service workers with workers' compensation benefits. Under the program, the Legislature must annually appropriate the funds for this purposeThe budget proposes to repeal state benefits for disaster service workers, except for the special provision concerning federal benefits.

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.
- The legal section presents 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. Last year, the Legislature authorized the department to acquire a case management system, to be financed over three years, at a total cost of about $5 million. The budget includes the second-year installment of the payments. When approving the three-year financing, the Legislature requested

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Senate Budget & Fiscal Review

Senator Wesley Chesbro, Chair

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

Senator Wesley Chesbro, Chair
Senator Gilbert Cedillo
Senator Tom McClintock
Senator Bruce McPherson
Senator Deborah Ortiz

April 7, 2003

2:30 PM *or* Upon Adjournment of Session

Room 4203

(Diane Van Maren, Consultant)

Item	*Description*
4300	**Department of Developmental Services—*Selected Issues***

- Community-Based Services—Selected Issues
- State Developmental Centers—Selected Issues

Note: Only those items listed in today's agenda will be heard today. The DDS will be discussed again as **noted in the Senate File, including at the time of the May Revision.** Thank you.

Note: Today's Hand Out package primarily consists of the Administration's proposed trailer bill language. If you do not obtain a copy of this package today (limited copies available), please obtain copies of the Administration's proposed trailer bill language by contacting either the DDS or DOF directly (it is their language). Thank you.

Pursuant to the Americans with Disabilities Act, individuals who, because of a disability, need special assistance to attend or participate in a Senate Committee hearing, or in connection with other Senate services, may request assistance at the Senate Rules Committee, 1020 N Street, Suite 255 or by calling 916-324-9335. Requests should be made one week in advance whenever possible.

4300 Department of Developmental Services

A. BACKGROUND

Description of Eligibility & Purpose of 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.**

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.

Description and Characteristics of Consumers Served

The department occasionally produces a Fact Book which contains pertinent data about persons served by the department. The fifth annual edition, released in November 2002 contains some interesting data, including the following facts:

Department of Developmental Services—Demographics Data from 2001

Age	Number of Persons	Percent of Total	Residence Type	Number of Persons	Percent of Total in Residence
Birth to 2 Yrs.	18,586	10.5%	Own Home-Parent	122,520	69.2%
3 to 13 Yrs.	51,356	29.0%	Community Care	26,851	15.2%
14 to 21 Yrs.	28,025	15.8%	Independent Living /Supported Living	15,312	8.7%
22 to 31 Yrs.	25,381	14.3%	Skilled Nursing/ICF	8,550	4.8%
32 to 41 Yrs.	23,237	13.1%	Developmental Center	3,695	2.1%
42 to 51 Yrs.	17,895	10.1%			
52 to 61 Yrs.	8,275	4.7%			
62 and Older	4,173	2.4%			
Totals	***176,928***	***100%***		***176,928***	***100%***

<u>Summary of Governor's Proposed Budget Overall</u>

The budget proposes total expenditures of $3.227 billion ($1.957 billion General Fund), for a *net* increase of $281.6 million ($130.9 million General Fund) over the revised 2002-03 budget, to provide services and supports to individuals with developmental disabilities living in the community or in state Developmental Centers.

Of the total amount, $2.537 billion is for services provided in the community, $655.1 million is for support of the state Developmental Centers, $35.4 million is for state headquarters administration and $4,000 is for state-mandated local programs.

Summary of Expenditures (dollars in thousands)	2002-03	2003-04	$ Change	% Change
Program Source				
Community Services Program	$2,259,667	$2,536,710	$277,043	12.3
Developmental Centers	$655,560	$655,132	-428	--
State Administration	$30,438	$35,389	4,951	16.3
State Mandated Local Program	$4	$4		
Total, Program Source	$2,945,669	$3,227,235	$281,566	9.6
Funding Source				
General Fund	1,826,777	1,957,632	130,855	7.2
Federal Funds	49,589	51,695	2,106	4.2
Program Development Fund	2,059	1,931	-128	-6.2
Lottery Education Fund	2,057	2,057		
Reimbursements: including Medicaid Waiver, Title XX federal block grant and Targeted Case Management	1,065,187	1,213,920	148,733	14
Total	$2,945,669	$3,227,235	$281,566	9.6

B. COMMUNITY BASED SERVICES

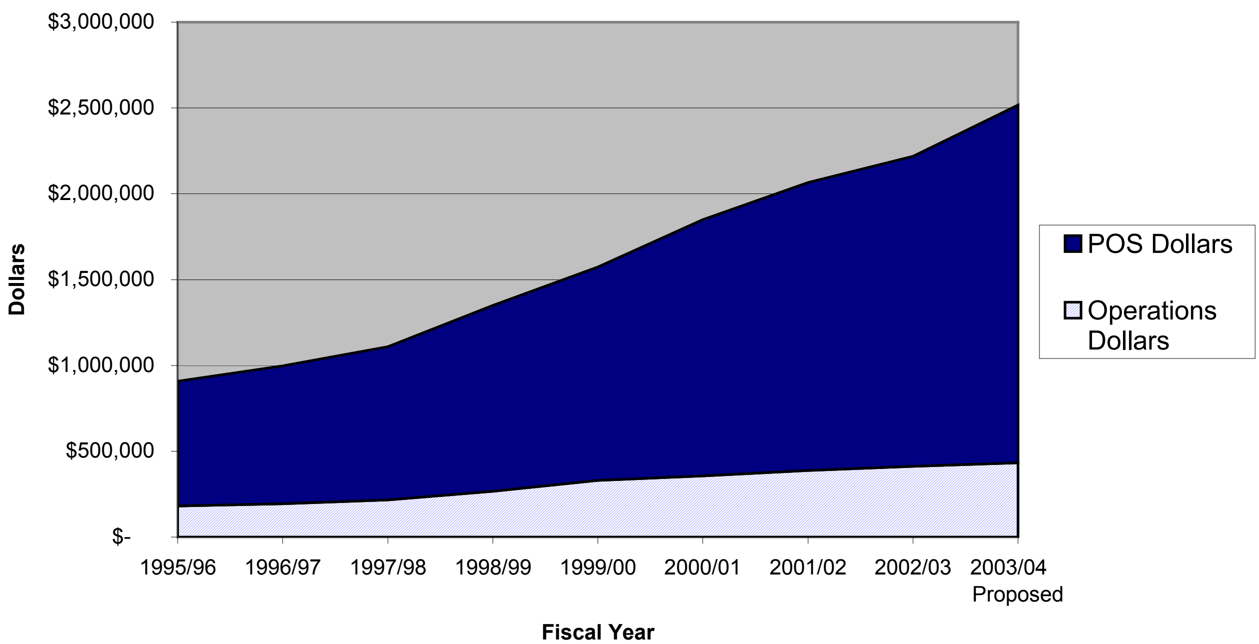
Background on Growth in Expenditures

It should be noted that in reviewing **the past five years of actual fiscal data (1996 to 2001)**, the budget for total program expenditures (including Regional Center operations and purchase of services) **has increased by over 107 percent from $996.9 million (total funds) in 1996 to almost $2.1 billion (total funds) in 2001.**

The Purchase of Services category expenditures has increased from $802.4 million (total funds) in 1996 to almost $1.7 billion (total funds) in 2001 for an increase of $875.4 million in five years, or 109 percent. During this same period, caseload increased by 40,500 individuals, or 29 percent.

Last year, the LAO noted that the rate of growth proposed in the budget was greater than for most other major health and social services caseload programs. The LAO also noted that 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.

Regional Centers
Operations and Purchase of Services Budget History
(dollars in thousands)



<u>Summary of Governor's Proposed Budget for Community-Based Services</u>

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 $2.537 billion ($1.574 billion General Fund) for community-based services, provided via the RCs, to serve a total of <u>193,100 consumers</u> living in the community. This reflects <u>an increase of $277 million</u> ($126.7 million General Fund), or 12.3 percent, over the revised 2002-2003 budget.

<u>Of the proposed $126.7 million General Fund increase, $114 million General Fund is related to a proposed transfer of the Habilitation Services Program from the Department of Rehabilitation to the DDS.</u> *(This issue was discussed when the Department of Rehabilitation was reviewed by this Subcommittee.)*

The overall funding level includes $432.2 million for RC operations and over $2.1 billion for local assistance, including funds for the Purchase Of Services for consumers, program development assistance, the Early Start Program, and habilitation services. About 193,100 consumers are anticipated to be served through the Regional Centers. **<u>This reflects an increase of 9,560 consumers, or 5.2 percent over the current-year.</u>**

<u>Major adjustments to the proposed budget include the following:</u>

- Increased federal reimbursements for the prior year (2001-02);
- Proposed establishment of "statewide Purchase Of Services standards" for a reduction of $100 million (General Fund);
- Change in the definition of substantial disability as it relates to eligibility for services for savings of $2.1 million (General Fund);
- Proposed establishment of a co-pay for services directed towards families whose children (aged 3 years to 17 years) live at home for *net* savings of $29.6 million (General Fund);
- Increase of $65.7 million in Title XX Social Services Block Grant funds to offset General Fund expenditures of the same amount;
- Increase of $101 million in federal reimbursements associated with efforts directed at obtaining increased federal reimbursements for certain services to offset General Fund expenditures of the same amount; **and**
- Transfer of the Habilitation Services Program from the Department of Rehabilitation to the DDS. (This transfer results in a proposed overall savings to the state in General Fund expenditures. This issue was discussed by the Subcommittee under the Department of Rehabilitation hearing.)

ITEMS FOR DISCUSSION

1. "Base-Line" Estimate for the Regional Centers—Caseload and Utilization

Background on the Purchase of Services (POS): The DDS contracts with 21 not-for-profit Regional Centers (RCs) which have designated catchment areas for service coverage throughout the state. RCs purchase services for consumers and their families from approved vendors when "generic" services are not available or appropriate, and coordinate consumer services with other public entities. 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	$583.4 million	increase of $40.9 million (total)
• Day Programs	$594.8 million	increase of $54.4 million (total)
• Other services (respite, support services, health care & others)	$694.9 million	increase of $112.2 million (total)
• Transportation	$176 million	increase of $15.1 million (total)
Subtotal (*unadjusted*)	**$2.049 billion**	increase of $222.6 million (total)
Proposal Statewide Standards Savings	*(-$100 million)*	
Revision of Eligibility Definitions	*(-$2.1 million)*	
(Both Discussed as separate Agenda items, below)		
Proposed TOTAL	**$1.948 billion (Rounded)**	

Background on Regional Center Operations: The RC Operational budget covers the staff who provide the RCs' direct services to consumers and their families, and the organizational functions in which they operate.

Generally, the RCs Operations budget consists of four components—(1) mandated services, (2) support functions, (3) special case add-ons, and (4) non-personnel costs. Mandated services includes the following: intake and eligibility assessment, case management, clinical support, community services (such as communications and customer service) and fiscal administration (including vendor and consumer custodial payments). **Support functions** includes the following: executive and administrative personnel, human resources, internal finance, information systems support, consumer records management and communications and logistics. **Special case add-ons** includes the following: items applicable to certain RCs only (such as Foster Grandparents), and items contracted via RC budgets statewide (such as Life Quality Assessments). **Non-personnel costs** includes the following: facilities (rent and/or mortgage), board governance development and facilitation, and all other administrative costs.

The *base-line* budget proposes the following for key items for Regional Center Operations:

• Operations Staffing	$387.1 million (total funds)	increase of $19.9 million (total funds)
• Federal Compliance	$25.7 million (total funds)	increase of $123,000 (total funds)
• Other Direct Services	$6 million (total funds)	reduction of $1.2 million (total funds)
• Contracts and Projects	$22 million (total funds)	increase of $2.3 million (total funds)
• Unallocated Reduction	(-$10.6 million)	From Budget Act of 2002 (continuation)
• Intake & Assessment	(-$4.5 million)	From Budget Act of 2002 (continuation)
Proposed TOTAL	**$425.7 million (total funds)**	net increase of $21.1 million

The Operations Staffing amount includes funds of: **(1)** $217.9 million (total funds) for direct services such as for clinical staff, intake and assessment, quality assurance and monitoring, special incidence reporting and mediation, **(2)** $50 million (total funds) for administrative staff such as for the executive branch, fiscal, information systems and human resources, and clerical support, **(3)** $63.5 million (total funds) for staff health, dental, vision and related benefits, **(4)** reduction of $11.2 million to reflect a salary savings adjustment reduction, **(5)** $694,000 (total funds) for Early Start Program staff, **(6)** $1.6 million (total funds) for federal financial participation, and **(7)** $64.6 million for operating expenses and rent.

The **Federal Compliance** amount includes both personal services and operating expenses for key project areas related to the state's receipt of federal funds. **This includes:** **(1)** $21.1 million for the Home and Community-Based Waiver, **(2)** $4.1 million for Targeted Case Management, and **(3)** $423,000 for Nursing Home Reform-Preadmission Screening and Resident Review.

The **Other Direct Services** amount includes a wide variety of services, including specialized therapeutic services, family training, nutritional supplements, adaptive skills training, behavior management, durable medical equipment, nurses aid assistance, and many other items.

The **Contracts and Projects** amount includes funding for such items as the Wellness Projects, Health Insurance Program and Portability Act (HIPPA), Training for Community Care staff, and various other contract items.

<u>Governor's Proposed Budget:</u> The ***base-line*** **budget** estimate for the Regional Centers contains the **following key adjustments:**

- ***<u>Caseload and Service Utilization Adjustments:</u>*** The budget proposes **an increase of $242.4 million ($147.8 General Fund) to provide for an increase in caseload of 10,870 consumers, as well as increased utilization of purchase of services (POS) based on consumer needs. It should be noted that as consumer's needs evolve and change, the utilization of services can increase. For example, it is likely that an infant may not need intensive services initially, but as that individual ages into puberty and adulthood, additional services (such as Residential Services) may be needed.**

  Of the increased amount over the current-year, $222.6 million (total funds) is for the POS and $19.8 million is for Regional Center Operations.

- ***<u>Continues Deferral of Intake and Assessment:</u>*** The omnibus health trailer legislation for the Budget Act of 2002 extended the intake and assessment process for new consumers from 60 days to 120 days for two years. As such, the budget proposes to continue this deferral for another year.

- ***<u>Suspension of Purchase of Services for Start Up:</u>*** The Budget Act of 2002 suspended funds for the Purchase of Services for the start-up of any new non-Community Plan programs. The budget proposes to continue this suspension for one more year.

- ***<u>SSI/SSP Passthrough for Community Care Facilities:</u>*** The budget proposes to provide $790,000 to continue to pass through the federal portion of the SSI/SSP increase to Community Care Facilities (CCFs), effective January 1, 2004. 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. Since the Budget Act of 1998, annual SSI/SSP increases have been passed through to CCF providers.

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

- **1. Please provide a brief summary of the baseline adjustment for the Purchase of Services area.**

- **2. Please provide a brief summary of the baseline adjustment for Regional Center Operations.**

<u>Budget Issue:</u> Does the Subcommittee want to adopt or make changes to the ***base-line*** **budget**?

2. Administration's Parental Co-Pay Proposal *(See Hand Out)*

Background and Existing Parental Fee: Unlike most other health and social services programs, **the state's Lanterman Act provides an entitlement to services regardless of a family's income and economic resources**.

As noted by the LAO, less than 1 percent of the RCs consumers or their families pay any share of the cost of the services they receive. Specifically, children under the age of 18 who live in a 24-hour out-of-home environment (such as at the Community Care Facility) currently pay a sliding scale fee based on the family's ability to pay.

The parental fee collected from families with children under the age of 18 who live in a 24-hour out-of-home environment **is deposited in the Program Development Fund**, a special fund administered by the DDS and used for Purchase of Services (POS) expenditures statewide.

Governor's Budget Proposal (See Hand Out): The budget assumes **increased revenues of $31.5 million** through the implementation of **a new Parental Copay Assessment to be enacted through trailer bill legislation. In addition, the DDS is requesting an increase of almost $1.8 million to fund 24 new positions. Therefore, the budget assumes a net savings of about $29.6 million (General Fund) from this proposal overall.**

It should be noted that the revenues generated from the proposed copay assessment would be deposited into the General Fund and *not* be used to directly offset the cost of the RC program specifically.

This proposed program **would require parental financial participation for certain children who live at home and receive services from Regional Centers**. Based on recent caseload data, **up to 65,000 children** (aged 3 to 17 years) could be affected by the copay proposal. **The key components of this copay assessment are as follows:**

- Copayments would be assessed **on families with children ages 3 to 17 years living at home** that access Regional Center services and **who are *not* eligible for Med-Cal**.
- Copayments would be assessed **on families at or above 200 percent of the federal poverty level, based on annual adjusted *gross* income as reported on state income tax returns and provided to the Franchise Tax Board**. (Families below 200 percent of poverty would be exempt from the copay requirement, as well as children enrolled in Medi-Cal.)
- Families would pay **up to a maximum of 10 percent of their gross income for the cost of services provided through the Regional Center for the child. For example**, a family making $50,000 annually would pay up to $5,000 (10 percent), not to exceed the costs of services purchased for the child. **The entire copayment amount would have to be paid within one year of the initial assessment.**
- Families would be given 60-days to appeal any copay billing issue, or to correct any changes in family income.

- **Families with infants and toddlers from birth to 3 years of age would be exempt** from the copay because federal law imposes considerable requirements that would need to be followed if a state desires to implement a fee.

In addition, the <u>Administration's trailer bill language would require</u>:

  - Each parent of a child (as applicable) **to provide the parent's social security number** to the Regional Center;
  - The State Franchise Tax Board (Board) **to provide the DDS with access to information provided on income tax returns of parents of children** (as applicable) for purposes of administering the parental co-pay; and
  - **The DDS to provide the Board with the names and social security numbers of families so the Board can access income and tax information**;

<u>Subcommittee Staff Comment and Considerations:</u> As noted by the Legislative Analyst's Office (LAO), **some form of enrollment fee or copay should be considered. The LAO further contends that as long as copays are reasonable in their amount and based upon a family's ability to pay them, copays could help deter excessive use of the available services without deterring their appropriate usage.**

It should be noted that there are several health care programs which presently require an enrollment fee or have a copay component. Both the California Children's Services (CCS) Program and the Genetically Handicapped Persons Program (GHPP), not only have income limitations but also require an annual enrollment fee. The **Medi-Cal Program** not only has numerous income and resource requirements, **but also contains several copayments for services**, including copays for pharmacy benefits, physician services and emergency room treatment. Further, **the Healthy Families Program** (200 % to 250% of poverty) requires families to pay monthly premiums to maintain enrollment of their children for health care coverage.

Though consideration of an enrollment fee or copay should be considered, the Administration's proposal as currently crafted exhibits several analytical flaws. **<u>Key concerns regarding the Administration's proposal are as follows:</u>**

- ***<u>No Sliding Fee Scale:</u>*** **The Administration's proposal does <u>not</u> utilize a sliding-fee methodology.** All applicable families with incomes 200 percent of poverty or above would be required to pay up to a maximum of 10 percent of their families' annual gross income. As such, lower-income families would be responsible for the same proportion of payment as a wealthier family. Most copays are usually based on a sliding fee scale (such as community-based clinic copay mechanisms).
- ***<u>Not Based on Family Size:</u>*** Under the Administration's proposal, minimum family income level requirements for copays would ***not*** be adjusted based on family size. As such, families of five or greater could be required to make copays although their incomes are below 200 percent of poverty. **In addition, the proposal does not account for families who have more than one child with developmental disabilities.**

- ***Revenue Estimate is Probably Too High:*** The **revenue estimate is probably too high.** First, the DDS does not maintain income data on the consumers or their families. As such, this estimate is based upon fiscal data obtained from the DOF, coupled with DDS demographic data. Second, the revenue estimate for the copay proposal did not take into consideration the interaction of the proposed statewide standards. In other words, if some form of statewide standards is implemented, the revenues assumed under the copay proposal would need to be reduced because the estimate for the copay proposal was based on current Purchase of Services expenditures.

- ***Access to State Franchise Tax Board Records and Need for Social Security Number:*** The Administration's trailer bill invades an individual's right to privacy with respect to provisions regarding access to tax records and related data. Many other state-operated public programs—such as Healthy Families and Medi-Cal—utilize pay stubs and tax returns provided by the program applicants. **There is no need to invade someone's privacy and allow for full access to State Franchise Tax Board records. In addition, submittal of a Social Security Number by a parent should not be required in order for the child to obtain services. This is not current policy for Regional Center services, nor many other public programs.**

- ***Request for DDS Staff:*** The budget requests an increase of **$1.757 million (General Fund) to fund 24 new positions to implement the proposal.** This includes: a Staff Services Manager II, two Staff Services Manager's I, eight Associate Governmental Program Analyst's, eleven Office Technician's one Senior Programmer, and one Information Systems Technician. **This level of staffing is simply not justified. Contingent upon what is finally crafted regarding this issue, either RC staff could be used or a significantly less staff intensive proposal for the DDS could be developed. The LAO has also expressed concerns regarding the requested positions indicating that they are not justified.**

Legislative Analyst Office Comments—Concerns as Crafted & Broaden the Copay Requirement: As noted above, **the LAO believes that a copay of some form is warranted** for RC consumers. They believe that the very implementation of a copay would probably cause a decrease in the demand for RC services. **However, the LAO also has concerns with how the Administration's copay is written. They note among other things the following:**

- ***Lacks Several Key Details:*** The **LAO notes that the proposal lacks specifics that are important to clarify before any proposal can be implemented.** For example, **the proposal does not clearly indicate whether the schedule used to determine the copay due from any particular family would be calculated based on a set percent of income, based on a sliding scale, or based on some other mechanism.** It is also unclear when families would make the copayments for the services received.

- ***Family Size:*** The LAO contends that under the Administration's proposal, minimum family income level requirements for copays would not be adjusted based on family size. As such families of five or greater could be required to make copayments although their incomes were below 200 percent of poverty.

They also raise two issues about potentially broadening the copay to additional RC consumers, including infants and toddlers birth to three years of age and RC consumers who are 18 years and older. They note that federal government approval would be needed to impose a copay on individuals from birth to three years of age but that additional revenue provided to the state would probably be significant (several millions annually). In addition, they state that even though RC consumers aged 18 years and older are not likely to have much in financial resources, the amount of state revenue that could be generated from charging copays to these individuals could nonetheless be significant.

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

- **1.** Please provide a **brief summary** of your proposal.
- **2.** Is the Administration **interested in possibly redesigning a proposal** that addresses some of the concerns expressed? Are there any particular considerations or suggestions that you may have at this time which can be shared?

Budget Issue: Does the **Subcommittee want to direct Subcommittee staff to work with the DDS to develop options for the Subcommittee to consider?**

3. DDS Proposal Regarding Enhanced Federal Funds From Several Sources *(See Hand Out)*

Background--DDS Efforts to Obtain Increased Federal Funding (See Hand Out): Over the course of the past several years, the state has been aggressively pursing receipt of additional federal funds. **As noted in the Hand Out package, from 1999-2000 to 2003-04 the DDS has been able to increase the state's receipt of federal funds for services provided to individuals with developmental disabilities from $508.2 million (1999-2000) to an estimated $961.4 million (2003-04) for an increase of over 89 percent in four years.**

Most notably, receipt of federal funds under the Home and Community-Based Waiver has increased from $283.6 million (1999-2000) to $556.2 million (2003-04), or over 96 percent during this time. The Waiver has allowed the state to conserve General Fund dollars by shifting Medicaid (Medi-Cal) eligible consumers to Waiver services while granting flexibility and assisting the state in complying with the Coffelt Settlement and the Olmstead Decision**. A portion of the additional federal Waiver funds have also been used to enhance quality assurance measures, service monitoring, and several other items.**

Targeted Case Management (TCM) services has shown a more gradual adjustment. Under TCM, case management services are furnished to consumers in order to provide access to needed medical, educational and social services. Persons with developmental disabilities are identified as being a "targeted" group under California's State Medicaid Plan as provided for under federal law.

This TCM approach enables California to draw a federal match for these services, versus using solely General Fund support. Functions allowed to be claimed under TCM include: (1) consumer assessment, (2) development of a specific care plan, (3) referral and related activities to assist the consumer to obtain needed services, and (4) monitoring and follow-up. In general, allowable services are those that include assistance in accessing a medical or other service, but do not include the direct delivery of the underlying service.

With respect to the Title XX Social Services Block Grant Funds and the Early Start Program, both of these federal fund sources are contingent upon a set amount of funding that the state receives from the federal government in the form of overall block grants. As such, the state is limited in its ability to obtain additional federal funds for these two items unless Congress and the President appropriate additional funds.

Background-- The Home & Community-Based Services Waiver: Under this Waiver, **California can offer services to individuals who would otherwise require the level of care provided in an intermediate care facility for persons with 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. 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, as well as the Olmstead decision. A portion of the additional federal Waiver funds have also been used to enhance quality assurance measures, service monitoring, and several other items.

Home and Community-Based Waiver Update: **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.**

However in order to obtain this federal approval, the state had to provide assurances that issues identified in a comprehensive 1997 federal audit had been remedied and would continue to be addressed through specific measures. Through an extensive process in working with the federal CMS, the DHS, Regional Centers and other involved parties, the DDS has been able to have 20 of the 21 Regional Centers certified for Waiver compliance and enroll individuals onto the Waiver.

In February 2003, California obtained federal approval of an amendment to the Waiver to increase the number of individuals that can be enrolled. **Specifically, California can now operate under the following enrollment levels *(done by federal fiscal year)*:**

- October 1, 2002 to September 30, 2003 — 55,000 individuals
- October 1, 2003 to September 30, 2004 — 60,000 individuals
- October 1, 2004 to September 30, 2005 — 65,000 individuals
- October 1, 2005 to September 30, 2006 — 70,000 individuals

Generally, there are four basic criteria required for a consumer to be enrolled on the Waiver. These are that the individual:

- Be enrolled for full-scope Medi-Cal;
- Meet certain level-of-care eligibility criteria (i.e., otherwise need institutional care);
- Live in an eligible residential environment (i.e., not in a health facility); and
- Choose enrollment.

Governor's Mid-Year Reduction: The Administration **proposed to use $142.7 million in increased federal reimbursements to be obtained through the Home and Community-Based Waiver for 2001-02 (past year) as well as other federal fund sources to backfill for General Fund support.** These increased federal funds were **mainly attributable to adding about 9,000 new persons to the Waiver** for the period from April 1 to June 30, 2002 (the end of the last quarter of the 2001-02 fiscal year). **The Legislature adopted this proposal as part of SB 18x (Chapter 3, Statutes of 2002), the Mid-Year Reduction bill.**

Governor's Proposed Budget: The budget proposes **to capture an increase of $99.7 million in additional federal funds over the current year obtained through a series of program changes, and to obtain an additional $500,000 in federal reimbursements for a total of $100.2 million in additional resources.**

Of the total increased federal funds amount, **$92 million is proposed to be used to backfill for General Fund expenditures in Purchase of Services,** and the remaining amount is to be expended for various purposes as discussed below.

The DDS proposes to *obtain* $99.7 million in additional federal reimbursements as follows:

- **$13.4 million by increasing the Home and Community-Based Waiver cap** from 46,447 consumers **to 55,000 consumers;**
- **$27.7 million by redesigning and implementing new Transportation Services vendor policies** (such as record keeping, procedures for vendorization, and billing functions) to obtain federal reimbursement under the Home and Community-Based Waiver;
- **$18.7 million by adding and redefining selected services offered under the Home and Community-Based Waiver**, including services pertaining to education, interdisciplinary assessments, respite, supported living vendor administration, and habilitation supports and services;
- **$26.4 million** by implementing **a system to capture funding for the administrative costs incurred by the Regional Centers** that pertain to Home and Community-Based Waiver functions; ***and***
- **$13.5 million** by recalculating and revising the method used for making rate determinations under the state's Targeted Case Management (TCM) Program.

The $100.2 million in total federal funds and reimbursements is proposed to be *expended* as follows:

- **$92 million will be used as a General Fund backfill** for the Purchase of Services;
- **$6.5 million is proposed for Regional Center Operations support as follows:**
  - **$5.8 million to address RC infrastructure and workload issues** to meet more stringent federal requirements related to contracting, documentation, and administrative practices to support the capture of additional federal funds and manage the direct and ongoing workload related to increasing the Waiver caseload, including accelerated enrollment of 3,302 additional consumers during the budget year.
  - **$697,000 and two positions to address various issues regarding** certain Home and Community-Based Waiver administration functions, and to provide for a specialized legal contract regarding the receipt of federal funds and billing.
- **$1.6 million is proposed for Transportation Services vendors to complete certain billing requirements; *and***
- **$1.3 million ($669,000 General Fund) and 16 positions are proposed for certain DDS Headquarters support functions as follows:**

- **$779,000 for 9 positions** to expand fiscal and compliance monitoring reviews as required by recently released federal CMS criteria;
- **$402,000 and 5 positions** to maintain existing compliance with federal fiscal and program requirements; ***and***
- **$156,000 and 2 positions** to conduct certain administrative functions that pertain to changes in Transportation Services billing and reimbursement.

Subcommittee Staff Comment: The above proposed activities are reasonable proposals in order to obtain enhanced federal funds. Some of these options will require federal approval through Medicaid (Medi-Cal) State Plan Amendments and in some cases, Waiver amendments. Further, some system modifications in the areas of vendor billing, Regional Center billing, and the like will need to be thought through and completed.

In addition to the above items, there is further potential to obtain more federal funding. For example, there is even more potential to restructure or add more services to the Waiver. In addition, some more administrative functions may qualify for a 75 percent federal match instead of the 50 percent match that is assumed in the proposal. **Further research on these issue needs to be conducted.**

Also it should be noted that the state is not yet claiming reimbursement under the Home and Community-Based Waiver for the South Central Los Angeles Regional Center; however, discussions are ongoing to bring them under the Waiver.

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

- **1.** Please **briefly summarize the key changes and activities that will be done to obtain the increase in federal reimbursements.**
- **2.** Please **briefly explain the need for and purpose of, each one of the proposed expenditures.**
- **3.** Please **discuss the DDS' additional thoughts that are being researched and reviewed to identify potential future increases in federal reimbursement.**

Budget Issue: Does the Subcommittee want to adopt the Administration's proposal or request that **Subcommittee staff develop additional options for potentially obtaining increased federal funds?**

4. Implement Statewide Standards for the Purchase of Services *(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 $1.948 billion (total funds) 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 expenditures plus growth which may not be fully reflective of consumers needs in some areas.**

Budget Act of 2002—Unallocated Reduction: In the Budget Act of 2002, **an unallocated reduction of $52 million (General Fund) (one-time only) was enacted for POS in lieu of proceeding with the Administration's proposal to implement statewide standards for POS.**

Current Year Deficiency: The Legislature is in receipt of a current year deficiency for the Regional Center appropriation. Specifically through Government Code, Section 13332.04, the Legislature **was notified of a deficiency of $40 million ($13.7 million General Fund) for the Regional Centers. This deficiency consists of three key components as follows:**

- Regional Center Operations shortfall of $1.8 million (total funds);
- Regional Center POS shortfall of $32.2 million (total funds); and
- Habilitation Services shortfall of $6 million (total funds).

According to the DDS, the $1.8 million for RC Operations is attributable to increased caseload population growth.

With respect to the **RC POS shortfall of $32.2 million, the following should be noted:**

- $23 million is due to increased expenditures for other services;
- $6.1 million is due to increased expenditures for Day Program services;
- $1.4 million is attributable to Out-of-Home placement; and
- $1.7 million is for increased expenditures in Transportation services.

It should be noted that this **RC current year deficiency is contained in SB 1070 (Chesbro)** and has moved from the Senate floor to the Assembly for their consideration.

<u>Governor's Mid-Year Reduction Proposal—Statewide Standards:</u> The Administration proposed legislation in the Special Session in order to enact statewide purchase of services standards as of July 1, 2003. The DOF assumed a reduction of $100 million (General Fund) in 2003-04 from this proposal. **The Legislature deferred decision on the statewide standards proposal for budget year discussion purposes.**

<u>Governor's Proposed Budget (See Hand Out):</u> The budget assumes **a savings of $100 million (General Fund) from the enactment of legislation to implement statewide purchase of services standards. The proposal does not articulate any assumptions as to how the $100 million (General Fund) in savings is derived.**

Instead, the proposed language grants <u>very broad authority</u> to the DDS to: <u>(1)</u> prohibit any consumer services or supports by type (such as Respite), **<u>(2)</u>** limit the type, duration, scope, location, amount, or intensity of *any* services and supports provided to consumers through the purchase of services by the Regional Centers, and **<u>(3)</u>** impose payment reductions and closure days on categories of vendors in order to insure that Regional Centers stay within their budgeted appropriation level.

In addition, the language explicitly states that consumers <u>may *not* appeal</u> a change in their services or supports if <u>(1)</u> the type of service or support has been prohibited through the actions of the DDS, or **<u>(2)</u>** the individual service or support has been reduced at the direction of the DDS in order to ensure that Regional Centers stay within their budgeted appropriation level.

The language also expresses that it is not the Legislature's intent to endanger a consumer's health or safety, nor place a consumer in a more restrictive setting in violation of the Olmstead Decision (1999, 527 U.S. 581). However, it is <u>unclear how the DDS and RCs are to monitor this in order to assure something inappropriate does not occur</u>.

<u>Subcommittee Staff Comment:</u> As discussed within the first few pages of this Agenda, overall expenditures for the Regional Centers have been escalating at a significant pace. **As such, consideration of cost containment strategies for POS as well as Regional Center Operations needs to be undertaken. However, the Administration's proposal as currently crafted raises substantial concerns.**

First, it is not a well crafted proposal. The Administration has not provided any fiscal detail as to how the savings are to be achieved, because none exists. The savings figure simply assumes that the $52 million (General Fund) unallocated reduction taken in the Budget Act of 2002 is subsumed in the proposed statewide standards and that additional funds are obtained to achieve the round savings figure of $100 million (General Fund).

Second, though the proposed language is referred to as establishing "statewide standards" for the purchase of services, the language does not function in this manner. It simply provides the DDS with broad reduction authority. **For example, the language does *not***

articulate any principles, process, or framework that would address what the standards would be nor how they would be applied on a statewide basis.

Third, it is <u>evident that $100 million in General Fund savings would be near impossible to achieve unless certain services are eliminated and provider rates in other service categories are reduced.</u> This is because certain service categories—such as residential services and supported living—would be extremely difficult to reduce since these are fundamental services whose costs reflect staffing standard requirements, housing needs and basic amenities. <u>These two service categories constitute 39 percent of expenditures for the purchase of services</u> (based on actual data from 2001-02).

<u>The other significant service categories include Adult Day Programs (27 percent of expenditures), Respite Services (9 percent), Transportation Services (8.8 percent), and Infant Development Services (4.7 percent) (based on actual data from 2001-02). After the Residential Services category, these services reflect the highest expenditures</u>.

Other service categories such as Behavioral Services, Medical Care and Services, Medical Equipment and Supplies, and Therapy Services may be difficult to reduce for a reduction might endanger the health, safety and life of an individual. In addition, expenditures for these services are relatively small.

Finally, there are some very small categories, such as Social Recreational Activities and Camp Services; however, these expenditures are relatively minor so their elimination would not amount to much savings.

Given the nature of the above outlined expenditures, it is likely that a significant level of the Administration's proposed reduction would need to come from Adult Day Programs, Respite, Transportation and some more minor cost areas such as Social Recreational Activities.

<u>Subcommittee Staff –Options to Consider:</u> As discussed above, the Administration's proposal as currently drafted poses considerable policy as well as fiscal concerns. **Consideration of additional options should be considered. <u>For example:</u>**

- Should the POS line item be solely responsible for the burden of the entire reduction, **or should some portion be shouldered within the Regional Center Operations line item** (i.e., outside of the Home and Community-Based Waiver requirements)?
- **Could certain services**, such as some of the Social Recreational Activities, Camp or other services **be temporarily suspended for a time period during this fiscal shortfall, instead of most likely being eliminated indefinitely (such as would likely occur under the Administration's proposal)?**
- **Are all relevant generic services (such as Day Care) being accessed prior to Regional Centers purchasing services through the POS line item?**
- **Are all service system efficiencies being considered—for example, consumer mobility training could be used to reduce Transportation Services--?**

Further, if purchase of service reductions are to be enacted, it is recommended to completely re-craft the language to establish a more comprehensive framework for service determinations, including stakeholder community participation, and to establish a more reasonable savings level that recognizes the need to not reduce certain core services.

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

- **1.** Please provide a **brief description of your proposal**, including the trailer bill language.
- **2.** Based on your knowledge of **core services** provided to individuals with developmental disabilities **would some services have to be eliminated** in order to obtain the $100 million in General Fund savings from POS?

Budget Issue: Does the Subcommittee want to adopt the Administration's proposal **or request technical assistance from the DDS for Subcommittee staff to explore additional options and alternatives as outlined above?**

5. Proposed Revision of Eligibility Definition *(See Hand Out)*

Background: **To be eligible for Regional Center 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.**

Governor's Proposed Budget: The budget **proposes savings of $2.1 million (General Fund) through legislation which would apply the federal standard for "substantial disability" to existing state eligibility criteria. The federal standard for substantial disability requires the clinical determination of significant limitations in three or more of the seven major life activities.**

These **major life activities would address clinical capacity in the areas of communication, learning, mobility, self-care, self-direction, economic self sufficiency, and independent living.** The Administration states that **the new standard would be applied prospectively so that those currently receiving services will not be affected.**

Based on existing consumer characteristics (data from the Client Developmental Evaluation Report—CDER), the DDS estimates that about 400 persons per year would *not* be eligible for Regional Center services. These estimated 400 persons would generally be school age children or young adults with mild mental retardation, or another disability, without severe medical or behavioral needs.

The DDS further states that the clinical judgement of the Regional Centers in applying the proposed new standard for substantial disability would be the key determining factor.

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

- **1.** Please **briefly describe the proposal**, including the trailer bill language.
- **2. Please describe whom would be affected by the proposal.**

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

C. State Developmental Centers

<u>Background on the State Developmental Centers</u>

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 **<u>operates five Developmental Centers</u> (DCs)—Agnews, Fairview, Lanterman, Porterville and Sonoma. Porterville is unique in that it provides forensic services in a secure setting.**

<u>In addition</u> 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.

<u>Background on Growth in Expenditures and Decline in DC Population</u>

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. **Medi-Cal reimbursement is available for most DC services,** except for nine residential units at Porterville DC (no longer eligible due to forensic-related issues). **Canyon Springs is still pending DHS certification (required to receive federal reimbursement) which is expected by March 31, 2003.**

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. **<u>According to DDS data, the average cost per person residing at a DC is about $179,000 per resident annually. This reflects an increase of 65 percent since the Budget Act of 1995.</u>**

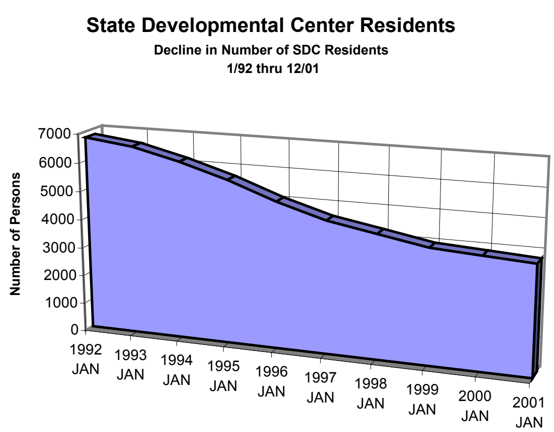
<u>With respect to overall DC expenditures, they have increased by 26 percent since the Budget Act of 1995 even though the DC population has declined by about 24 percent</u>.

According to DDS data, the average cost per person residing at a DC is about $179,000 annually. Due to differences between the DCs, including resident medical and behavioral needs, overall resident population size, staffing requirements, fixed facility costs and related factors, the annual cost per resident varies considerably and is as follows:

- Canyon Springs $255,574 annual cost per resident
- Sierra Vista $213,923

- Agnews $208,935
- Lanterman $158,336
- Sonoma $157,530
- Fairview $147,690
- Porterville $144,015

As noted in the chart below (actual populations shown), the DC population has declined significantly since the early 1990's. This declined has occurred as more individuals are served in the community. **The landmark settlement agreement in *Coffelt v. DDS*, et al (1994) further facilitated the development of quality community resources and the progression of individuals choosing to live in community-settings. It was through this agreement that California began to really expand services offered through the Home and Community-Based Waiver and to utilize the increases in federal reimbursements to more effectively enable individuals to live outside of the DC facility model. The DCs initially downsized in resident population by 2,000 in response to the Coffelt Settlement.**



Summary of Governor's Proposed Budget

The **budget proposes expenditures of <u>$668.9 million ($368.5 million General Fund), including $655.1 million for operation of the DCs and $13.8 million for state support, to serve 3,596 residents</u> who reside in the state Developmental Center system. <u>This reflects a caseload decrease of 71 residents and a marginal net decrease in funds of $428,000 as compared to the revised 2002-03 budget.</u>**

The total number of positions proposed for the Developmental Centers in the budget year is 8,662, a net decrease of 17 positions compared to the current year.

- Reduces by $6.7 million ($3.9 million General Fund) and 91 Level-of-Care staff and 8 Non-Level-of-Care staff based on the revised DC population level.

- Augments by $44.5 million (Public Building Construction Fund) for preliminary plans, working drawings and construction of a 96-bed expansion in the secured treatment area at Porterville Developmental Center. (To be discussed at a later Subcommittee hearing.)
- Augments by $5.7 million (Public Building Construction Fund) for preliminary plans, working drawings and construction of a recreation complex in the secured treatment area at Porterville Developmental Center. (To be discussed at a later Subcommittee hearing.)
- Provides an additional $406,000 ($237,000 General Fund) and five new state positions to complete investigations of consumer safety at the DCs in a timely manner. (To be discussed at a ***later*** Subcommittee hearing.)

ITEMS FOR DISCUSSION

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 3,667 residents and that a **net reduction of 71 residents will occur during 2003-2004 for a year-end population of 3,596 residents (as of June 30, 2004). This population includes 414 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 2003-04 Population	Change from Current Year
Agnews	433	-21
Canyon Springs	58	8
Fairview	783	2
Lanterman	629	-11
Porterville	818	-33
Sierra Vista	56	3
Sonoma	819	-19
TOTALS	**3,596**	**-71**

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 about $428,000 (increase of $1.9 million General Fund, decrease of $2.3 million in Medi-Cal reimbursements, and $67,000 in federal funds) due to a projected decrease of 71 residents at the DCs.** This funding estimate assumes **a decrease of 17 positions** (i.e., a decrease of 6 Level-of-Care positions and decrease of 11 Non-Level-of-Care positions). **Based on the CDER process, the residents continuing to reside at the DCs will require more intensive care.**

Based on the proposed population adjustment, **the *baseline budget* for the DCs is a total of $653.7 million ($360.2 million General Fund, $290.8 million in Reimbursements—mainly federal Medicaid funds from the DHS--, $2.1 million Lottery Fund, and $633,000 other federal funds) for 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 proposal.
- **2. When will Canyon Springs be certified by the DHS** so the DDS may receive federal reimbursements for this facility?

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

2. *Bay Area Project and Future Closure of Agnews*

Background—Continual Decline in the DC Population and Closure of Two DCs: As noted above, the population at the DCs has been declining over the past ten years. **California completely closed two DCs-—Stockton and Camarillo—and closed the West campus at Agnews in the early to mid-1990's. These closures required considerable planning, community resource development, and most importantly—person centered planning to provide for consumer and family choice in selecting the most appropriate living environment, as well as service supports.**

Through these closures and consumer transitions, many lessons have been learned on how to effectuate transition to the community. **Planning every detail of the transition and working closely with consumers, their families, local constituency groups and other interested parties is one of the most critical aspects. As such, the Legislature requires the Administration to submit a report by April 1 of the year prior to closure of a DC (for example, April 1, 2004 would provide for closure by June 30, 2005) to facilitate public input into the process and to be an involved partner to ensure that appropriate resources and communication occur**.

Background—Existing Statewide Community Placement Plan (CPP) Process: 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 existing statewide **Community Placement Plan (CPP)** process **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).

Under the 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 are 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 Budget Proposal—Bay Area Project: The Administration **proposes to develop a strategic plan to among other things, develop community capacity and resources to facilitate the eventual transfer of individuals from Agnews DC to either an appropriate community setting or to another DC. The actual closure of Agnews would not occur until the end of June 2005, at the earliest.**

The DDS notes that the number of community placements that can be made is based on the individual needs of the consumer and the capacity of the community to provide the services and supports to meet those needs. This proposal would establish a project team to begin assessing available resources and identifying additional resources necessary to transition consumers. No additional funding is being requested for this purpose. All budget year expenditures would be absorbed within the Sacramento headquarters.

The DDS states that **the closure plan will aim to ensure the development and implementation of services and supports for individuals who would be placed in the community or in another DC. The plan will also address employment opportunities for staff and the disposition of the Agnews DC buildings and land. Other key aspects of the plan are to include:**

- Determining the feasibility of a **"Regional Service Hub"** that would utilize a cadre of clinical and professional staff to provide support to consumers in the community;
- Supporting the implementation of the Community Placement Plan in the Bay Area;
- Monitoring implementation of person-centered assessments for all consumers residing at Agnews; and

- Monitoring and assisting with all relocation activities of Agnews consumers residing at Agnews;

The DDS has established a Steering Committee & Project Team, as well as an Advisory Committee for the project. The Steering Committee & Project Team consists of a project team leader and assistant from the DDS, the Deputy Directors of the DC Division and Community Services Division, and the Executive Directors of the Agnews DC, Regional Center of the East Bay, San Andreas Regional Center, and Golden Gate. **The Advisory Committee** will provide input to the DDS regarding the development of all aspects of the closure plan. **The first meeting of the Advisory Committee was just convened on February 22, 2003.**

The DDS has also established **several Planning Teams**, including the following:

- **Agnews Staff Support Team:** Responsible for identifying supports and resources needed by Agnews employees to develop their personal plans to utilize their expertise in future employment opportunities and to assure the provision of staff support systems during the transition process.
- **Quality of Services Team:** Assures that Agnews continues to provide services consistent with the residents' needs.
- **Futures Planning Team:** Monitors the person-centered planning process that will result in the identification of a preferred future for each Agnews resident.
- **Community Development Team:** Coordinates the development of services and supports that will be responsive to the needs of Agnews' residents transitioning to community services.
- **Communication Team:** Designs and implements strategies to assure consumers, their families and other stakeholders are kept informed and have opportunities to provide input.
- **Business Management Team:** Identifies operational issues related to areas such as facility operations, construction projects, fiscal management and space utilization.

LAO Comment—Lanterman: The LAO concurs with the need to proceed with the closure of the Agnews DC. In addition, they contend that the state should begin planning for the closure of the Lanterman DC and that this facility should be closed within the next five years.

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

- **1.** Please provide **a brief summary** of the proposed project.
- **2. How will this project be *different* from other DC closures?**

Budget Issue: Does the Subcommittee **want to adopt the Administration's proposal to proceed with the development of a strategic plan, as well as all other aspects of the Bay Area Project?**

THIS IS THE LAST PAGE OF THE AGENDA

Senate Budget & Fiscal Review

Senator Wesley Chesbro, Chair

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

Senator Wesley Chesbro, Chair
Senator Gilbert Cedillo
Senator Tom McClintock
Senator Bruce McPherson
Senator Deborah Ortiz

Consultant, Ana Matosantos

Thursday, April 10, 2003
Upon Conclusion of Senate Floor Session
Room 4203

AGENDA – Part I

Pursuant to the Americans with Disabilities Act, individuals who, because of a disability, need special assistance to attend or participate in a Senate Committee hearing, or in connection with other Senate services, may request assistance at the Senate Rules Committee, 1020 N Street, Suite 255 or by calling 916-324-9335. Requests should be made one week in advance whenever possible.

4140 Office of Statewide Health Planning and Development

The Office of Statewide Health Planning and Development (OSHPD) develops plans, policies and programs to assist health care delivery systems in meeting the needs of Californians. OSHPD has four major program areas: (1) healthcare cost and quality analysis; (2) healthcare workforce development; (3) facility/hospital development, including Cal-Mortgage Loan Insurance; (4) health care information.

The OSHPD receives modest General Fund support. Special funds and fee revenues principally support the Office's activities. The budget proposes to reduce OSHPD's funding by $2.3 million, the equivalent of a 4.1 percent reduction. It essentially eliminates the General Fund contribution to the Office.

Summary of Expenditures (dollars in thousands)	2002-03	2003-04	$ Change	% Change
General Fund	$4,725	$0	-$4,725	-100.0
Federal Trust Fund	1,499	1,285	-$214	-14.2
Special Funds	44,607	48,724	4117	9.2
Reimbursements	4,577	3,118	-1,459	-31.8
Total	$55,408	$53,127	-$2,281	-4.1

ITEMS FOR DISCUSSION:

1. Family Physician Training Program

Background: **The Song-Brown Family Physician Training Program seeks to increase the number of general practice health care providers by providing clinical training opportunities to physician residents, physician assistants and family nurse practitioners.** Song Brown currently funds 40 institutions that provide clinical training to approximately 403 family practice providers each year.

In 2001-2002 Song Brown providers served approximately 350,000 patients from underserved areas of the state. These providers are a valuable source of health care services in rural California and low-income communities across the state. Song-Brown providers deliver primary care services in the majority of California's teaching hospitals, community health centers, and county facilities. They are 4.5 times more likely than the average physician to practice medicine in underserved areas of the state and generally choose to work in the community where they are trained.

The Song Brown Family Physician Training Program has traditionally been funded by the General Fund.

Governor's Budget: The **budget eliminates General Fund support for the program** for savings of $4.5 million **and offsets this reduction with revenue from a new surcharge** imposed on specific health care provider licenses. The Administration proposes legislation to establish a new surcharge equal to 12% of the existing initial or renewal fees required from licensed physicians, surgeons, podiatrists, osteopaths and registered nurses.

A recent Department of Finance Letter retracts the new surcharge proposal and requests that the Legislature amend the proposed budget to provide General Fund support for the program. The Department states that recent legal analysis of the proposal concludes that the proposed surcharge constitutes a tax.

Subcommittee request and questions: The Subcommittee has requested that the Office of Statewide Health Planning and Development answer the following questions:

1. Briefly describe the Family Physician Training Program services and outcomes.
2. Discuss the recent legal analysis of the proposed surcharge.
3. Has the Administration considered other fee proposals to generate non-General Fund support for the program? For example, has the Administration considered raising licensee fees and requiring that the licensing entities dedicate the new revenues support Song Brown activities.

Budget issue: Does the Subcommittee wish to amend the proposed budget to provide $4.5 million General Fund for the Family Physician Training Program?

2. Health Professions Career Opportunity Program

Background: **The Health Professions Career Opportunity Program (HPCOP) seeks to increase the number of health professionals who work in underserved communities.** It provides recruitment and mentoring services to undergraduate students from underrepresented minorities and disadvantaged backgrounds to encourage their participation in the health care arena.

The 2002-2003 Budget included $87,000 in reductions. It eliminated support for "Health Pathways" a publication for high school students and graduates, counselors and healthcare career recruiters. It also reduced from 14 to 8 the number of grants provided to academic institutions for training inidividuals for a career in health care.

Governor's Budget: The **budget proposes to eliminate the HPCOP program** for savings of $142,000 in the budget year. It also proposes implementing legislation to eliminate statutory references to the program.

Subcommittee request and questions: The Subcommittee has requested that the Office of Statewide Health Planning and Development answer the following questions:

1. Briefly describe the HPCOP program services and outcomes.
2. Discuss any other state resources or activities dedicated to increasing the participation of underrepresented minorities in health care.
3. Discuss the potential impact of the proposed elimination on the availability of health care providers in underserved areas and the participation of underrepresented minorities in the health care arena.

Budget issue: Does the Subcommittee wish to adopt the proposed reduction and statutory elimination of the program?

3. Status of Rural Health Care

Background: **The confluence of events affecting health care access in rural areas**, including reductions in health care funding, HMO pullouts and provider shortages, **prompted the Legislature to require OSHPD and the Rural Health Policy Council to examine the financial health and programmatic stability of rural hospitals and health systems.** The Budget Act of 2002 required that OSHPD, in conjunction with the Rural Health Policy Council's preparation of its annual report to the Legislature, provide to the Legislature the following information:

1. The financial health of rural hospitals and health systems.
2. The role that the Capital Outlay for Rural Health Systems, the Small Grants to Rural Health Systems for uncompensated health care, and the Rural Health Demonstration Projects have played in past years to assure adequate access to health care services in rural areas.
3. Special challenges faced by rural hospitals and health systems due to seismic requirements, Health Insurance Portability Act requirements, changing federal and insurance market practices, and other issues.
4. Possible assistance that might improve the fiscal and programmatic stability of rural hospitals and health systems.

The report was due to the Legislature in February 2003. It will be delayed as it is still in the Administration's review and approval process.

Subcommittee request and questions: The Subcommittee has requested that the Office of Statewide Health Planning and Development answer the following questions:

1. Briefly provide an update on the status of the required report.
2. Discuss the report's findings and the impact of additional health care budget reductions on the status of rural health care.
3. Discuss some of the assistance that may improve fiscal and programmatic stability.

4. Emergency Department and Ambulatory Surgery Center Outpatient Data

Background: Senate Bill 1973, Chapter 735 of the Statutes of 1998 **required that OSHPD implement a new program and automated system to collect and disseminate data on patients discharged from certain health care facilities by 2001.** Assembly Bill 3050, Chapter 351, Statutes of 2002, **extended the deadline to collect and disseminate outpatient data from all of California's emergency departments and ambulatory surgery centers to 2004.** When the new outpatient reporting system is developed and implemented OSHPD will collect 11.3 million additional records. The system and expanded data collection is intended to improve California's ability to make informed health care policy decisions.

Governor's Budget: The budget **proposes an increase of $450,000 to support the required data collection. Existing health care facility fee revenues will fund the proposed increase.** The funding will support facility compliance and outreach, regulation formation, fee collection processes, and the development of outpatient data products.

Budget issue: Does the Subcommittee wish to approve the proposed increase?

5. Bateson Building Security Contract

Background: The OSHPD, Department of Mental Health, Department of Developmental Services and the Health and Human Services Agency occupy the same building and rotate responsibility for serving as custodian of the building's security contract. OSHPD will assume responsibility for entering the contract for the next three years.

A recent Department of Finance letter requests that the Legislature amend the budget bill to increase OSHPD's spending authority by $225,000 to finance the security contract.

Budget issue: Does the Subcommittee wish to approve the requested increase in expenditure authority?

5175 Department of Child Support Services

The Department of Child Support Services (DCSS), established as of January 1, 2000, administers the child support enforcement program operated by local child support agencies. The Department provides state direction to assure that child support amounts are established, collected, and distributed to families, including securing child and spousal support, medical support, and determining paternity. The Department continues to have responsibility for addressing federal fiscal sanctions related to California's failure to develop a single statewide automation system. The department oversees local program and fiscal operations, administers the federal Title IV-D state plan for securing child support, and establishes performance standards for California's child support program.

Since its inception the department successfully transitioned all local child support programs out of district attorneys offices into stand alone departments 6 months ahead of schedule, converted all local programs onto federally approved interim automation systems, developed regulations and adopted initiatives aimed at statewide uniformity in the collection of child support and improved customer service. **The department has also increased collections from $1.85 to $2.26 billion.**

The budget anticipates collections of $2.34 billion in the budget year. The department's overall budget decreases by $17.8 million (1.5 percent). General fund contributions to the department increase by $5.15 million.

Summary of Expenditures (dollars in thousands)	2002-03	2003-04	$ Change	% Change
General Funds	$465,023	$470,172	$5,149	1.1
Federal Funds	406,484	388,597	-$17,887	-4.4
Reimbursements	443	443		
Child Support Collection Recovery Fund	310,243	305,148	-$5,095	-1.6
Total	$1,182,193	$1,164,360	-$17,833	-1.5

1. Program performance

Background: In 1999, **the Legislature enacted and the Governor signed Senate Bill 542 (Burton) and Assembly Bill 196 (Kuehl) to significantly reform California's child support system.** The measures sought to improve system accountability to children and their custodial and non-custodial parents, increase enforcement of child support and medical support orders, increase collections and assure statewide uniformity in the operation of child support programs. **The legislation established the State Department of Child Support Services to administer and perform necessary functions to establish, collect and distribute child support.** The measures also mandated the establishment of local child support agencies and required the state department to develop uniform policies and procedures to govern local child support programs.

Since its establishment in 2000, the department has worked to develop and improve California's child support infrastructure, ensure statewide uniformity in the child support program and improve program performance. Specifically, the department has:

- Transitioned local child support programs from local district attorneys offices to independent local child support agencies, accomplishing this goal by July 1, 2002, six months prior to the Legislative deadline.
- Developed and adopted uniform policies, procedures and regulations to govern local child support programs, including regulations on establishment and enforcement of support orders, financial administration and complaint resolution.
- Converted local automation systems into one of six federally approved systems.
- Worked to develop the federally required statewide child support automation system.
- Developed and begun implementation of a Quality Assurance and Performance Improvement Program.

California has generally improved its performance on all federal outcome standards, although performance continues to vary significantly among counties. The federal standards consider paternity establishment, establishment of child support orders, collections on current orders, past-due collections and cost-effectiveness. In the 2002 Federal Fiscal year, **California met the performance thresholds or minimum performance standards for all federal performance measures except for cost effectiveness.** Failure to meet the cost effectiveness standard was due to a reporting error in Federal Fiscal Year 2000.

California performed significantly above the national average on the establishment of paternity and percent of cases with a child support order. California's performance is about the national average on collection arrears and the state's performance on cost-effectiveness and on current collections is significantly below the national average. California's current collections in the 2001 Federal Fiscal Year was 41 percent compared to the national average of 56 percent. Similarly California collected $2.60 per each dollar expended on collection efforts compared to the national average of $4.18. Preliminary data for the 2003 Federal Fiscal Year reflects an increase in current collections to 43.8 percent in the first quarter. The budget assumes a ratio of $2.44 in collections for each dollar spent on collection activities.

California's collections in the budget year are estimated to exceed $2.3 billion.

Subcommittee request and questions: The Subcommittee has requested that the Department of Child Support Services respond to the following questions:

1. Briefly discuss program performance on the federal and state outcome measures.
2. Discuss county variances in program performance and the state's efforts to assure statewide uniformity in program implementation.
3. Discuss the state's efforts to improve program performance.

2. Enforcement of Medical Support Orders

Background: Federal and state laws **require the establishment of medical support orders** as a component of child support orders in all child support cases. **Medical support orders essentially obligate the non-custodial parent to contribute to a child's health care costs generally by enrolling the child in the non-custodial parent's health insurance plan** if such coverage is available to the parent. According to the Department of Child Support Services, county workers routinely obtain medical support orders as a component of child support orders.

DCSS considers the establishment and enforcement of medical support orders as a core activity performed by counties when processing child support cases. **DCSS reports that California ranks 3rd among the ten largest states in obtaining medical support orders and has the highest percentage of cases where health insurance is actually obtained.**

Senator Jackie Speier, as chair of the Select Committee on Government Oversight, has identified a mechanism that may increase enforcement of child support orders and result in considerable Medi-Cal and Healthy Families program savings. Specifically, Senator Speier reports that Texas and Massachusetts have supplemented their efforts to enforce medical support orders which has generated tens of millions in savings due to increased enrollment of children in their non-custodial parent's health insurance and lower utilization of public health insurance programs.

Massachusetts and Texas use ACS, a national collection company, to match files of Medicaid recipients, children in the child support enforcement system, non-custodial parents, and medical insurance policies. ACS asserts that they perform these functions with no up-front state investment. They collect a contractually established fee when the child is enrolled in the private health insurance plan.

ACS estimates that California may generate savings of $110 million ($55 million General Fund) by utilizing the company's services. ACS argues that by using its services California will successfully enroll tens of thousands of children currently served by public programs in to private health insurance programs. It will also provide the DCSS relevant data to modify support orders in cases with no provisions for medical support, and report to DCSS employer data found in health insurance policy files.

The Department of Child Support Services, the Department of Health Services (DHS) and the Department of Finance have examined the ACS proposal and concluded that it underestimates the initial costs associated with utilizing ACS' services and substantially overstates the potential savings of the proposal. The Administration's review concluded that the state already aggressively enforces medical support orders and that the DHS matches Medi-Cal enrollment with private insurance files to assure the state is the payer of last resort. As a result many (up to one half) of the matches ACS projects may involve parents whose health insurance has been considered and determined not to be enforceable due to limitations of the employer's health care coverage, or limitations on the amount of support that can be collected from obligors. The Administration also points out that ACS overestimates the Medi-Cal cost per child. Lastly, the Administration states that Medi-Cal savings would be offset by needed enhancements to local child support agency automation systems and increased local agency staff costs estimated to exceed 1 to 5 million dollars.

Governor's Budget: The **budget assumes savings of $3.7 million General Fund due to the suspension of county incentives for transitioning children into private health insurance programs**. The **budget also assumes savings from DHS matches of Medi-Cal enrollment with private insurance files and the resulting reimbursements.**

Subcommittee concern and questions: The Subcommittee has requested that the Department of Child Support Services answer the following questions:

1. Discuss California's activities to enforce medical support orders, the number of orders enforced on an annual basis and the level of savings assumed as a result of these activities.
2. Are additional savings to be realized from increased enforcement of medical support orders through mechanisms such as those identified by Senator Speier's Committee?
3. Discuss the programmatic and fiscal impact of increasing enforcement of child support orders through contract services or other mechanisms.

Budget issue: Does the Subcommittee wish to require the department to utilize contract services or other mechanisms to enforce medical support orders?

3. Local Child Support Administration – Issues "A", "B" and "C"

Overall Background: **Local child support agencies are responsible for the administration of child support programs at the county level and perform functions necessary to establish and collect child support.** Their program activities include establishing child support cases, establishing child support orders, collecting current and past-due child support, and enforcing medical support orders.

Local agencies are also required to implement customer service initiatives developed by the DCSS in response to system reform legislation that sought to increase system responsiveness to custodial and non-custodial parents and improve program performance. Among the initiatives developed by the DCSS and implemented by counties since 2000 are (1) an ombudsperson program, (2) informal inquiry and response timeframes, (3) a complaint resolution and state hearing process, (4) training, (5) a statewide outreach program, and (6) quality assurance and program improvements.

California provides baseline compensation to counties at a level comparable to 13.6% of the estimated level of collections adjusted to reflect county expenditures and available General Fund resources. This compensation is supported by General

Fund dollars and federal incentive funds. It constitutes the state's contribution for child support administration and is subject to a federal match of 2 to 1.

The Department of Child Support Services generally bases specific county baseline allocations on historic county spending, as such baseline allocations vary across the state. This baseline county funding supports core child support activities including the establishment of paternity, current and past due collections and program performance improvements. It also provides additional resources to support statewide initiatives designed to improve customer service and program performance.

The Department of Child Support Services allocates resources for administration of local child support programs in a lump sum and does not control county expenditures for program activities and for child support initiatives. County compensation is not based on an analysis of actual expenditures, estimated staff time to meet program requirements, or costs of the different child support activities. This budgeting methodology makes it difficult for the Legislature to track expenditures per program activity.

Overall Governor's Budget: The **budget provides $825 million total funds for local child support administration.** These funds are comprised of $598 million in federal funds, $227.1 million in state general funds, and $53.6 million in federal incentive funds.

Issue "A" – Proposed Reduction of Local Agency Assistance

Governor's Budget: The **budget reduces by $108.8 million ($37 million General Fund) funding for local child support agencies**. The proposed budget maintains counties at their 2001-02 actual expenditure levels and reduces the total allocation for local agency assistance by an additional $40 million.

During the first two years of the DCSS' operation, counties expended significantly less than their budget appropriation. As a result, the department augmented investments in initiatives designed to improve program performance and reverted back to the General Fund a significant amount of funds allocated to counties. It reverted to the General Fund $30.5 million in 2000-01 and $20.9 million in 2001-02.

Some county programs write in opposition to the proposed reduction and argue it will result in county layoffs and decreased collection efforts. **The department states that it will work with counties to target funding reductions to areas that will cause the least disruption to child support collections, establishment of paternity and improving program performance.**

Subcommittee request and concerns: The Subcommittee has requested that the Department of Child Support Services answer the following questions:

1. Discuss the impact of the proposed reduction on collection of child support and performance on the federal child support standards.
2. How will the department assure that reductions are targeted to local spending on initiatives and not disrupt critical child support functions?

Budget issue: Does the Subcommittee wish to approve the proposed funding for local child support agencies?

Issue "B" - Suspends Local Agency Performance Incentives

Background: Current law provides for incentives to be paid to local child support agencies to fund 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 rankings of the federal performance measures.

During the past two fiscal years California has suspended operation of the new performance incentive program which saved $2 million General Fund.

Governor's Budget: The **budget proposes to suspend the Improved Performance Incentives for the next three fiscal years for savings of $3 million General Fund.** This proposal would suspend the incentives until the 2006-07 fiscal year.

Subcommittee request and questions: The Subcommittee has requested the Department of Child Support Services to answer the following questions:

1. Briefly describe the role of the Improved Performance Incentives.
2. What is the relationship between the state and federal focus on program outcomes and the state's county reimbursement structure?
3. How might the suspension of incentives affect program performance?

Budget issue: Does the Subcommittee wish to approve the proposed suspension of Local Agency Performance Incentives?

Issue "C" - Local Agency Assistance Funding Methodology and Budgeting Display

Background: **California provides baseline compensation to counties at a level comparable to 13.6% of the estimated level of collections adjusted to reflect county expenditures and available General Fund resources.** This baseline county funding supports core child support activities including the establishment of paternity, current and past due collections and program performance improvements. It also provides additional resources to support statewide initiatives designed to improve customer service and program performance.

The Department of Child Support Services allocates resources for administration of local child support programs in a lump sum and does not control county expenditures for program activities and for child support initiatives.

Baseline county funding for the implementation of local child support programs is established according to a statutory incentive formula based on child support collections. It is not based on an analysis of actual expenditures, estimated staff time to meet program requirements, or costs of the different child support activities. Individual county allocations are generally based on historic county expenditures and vary across the state.

The budget display reflects the department's funding methodology. It does not identify the state's specific investment in core child support services and in additional initiatives designed to improve program performance.

The local agency assistance funding methodology and budgeting display makes it difficult for the Legislature to determine the actual costs of operating an effective child support program, track expenditures by program activity, and assure the program's cost effectiveness.

The Legislative Analyst's review of the department's budget concludes that the existing budgeting display provides insufficient information to determine which aspects of the program, including the various initiatives, are being augmented or reduced. Further, the Analyst writes that the impact of any budget change to the program cannot be measured because there is no established cost for the core program. The Analyst argues that without separate tracking of expenditures it becomes impossible for the Legislature to determine (1) the cost of the initiatives and (2) the degree to which counties are implementing the recommended initiative programs.

The Analyst recommends that the Legislature direct DCSS to (1) revise its budget display to separate the funding for basic administration and initiatives; and (2) base the core administrative budget on actual county expenditures, estimated workload changes, and any cost of doing business increases. The Analyst also developed, as a legislative budget option, a reduction of $24.6 million to local child support department compensation for further curtailment of the child support initiatives in the budget year.

Subcommittee request and questions: The Subcommittee has requested that the Legislative Analyst discuss her analysis and her recommendation.

The Subcommittee has also requested the Department of Child Support Services to answer the following questions:

1. Discuss your existing funding methodology and budgeting display.
2. How does the department determine the level of funding necessary to support an effective child support program?
3. How does the department monitor county expenditure of program funds?
4. How does the department assure that funds are expended for essential program functions first and that the intended level of funding is used for the implementation of initiatives?
5. How does the department assure program cost effectiveness?

Budget issue: Does the Subcommittee wish to require the department to revise its budget display? Does the Subcommittee wish to otherwise modify the department's funding methodology and proposed funding level?

4. Alternative federal penalty

Background: 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.

As a result of the state's failure to implement a statewide automated child support system, California has been subject to significant federal penalties since 1997. The penalties are based on a percentage of administrative expenditures of federal funds on state child support collection activities. California is now penalized at the maximum percentage of 30%. California will pay $188.2 million in the current year in federal penalties. The budget assumes that the state will pay $207.1 million in penalties in the budget year. The state's 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 federal dollar.

The federal penalties have been back-filled with state General Fund dollars rather than passed through to the local child support agencies that operate the program.

Last year, Congressman Matsui authored legislation to reconstruct the federal penalty formula. The legislation would have changed the formula to determine the federal penalty to consider the 1997 Federal Fiscal Year state program expenditures and to allow states to reinvest the penalties back into their child support programs and automation efforts. The legislation was supported by the National Conference of State Legislatures, the National Governors Association and had 34 co-sponsors. Unfortunately for California, the measure was not heard. California continues to seek reform but is not optimistic that the federal penalty system will be modified.

California has focused on and created a new plan for statewide automation, including development of the California Child Support Automation System (CCSAS) project by DCSS and FTB. The CCSAS Project consists of the procurement of two major systems: the Child Support Enforcement (CSE) and the State Disbursement Unit (SDU). The department has completed the development of the CSE's business requirements, the procurement process, contract negotiations, and feasibility study. DCSS is hopeful it will receive federal and state approval for the CSE. The current schedule anticipates a contract award by July 1st for development of the new system. **The negotiated contract price for development of the new system amounts to $900 million payable over eight and a half years. The estimated costs for development of the new system in the budget year is estimated at $50.5 million General Fund.**

The negotiated contract for the development of CSE contains the following key features:

- Establishes shared risk partnership with California and IBM for the development and implementation of a single statewide child support system.
- Reflects a performance-based compensation approach, which makes payment contingent on the achievement of specific outcomes including certification of the system by the federal government, increased worker effectiveness, improved customer service, system maintainability and implementation.
- Establishes two stages for development of the system working to meet federal standards for certification necessary by September of 2006. In the first stage the contractor will develop a statewide database that will link together the ARS and CASES consortia to provide statewide functionality. In the second stage the contractor will further develop the system to include case management and financial accounting functions to establish the full statewide system.

The DCSS and FTB have completed the following activities for the SDU procurement: completion of service requirement definitions, development of the request for proposals; and identification of potential business partners. They plan to procure this project in time to assure completion by September 2006.

Subcommittee request and questions

1. Briefly describe the history of the penalties and the status of California's alternative federal penalty
2. Describe the proposed new system, its design and structure.
3. Discuss the negotiated contract structure, including compensation requirements
4. Discuss the project's timeline for meeting federal requirements.
5. Discuss the status of the federal and state review and approval process.
6. What is the estimated fiscal impact in the budget year of the development of the new automation system?

Budget issue: Does the Subcommittee wish to approve the proposed payment of the alternative federal penalty?

5. County share of cost for alternative federal penalty

Background: Since 1997, California has been subject to substantial federal penalties due to the state's failure to establish a single statewide system for the collection of child support by the federal deadline. **Current law provides for payment of the penalty through a reduction in the federal funds for state and county administration of the child support program.** Since 1997, California has waived the mechanism for paying the penalty with state and county child support program funds. The state has appropriated General Fund dollars to pay for the penalty and has continued to fully fund program administration. Last year, the Governor proposed a 50 percent county share of cost of the alternative federal penalty payable with county general funds.

Governor's Budget: The budget **proposes a 25 percent county share of the alternative federal penalty and assumes a $51.8 million contribution from counties for payment of the penalty.**

Counties strongly oppose this proposal and argue that it will adversely affect the ability of counties to pay for other costs such as the provision of child welfare services. They state that the penalty is based on the state's failure to establish a single statewide system for the collection of child support and that state automation is outside county control. Counties assert that state law already provides a mechanism for paying the penalty with program administration funds and that a 25 percent share of cost would constitute a significant hardship to counties.

Subcommittee request and questions: The Subcommittee has requested that the Department of Child Support Services briefly describe the proposal and its rationale.

Budget issue: Does the Subcommittee wish to approve the proposed county share of the alternative federal penalty?

6. State Administrative Hearings

Background: California's child support reform legislation enacted in 1999 included a series of initiatives designed to improve services available to custodial and non-custodial parents and increase system accountability. **One of the enacted reforms required the establishment of a state hearing process to consider specified issues brought forth by custodial and non-custodial parents.** Parents can use the state hearing process if an application for child support services has been denied or not acted upon within the required timeframes, if a case has been acted on in violation of a state or federal law or regulation, if child support collections have not been distributed or have been distributed incorrectly, or if they disagree with an agency's decision to close a case.

The Department of Child Support Services contracts with the Department of Social Services to conduct state hearings. The departments estimate that workload for conducting state hearings will increase. **The Department of Finance has submitted a recent letter requesting that the Legislature augment by $2 million funding for state administrative child support hearings.**

Subcommittee request and questions: The Subcommittee has requested that the Department of Child Support Services briefly describe the program, the need for the augmentation, the impact of maintaining program funding at the current level and the effect of delaying the required state hearings.

Budget issue: Does the Subcommittee wish to approve the requested augmentation?

7. Federal fund authority for Franchise Tax Board Child Support Collections

Background: Since 1993, the Franchise Tax Board has been responsible for the collection of child support delinquencies. FTB developed the Consolidated Debt Collection System to accomplish this task. Over time, legislation mandated additional and different collection types of activities to also use this collection system. In 2002, the FTB developed the Child Support Replacement Project to move the existing child support functionality to a new platform with increased capacity.

A recent Department of Finance letter requests that the Legislature provide a $2.87 million augmentation of federal funds to fully support FTB's collection efforts and the recent Child Support Replacement Project.

Budget issue: Does the Subcommittee wish to approve the requested federal fund augmentation?

8. Transfer of Child Support Program Component

Background: The California Parent Locator Service (CPLS) and the California Central Registry (CCR) are two important resources local child support agencies use to find child support obligors. The Department of Justice currently administers these programs.

Governor's Budget: The **budget transfers responsibility for administering the California Parent Locator Service and the California Central Registry from the Department of Justice to the Department of Child Support Services.** The budget increases DCSS' spending authority by $1.3 million and decreases DOJ's funding authority by the same amount to effectuate this transfer.

Budget issue: Does the Subcommittee wish to approve the proposed transfer and funding shift for administration of the CPLS and the CCR from DOJ to DCSS?

Senate Budget & Fiscal Review

Senator Wesley Chesbro, Chair

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

Senator Wesley Chesbro, Chair
Senator Gilbert Cedillo
Senator Tom McClintock
Senator Bruce McPherson
Senator Deborah Ortiz

Thursday April 10, 2003
Upon Conclusion of Senate Floor Session
Room 4203

AGENDA – Part II

Consultant, Kimberly Collins

Pursuant to the Americans with Disabilities Act, individuals who, because of a disability, need special assistance to attend or participate in a Senate Committee hearing, or in connection with other Senate services, may request assistance at the Senate Rules Committee, 1020 N Street, Suite 255 or by calling 916-324-9335. Requests should be made one week in advance whenever possible.

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 office was to have replaced the internal audit function at DVA. DVA maintains two fully staff internal audit positions.

The Inspector General has responsibility for reviewing the operations and financial condition of the state's veterans' programs, including the State Farm and Home Purchase Program ("Cal-Vet") and the veterans' homes. The budget falls from $514,000 in the current year to $457,000 in the budget year, a 14 percent reduction.

Summary of Expenditures (dollars in thousands)	2002-03	2003-04	$ Change	% Change
General Fund	$423	$358	-$65	-15.4%
Special Funds	$91	$99	8	8.8
Total	$514	$457	-$73	-14.2%

Meeting the Office's Statutory Mission. The Inspector General has testified that he cannot meet his statutory mandates for independence and oversight at the funding level provided over the last two years.

Questions from committee:
- What is the department doing to meet it statutory mandates?
- Has there been steps taken to appoint an Inspector General?

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 $328 million in the budget year.

Table 1
Summary of Expenditures, by Program
Dollars in Thousands

	2002-03	2003-04	Dollar Change
California Veterans Board	(67)	(91)	
California Veterans Board	(67)	(67)	
Farm & Home Loans to Veterans	$219,847	$211,217	-$8,630
Veterans Claims & Rights	5,071	4,662	-$409
Care of Sick & Disabled Veterans	111,208	112,164	-$956
Farm & Home Loans to National Guard Members	78	85	-$7
Veterans' Memorials Fund	23	25	-$3
General Administration	-2,719	-2,747	-$28
Totals	**$336,093**	**$328,062**	**-$10,033**

Cashflow Report Update. The department has experienced significant cash management problems, and has sought short term loans to manage its budget. In recent years, the department has been unable to repay the loans. To help the Legislature monitor the department's cashflow, the Legislature required the department to report on cashflow twice yearly.

The first report, due on December 31 2002, states that all three homes will have a cash flow problem because Medicare and MediCal reimbursements are falling below budgeted levels. Further, the report shows that the department will be unable to pay back its 2002 loan.

The second report, due on February 28, 2003, has not been submitted. It is intended to help the Legislature assess the departments progress in collections since December.

Questions from committee:

- What is the department doing to increase the Medicare and MediCal reimbursements? When can the committee expect to receive the February report?

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:

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. 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.

The home expects to take out a loan for the current and budget years as well.
The department states in the December 2002 cash flow report that there will be a cash flow deficiency from all three homes.

Barstow will end the current year with both reimbursements and expenditures below budgeted authority but at a level that will result in a net cash deficiency.

Chula Vista will end the current year with expenditures below budgeted authority but at a level that will result in a net cash deficiency.

Yountville has two outstanding prior year loan balances. A fiscal year 2000-01 balance of $850,000 and a fiscal year 2001-02 balance of $7,000,000. The 2000-01 loan will continue to be paid down to an estimated $30,000. The department currently feels there is significant potential that it may be unable to pay-off the 2001-02 loan and that remaining payments will extend beyond the six-month repayment period specified in the Budget Act.
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.

- Budget bill language states that if the department cannot repay the loan within six months the department must identified a payment schedule for full payment of the loan. The department has not met this requirement. How will the department repay the loans?
- The department will not be able to repay it's 2000 and 2001 loans by June 30, 2003, It will seek forgiveness for these loans. How can the department assure the Legislature that it can repay the new request for $4.3 million since the department has not been able to repay loans in the past.

Report on Lags in Billings. The department has had difficulty securing reimbursement for the health services it renders. Some of the difficulties arise because the department has been late in making claims to insurance companies and the federal government. The department knows that as an account ages, the likelihood of collecting falls. In the recent past, the department has had significant lags in making claims. The Legislature, as a condition of appropriating funds for the homes, asked the department to report on its progress in making timely claims.

The report is late. Although department staff have said that DVA is making progress in reducing billing lags, without the report the Legislature cannot adequately assess the departments progress.

Supplemental report language states:
On or before December 15, 2002, the department shall report to the chair of the fiscal committee on the lags associated with collecting reimbursements. In particular, the department shall detail:

- The lags incurred between the rendering of services, making claims, and reimbursements received.
- Actions the department has taken to reduce lags since July 1, 2001.

- Actions the department intends to take in 2003 to reduce lags. The department shall identify the actions and the expected reduction in lags.

Internal Control System Update

Last year, the Department of finance was requested to do a State Audit to review 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.

Questions from committee:

- When can the committee expect the report from the Department of Finance?
- Describe to the committee what steps the department has taken to correct the internal control problems.

Departments Long Term Plans for Veterans' Homes

What are the departments future plans for veterans homes?
What are the departments future plans for the medical staff of the veterans homes?

Senate Budget & Fiscal Review
Senator Wesley Chesbro, Chair

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

Senator Wesley Chesbro, Chair
Senator Gilbert Cedillo
Senator Tom McClintock
Senator Bruce McPherson
Senator Deborah Ortiz

April 21, 2003

2:30 PM *or* Upon Adjournment of Session

Room 4203

(Diane Van Maren, Consultant)

Item	*Description*
4260	**Department of Health Services—*Selected Public Health Issues (as noted) and Serostim funding in the Medi-Cal Program***

Note: Only those items listed in today's agenda will be heard today. The DHS will be discussed again as **noted in the Senate File, including at the time of the May Revision.** Thank you.

Note: Today's Hand Out package primarily consists of the Administration's proposed trailer bill language. If you do not obtain a copy of this package today (limited copies available), please obtain copies of the Administration's proposed trailer bill language by contacting either the DHS or DOF directly. Thank you.

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4260 Department of Health Services—*Selected Public Health Issues*

ACTION ITEMS FOR CONSENT—Spring Finance Letters ***(Items 1 Through 3)***

General Public Information: The purpose of the Subcommittee process is to amend the Governor's proposed January budget as deemed appropriate. If an amendment is not taken on a particular issue as contained in the Governor's proposed January budget, the issue is, by the nature of the budget process, "approved as budgeted" for inclusion in the Budget Bill (in this case, the Senate version of the Budget Bill).

Spring Finance Letters are proposed amendments by the Governor to his January budget. If the Subcommittee adopts a Spring Finance Letter, it is included in the proposed Budget Bill. However if a Spring Finance Letter is not acted upon (i.e., no action) by the Subcommittee, the issue is not included in the Budget Bill. In other words, the Subcommittee must take an affirmative action on a Spring Finance Letter for it to be included in the Budget Bill (in this case, the Senate version of the Budget Bill).

1. Reversal of the Governor's Proposal Regarding Domestic Violence Prevention (Shifts GF back to the OCJP)

Governor's Proposed Budget and Finance Letter: The Governor's January budget for 2003-04 proposed to transfer $9.1 million (General Fund) in domestic violence prevention programs from the Office of Criminal Justice Planning (OCJP) to the DHS. **However upon this unveiling in January, it was realized that the proposal was premature.** Pursuant to Chapter 89, Statutes of 2002, the Secretary of the State and Consumer Services Agency is in the process of reviewing the services available to victims of crime on a statewide basis.

As such, the Administration is requesting to rescind its earlier budget transfer proposal through a Finance Letter. **Therefore, the $9.1 million (General Fund) proposed to be transferred to the DHS would be deleted and returned to the OCJP to continue to operate their programs for the budget year.**

Subcommittee Staff Comment: Subcommittee staff concurs with the Finance Letter and recommends its adoption.

2. Lung Disease and Asthma Research Pass-Through (Special Fund)

Background and Finance Letter: The DHS is requesting an **appropriation of $183,000 (California Lung Disease and Asthma Research Fund) to meet the mandates of AB 2127, Statutes of 2002.** These funds are obtained through a voluntary tax check-off. The requested appropriation will enable the DHS to disburse the funds as required to the American Lung Association of California. The American Lung Association of California may then use the funds to provide research grants to develop and advance the understanding, causes, techniques and modalities effective in the prevention, care treatment and cure of lung disease.

Subcommittee Staff Comment: Subcommittee staff concurs with the Finance Letter and recommends its adoption.

3. Electronic Death Registration (Special Fund)

Background and Finance Letter: Chapter 857, Statutes of 2002 (AB 2550, Nation), mandates the DHS to, among other things, develop and maintain an Electronic Death Registration System. AB 2550 provided for increased revenues for this purpose.

The Finance Letter is requesting legislative authority to appropriate **an increase of $2 million (Health Statistic Fund) in order to accomplish the design, development, implementation and training for the statewide conversion to an Electronic Death Registration System. As required by statute, the system is to be implemented by January 2005.** According to the DHS, the new system will provide timely death data, cross matching with birth certificates for anti-fraud purposes, allow online verification of decedents' social security number and allow online access to fact-of-death information within 24-hours of the occurrence of the death.

The DHS states that the project will be completed through an interagency service agreement with the University of California at Davis (UCD). Specifically, the UCD will design, develop and host the application, install the various servers and work closely with the DHS regarding security precautions. No one should be able to abscond with death or its data.

Subcommittee Staff Comment: The Subcommittee staff recommends approval of the Finance Letter. No issues have been raised for this special fund project.

ITEMS FOR DISCUSSION

1. AIDS Drug Assistance Program (ADAP) *(See Hand Out)*

Background--ADAP: The AIDS Drug Assistance Program (ADAP), established in 1987, is a subsidy program for low and moderate income persons (individual income cannot exceed $50,000) with HIV/AIDS who have no health insurance coverage for prescription drugs and are **not eligible** for the Medi-Cal Program. **There are about 26,000 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.

The DHS notes that ADAP has grown in response to (1) increased demand brought about, in part, by the development of new, more efficacious but costly therapies, (2) increased caseload, and (3) changes in drug utilization as therapies shift due to drug resistance over the course of treatment as individuals live with AIDS.

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, most recently, Ramsell Corporation has successfully completed the second year of a five-year contract with ADAP. Presently there are about 300 ADAP enrollment sites and about 3,100 pharmacies available to clients located throughout the state.

Governor's Proposed Budget: **Total ADAP funding is proposed to be $186.4 million ($60.5 million General Fund, $92.6 million federal Ryan White CARE Act Title II funds, $33.2 million in mandatory drug rebates from the manufacturers) for the budget year.**

The proposed budget reflects a *net increase* of $2.3 million (total funds) over the current year appropriation. This net increase consists of the following proposed components:

- Reduction of $7.2 million (General Fund) to reflect **implementation of the Administration's proposed copay legislation**;
- Increase of $8.3 million (General Fund) to make adjustments to the ADAP funding base;
- Increase of **$8 million *(one-time only)*** in drug manufacturer rebates, which have recently been collected, to offset General Fund support; **and**
- Increase of **$1.240 million in drug manufacturer rebates which will be on-going. This assumes that the DHS will be able to obtain an *average* rebate about 13 percent.**

The table below reflects the Administration's proposed actions:

Governor's Proposal	**General Fund**	**Federal Funds**	**Drug Rebates**	**New Copay Proposal**	**Total**
Budget Act of 2002	$67.4 million	$92.6 million	$24 million		$184 million
Increases	**$8.3 million**		**$9.2 million ($8 million is one time only)**		$17.5 million
Reductions	(-$15.2 million) ($8 million drug rebate & $7.2 million Copay)		($8 million offset to GF)	**($7.2 million offset to GF)**	(-$15.2 million)
Proposed 2003-04	**$60.5 million**	**$92.6 million**	**$33.2 million**	**Informational $7.2 million**	**$186.4 million**

<u>The Administration's copay proposal</u> would establish a <u>three-tiered income-based</u> system to require ADAP clients to <u>assume a copay obligation on a per prescription basis</u> ($30, $45 or $50 per script). ADAP clients with incomes of 200 percent of poverty or less would be exempt from the copay requirements. **Based on the information provided by the DHS, about <u>6,000 ADAP clients, or 24 percent of the total clients</u>, would be affected by the proposed Copay.**

Under the Administration's proposed copay mechanism, ADAP clients would pay the proposed copay directly to the pharmacy. The amount paid by ADAP to pharmacies would then be reduced by the copay amount. <u>Presumably, if the ADAP client does not pay their Copay for the prescription, the ADAP client will not obtain their medication.</u>

The table below outlines how the DHS derived its estimate of savings for the proposed Copay.

Poverty Level	Estimated Clients	Percent Of Clients	Estimated Scripts	Copay Per Script	TOTAL Estimated Copay
100% or less	10,851	43.41%	338,607	$0	$0
101% - 200%	8,151	32.60%	255,284	$0	$0
201% - 300%	3,708	14.83%	126,926	$30	**$3,807,790**
301% - 400%	1,930	7.72%	68,106	$45	**$3,064,768**
400% or more	269	1.08%	8,862	$50	**$443,077**
Unknown	90	0.36%	929	$0	N/A
TOTAL	**25,000**	**100.00%**	**798,713**		**$7,315,636 Maximum Level**

According to the DHS information **an *average individual* between 200 and 300 percent of poverty could be expected to pay *about $1,026 annually* for their prescriptions ($30 per). Using the sliding fee scale, an average individual between 300 and 400 percent of poverty would pay about $1,588 annually.**

Constituency Concerns: The Subcommittee is in receipt of several letters from HIV/AIDS advocacy organizations which oppose the Administration's Copay proposal. First, they note that while most Californians with health insurance have pharmacy copays as part of their health benefits plan, individuals with HIV/AIDS who qualify for ADAP have far more limited means and far greater medical needs than the average Californian. Second, they contend that the Copay would force some individuals to go without needed medications, or take medications irregularly leading to more of the disabling and costly conditions associated with full-blown AIDS. Further, it is believed that when clients choose between drugs, rent or food, **there will be decreased treatment adherence, and thereby potentially increasing individual and community drug resistance.**

Subcommittee Staff Comment—Options Other Than Copay May Be Available: The Governor's proposed Copay proposal seems particularly onerous given the level of copayment required—an ***average*** **of from $ 1,026 to $1,588—though it would be contingent upon the number of prescriptions one needs at any given point in time.**

It is interesting to note that under the Medi-Cal Program, Medi-Cal recipients are asked to provide a copay (from $1 to $3) for prescriptions; however, federal law precludes any Medi-Cal provider (pharmacist, physician or other practitioners) from denying a medical service due to any lack of copayment by the recipient. Therefore if an ADAP client (drugs only) becomes sick enough to qualify for Medi-Cal (generally the "disabled" category), they could not only receive their drugs, but all other needed medical services as well. As such, this proposal seems to go against one of the original tenants of developing the program—provide necessary drug assistance to uninsured, low-income HIV/AIDS diagnosed

individuals in order to facilitate these individuals to live productive lives, including working.

It should be noted that the federal government has recently notified California that an <u>additional $2.8 million in federal funds</u> is to become available through the Ryan White CARE Act allocations (done in March). These additional resources have not been captured in this ADAP proposal due to the timing and release of the Governor's budget. As such, consideration of these additional funds for ADAP needs to be considered at the May Revision.

<u>Additional options for generating resources should also be addressed</u>, such as reviewing the level of drug manufacturer rebates received from each of the manufacturers and evaluating if additional leverage could be applied. Further, additional program efficiencies should be considered prior to implementation of a Copay, such as more follow-up regarding third-party payer availability. Lastly, the Administration could opt to limit participation in the program such as by instituting waiting lists, placing caps on per-client drug costs, and/or implementing formulary restrictions are other options, though clearly difficult in their own way.

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

- **1.** Is it likely that California will be receiving **additional federal funds above the proposed budget level** for the ADAP for SFY 2003-04? **If so, what is the potential increased amount?**
- **2.** Please briefly describe how drug rebates are obtained. **Is it likely that additional drug rebates will be obtained in the budget year?**
- **3.** Please **briefly describe the Governor's Copay proposal.**
- **4.** Under the Administration's proposal, **would an ADAP client be denied their needed medications if the client were not able to pay the Copay?**
- **5. From a technical assistance perspective, please describe other cost containment measures that may be viable in order to reduce expenditures in ADAP.**

<u>Budget Issue:</u> Does the **Subcommittee want to request for the DHS to report back to the Subcommittee on additional cost-containment measures, and potential for increased drug rebates and federal funds in lieu of the Copay proposal?** If so, it is recommended to with hold action on this proposal pending receipt of the requested DHS information and the Governor's May Revision.

2. Limitation of Serostim (Medi-Cal Program)*)*

Background: Serostim **is a human growth hormone that is on the Medi-Cal Contract Drug List and also on the AIDS Drug Assistance Program (ADAP) formulary.** Generally, the drug is used to mitigate extreme weight loss due to a medical condition, particularly if an individual is experiencing HIV/AIDS wasting syndrome. The drug can also be misused by body builders and others who are not experiencing a medical condition.

Governor's Proposed Budget and Trailer Bill Language: The estimate for Medi-Cal assumes a **reduction of $7.5 million ($3.750 million General Fund) by limiting whom is eligible to prescribe the drug. Specifically, the DHS is seeking trailer bill language to limit the prescriber network to physicians who are HIV specialists.**

The Subcommittee has received two versions of the proposed trailer bill language—the original one was dated February , 2003 and a revised version is dated March 17, 2003 (in the Hand Out). However, the Subcommittee has been recently advised that the Administration is *rescinding all* previously proposed trailer bill language for they intend to put Serostim on 100 percent "prior authorization" *effective June 1, 2003*. The Administration notes that Section 51313.3 of W&I Code enables the DHS to place a "Code 1" restriction (i.e., must be prior authorized) on Serostim, as well as other drugs.

Subcommittee Staff Comment: Subcommittee **staff concurs with the need to more effectively control the utilization of Serostim** and agrees that the DHS has existing statutory authority to proceed with placing Serostim on 100 percent prior authorization. **However due to the proposed change in approach, it is recommend for the Administration to report back to the Subcommittee at the time of the May Revision on any additional cost savings which are attributable to proceeding with this new method of utilization control. Subcommittee staff would contend that this new approach should result in additional General Fund savings.**

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

- **1.** Please **provide a brief description of the Administration's revised proposal.**
- **2.** Is there **a consistent policy between the Medi-Cal Program and ADAP programs** regarding the prescribing and usage of Serostim?
- **3.** Does the **Administration have any intention of using identified savings from this proposal to off-set *any* expenditures in the ADAP?**

3. Governor's Proposed Public Health Realignment

<u>Governor's Proposed Budget—Summary Overall:</u> The Governor's proposed Realignment package consists of **four components in the health and human services area (over $7.9 billion), plus a court security plan for the Trial Courts ($300 million), for total expenditures of $8.2 billion.** The proposed new dedicated Realignment **revenues would stream from an increase in the Sales Tax (one percent), an increase in Personal Income Tax (10-11 percent bracket) and an increase in the Tobacco Excise Tax ($1.10 increase).**

The Administration proposes trailer bill legislation for each of these components. At this juncture, the language is crafted broadly to express the Legislature's intent to enact legislation to **(1)** transfer the specified program and its non-federal share of expenditures, **(2)** maintain state oversight of said programs, and **(3)** become operative only if dedicated revenues are enacted for this purpose.

The proposal assumes that 2003-04 fiscal allocations to counties would be based on the proposed level of funding for counties for each of the programs, absent Realignment, in order to avoid program disruptions in the budget year. However for 2004-05, the Administration assumes that a single allocation would be made to counties based on a formula to be developed through discussions. **As such, this would potentially serve as a type of "block grant" to the counties whereby the counties could conceivably shift funding across programmatic areas.**

<u>Governor's Proposed Public Health Realignment:</u> The Administration proposes to realign several programs **in the overall public health area for a total fund shift of $143.3 million (savings of $66.6 million General Fund, and a fund shift of $18.7 million in federal funds and $58 million in Proposition 99 Funds).**

This includes the following programs and their expenditures (total funds):

- Expanded Access to Primary Care(EAPC) — $30.3 million (total funds)
- Indian Health Program — $6.5 million (General Fund)
- Rural Health Clinic & Clinic Grants in Aid — $ 8.8 million (General Fund)
- Seasonal Agricultural & Migrant Workers Program — $ 6.9 million (General Fund)
- Adolescent Family Life Program — $22.2 million (total funds)
- Black Infant Health Program — $ 8 million (total funds)
- Local Health Department –Maternal & Child Health — $ 7.4 million (total funds)
- County Health Services Public Health Subvention — $ 2 million (total funds)
- California Healthcare for Indigent Persons Program — $46 million (Proposition 99)
- Rural Health Services — $ 4.3 million (Proposition 99)
- Managed Care Counties — $926,000 (Proposition 99)

Prior Subcommittee Hearings--Informational: It should be noted that the Subcommittee has convened two informational hearings regarding the Governor's realignment proposal. In both hearings considerable testimony was received regarding potential concerns if these public health transfers were enacted. In addition, the Subcommittee has already taken action to reverse the Governor's realignment proposal regarding mental health programs as well as Medi-Cal in order to have a level playing field from which to make determinations.

Subcommittee Staff Comment--Clinic Programs: The community clinic programs, including the EAPC, Indian Health, Rural Health Clinic, Seasonal Agricultural & Migrant Workers and Clinic Grants in Aid, are programs that provide funds to non-profit community-based clinics. **Generally, each of these programs operates through an application process whereby the DHS, using extensive clinic data, awards funding based upon patient levels of service, uncompensated care, level of historically under served populations and related factors. All of these programs are designed to provide assistance for underserved, often medically needy populations.**

These programs were never designed to be county-operated for several reasons. First, community-based clinics provide services to very low-income, uninsured individuals, including children, who have medical needs. These services are not county specific nor neatly bound by a geographic county line, for medical services are often regionally-focused and provided based on medical need and demand. **Second,** community-clinics are significant providers of health care to the uninsured in most counties, yet often receive a minor share of the county health care budget for their care. Therefore shifting funding may enable some counties to withdraw some portion of their own funds from this responsibility which would result in further erosion of safety net funding. **Third,** the programs allocate funds based upon data-driven needs. This requires the clinics who receive funding to analytically present their funding need. If these funds are transferred to the counties, the programs may end up being purely formula-driven and therefore, not responsive to changing demographics and medical service area needs. **It is recommended to not realign these programs.**

Subcommittee Staff Comment--Maternal & Child Health Programs: The Adolescent Family Life Program (AFLP) and Black Infant Health Program **are two highly successful, highly evaluated programs which have been in existence for numerous years.** Both programs utilize non-profit, community-based providers for services. Neither of these programs operate statewide. **Both serve selected, targeted geographic areas due to funding limitations and need.**

The AFLP provides counseling, education and support services for pregnant and parenting teens, including fathers, and their infants. **The Black Infant Health Program** conducts targeted, coordinated activities to address underlying causes of infant mortality, low birth weight and other poor reproductive health outcomes of high-risk African American women. The program also supports the development of projects that evaluate and refine effective models of practice in the areas of health behavior modification, prenatal care outreach, prevention, and the role of men in parenting. **It is one of the few state programs that directly addresses health disparities within the African American population.**

Both of these programs are operating well, have outcome measurements, utilize community-based experts and are not geographic-specific to counties. Further, the federal Title V Maternal and Child Health block grant funds require these programs to provide data and meet certain other federal requirements. These types of programs are more effectively operated with the state serving as the overall fiscal agent, not counties. **It is recommended to not realign these programs.**

***Subcommittee Staff Comment*--California Healthcare for Indigent Persons (CHIP) Program and Rural Health Services (RHS):** A key purpose of Proposition 99 funds is to fund medical services on behalf of those who are unable to pay. In addition, as directed by the Proposition itself, the **funds must be used to supplement and not supplant existing funding.** As such, the CHIP and RHS were initiated in 1989 as a legislative result of the passage of Proposition 99. **These two programs are intended to assist providers in funding their uncompensated care costs for providing needed health care services to indigent individuals.**

Existing state statute distributes Proposition 99 funds to the CHIP and RHS programs based on a formula which allocates moneys for hospitals, physicians and other types of providers for uncompensated indigent health care services. These funds are provider specific, not county specific. The funding for these two programs is small, not relevant to county boundaries and would require some modicum of additional monitoring (to determine supplementing versus supplanting) if passed to the counties. In addition, funding for both programs, particularly CHIP has significantly deteriorated over the past two years. For example, the Budget Act of 2002 appropriated a total of $89.7 million for CHIP whereas $46 million is proposed for 2003-04 for a reduction of over 52 percent. **It is recommended to not realign these programs.**

Budget Issue: Does the Subcommittee **want to reverse the Governor's proposed realignment** for the above specified public health programs in order to have a level playing field from which to make determinations?

4. Administration of the Rural Health Clinic Program, and Seasonal, Agricultural Migratory Workers Clinic Program—Contracts

Background: Existing statute provides for the Rural Health Clinic Program, and the Seasonal, Agricultural Migratory Workers Clinic Program. Both of these programs provide critical primary health care services to specified medically underserved populations.

For clinics to be eligible to receive grant funds under these programs, existing statute contains specific criteria that a clinic must meet. In addition, clinics are required by the DHS to (1) provide a scope of work for the grants, and (2) provide extensive data regarding the populations served, services provided and related information.

Currently, the DHS uses a Request for Application (RFA) process for these two grant programs. **Existing statute provides for the DHS to grant funding for *up to* three years per grant cycle. The current three-year grant cycle will end as of June 30, 2003.**

Subcommittee Staff Concern and Proposed Trailer Bill Language (See Hand Out): It has come to the attention of Subcommittee staff that it would be beneficial to modify existing Section 124555 and Section 124710 of W&I Code **to enable the DHS to provide for a minimum of three years for the grant period. As noted above, statute currently provides for up to three years. This change in statute would provide the DHS with the flexibility to extend grant agreements, if needed, on a temporary basis until such time that new RFAs can be completed and implemented.**

Undoubtedly this is a difficult budget year and the proposed Realignment of these two programs has added to the complexity of the decision making process as to how to proceed with the RFA. On the one hand if the programs are realigned, the DHS would need to potentially allocate funds to the counties for the clinics. On the other hand, Realignment may not occur and the DHS will need to be able to effectuate the RFAs as soon as feasible so the clinics can continue with their mission of providing health care coverage to underserved individuals. As such, the proposed modification would give flexibility to the DHS, if needed, as well as provide some assurance to the clinics that there will not be a gap in funding due to the lack of completion of any RFA process.

It should also be noted that funds for this program are, as always, contingent upon enactment of the annual Budget Act. The proposed language does not change that aspect.

Budget Issue: Does the Subcommittee want to adopt the proposed Subcommittee staff trailer bill legislation?

5. Child Health Disability Prevention Program and the Gateway—(*See Hand Out*)

Overall Background: The Child Health Disability Prevention (CHDP) Program **provides pediatric prevention 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 (Early Periodic Screening Diagnosis and Treatment—EPSDT).

CHDP services play a key role in children's readiness for school. All children entering first grade must have a CHDP health examination certificate or an equivalent examination to enroll in school.

The benefit package provided under the CHDP-only program is limited to providing a physical examination, nutritional assessment, vision and dental assessments, hearing assessment, laboratory tests and immunizations. 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 Healthy Families are primarily funded with General Fund support.

CHDP Gateway—Budget Act of 2002: Through the Budget Act of 2002 the Administration, working closely with constituency groups and the Legislature, **crafted a Gateway proposal whereby children eligible for the CHDP Program can be pre-enrolled in either Medi-Cal or the Healthy Families Program.**

The purpose of this Gateway was generally two-fold. First it was intended to transition eligible children into the Medi-Cal or Healthy Families Program so comprehensive health care coverage could be provided. Second, it was intended to reduce CHDP expenditures (100 percent General Fund support) and to have children correspond their health care visits with a specified periodicity schedule.

The CHDP Gateway was modeled after other programs that use an online electronic screening application at provider sites to link individuals to coverage. In essence, this technology allows providers to complete application forms using an internet-based process or a point of service device to transmit an application for program eligibility.

Generally, here is how the Gateway process will work:

- CHDP provider screens children for CHDP eligibility using the new electronic application.
- During the screening process, the family will be asked if they would like to apply for Medi-Cal or the Healthy Families Program (HFP).
- **Provider checks for child's existing Medi-Cal/HFP eligibility status** (the Medi-Cal Eligibility Data System—MEDS) to determine if the child is already covered by these programs. **If not, the Gateway process will determine "pre-enrollment" eligibility for temporary fee-for-service Medi-Cal coverage (maximum of 60-days).**

- **Pre-enrollment through the Gateway is completed if MEDS has no record for the child.** The Gateway creates a record on MEDS using the CHDP eligibility screening information and assigns the child a Client Identification Number. **Before leaving the provider's office, the child is given an "immediate need" document with a Medi-Cal Benefits Identification Card (BIC) number that allows them to access services immediately (for up to 60-days).**
- **In order to obtain continuing health care coverage, the family must complete a full application and continue with the applicable Medi-Cal or HFP process.** The DHS will mail the joint application to the family to complete prior to the end of the temporary 60-days fee-for-service coverage. A reminder notice will be sent by the DHS 15-days before the end of this temporary period, if an application has not been submitted.

Summary of Development of CHDP Gateway and Implementation: The DHS states that the Gateway **will be up and operational as of July 1, 2003. Many key components have been completed or are on schedule for completion.** System changes to add CHDP Gateway eligibles to the Medi-Cal Eligibility Data System (MEDS) have been proceeding well. CHDP local program training, provider training, and EDS internal system's training are being done or are scheduled. It should be noted that the last date for using the old CHDP paper forms will be September 30, 2003. After this point, everything will operate through the Gateway.

Governor's Proposed Budget—CHDP-Only (See Hand Out): The Governor's budget proposes total expenditures of $16 million ($6.2 million General Fund) for the CHDP-only program **which reflects a reduction of $85.6 million ($27.6 million General Fund) primarily due to implementation of the Gateway.** No one has raised any issues regarding this funding level, including the Legislative Analyst's Office (LAO). Further, it is consistent with the enactment of the Budget Act of 2002 and its accompanying trailer bill legislation.

Constituency Idea to Improve the Gateway—Deemed Eligible Infants: The DHS and constituency groups, including providers of services, have been working diligently through regular meetings of a CHDP Advisory Group. **Through this process, constituency interests have identified a few areas in which the CHDP Gateway could be improved. One of these areas of interest pertains to the enrollment of newborns through the Gateway process.**

While the Medi-Cal Program has existing statutory authority (Section 14011.4, of W&I Code) to perform the enrollment of newborns, the statutory authority of the CHDP Gateway is strictly limited to performing eligibility determinations for either the CHDP-Only eligibility or pre-enrollment eligibility funded either through Medi-Cal or the Healthy Families Program.

Based on technical assistance obtained from the DHS, to include newborn enrollment as part of the CHDP Gateway process an increase of $785,000 ($196,000 General Fund) is needed for 2003-04-- the first year expenditure which includes some one-time-only system development costs. *The DHS states that on-going expenditures would be $128,000 ($32,000 General Fund) annually.* As noted by the DHS, the establishment of this process is not expected to significantly change the services Medi-Cal pays for newborns.

In addition, statutory change would be needed (to Section 14011.4 of W&I code) to perform the newborn enrollment. Suggested language is as follows:

> Proposed New subdivision to Section 14011.4:
>
> "(b) In addition t the implementation of a program of pre-enrollment of children into Medi-Cal or Healthy Families programs as described in subdivision (a), the department may, at its option, use the electronic application described in subdivision (c) to also serve as a means to enroll newborns into the Medi-Cal Program as is authorized under 42 United States Code section 1396a(e)(4)."

Constituency groups note that by making this small modification to the Gateway, barriers to the enrollment of newborns would be low and infants would start to receive more timely health care coverage.

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

- **1.** Please **provide a brief summary as to how the CHDP Gateway will work**.
- **2.** Please describe **(from a technical assistance basis) what would be needed to include newborn enrollment into the CHDP Gateway.**
- **3. From a technical assistance basis, would this revision to the Gateway make sense to implement?**

6. Genetically Handicapped Persons Program (GHPP)—Local Assistance & State Administration *(See Hand Out)*

Background—Services Provided and Reimbursement: 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. **The services covered by the GHPP include all the medically necessary medical and dental services needed by the client, not just the services related to the GHPP-eligible condition. (GHPP differs from the California Children's Services (CCS) Program in that CCS covers only services related to the CCS eligible condition.)**

GHPP is suppose to be the "payer of last resort" (as a 100 percent General Fund program) meaning that third-party health insurance and Medi-Cal coverage are to be used first. GHPP authorized services are **reimbursed according to the following guidelines** established by the DHS:

- **For GHPP-only clients** (non-Medi-Cal eligible) with **no health insurance**, GHPP reimburses providers using **solely General Fund support at Medi-Cal fee-for-service rates with claims adjudicated through EDS (state's fiscal intermediary);**

- GHPP clients with health insurance are required to use their health insurance first before GHPP state support is used. **Providers are to bill third-party health insurance first for these clients;**
- **Medi-Cal clients enrolled in GHPP may be enrolled in Medi-Cal Managed Care plans *or* be in fee-for-service Medi-Cal and are provided assistance as follows:**
    - **Managed care Medi-Cal clients** are only eligible for GHPP special care center team assessment and evaluation services which are reimbursed fee-for-services. All other benefits are covered by the health plans under the managed care arrangement.
    - Fee-for-service Medi-Cal clients have services paid by Medi-Cal but are case managed by GHPP.

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.**

It should be noted that about 83 percent, or almost $30 million **of the total proposed expenditures for 2003-04 is needed for program clients with Hemophilia.**

Ever Increasing Expenditures for the GHPP: **Expenditures for the GHPP have been rapidly increasing over several years as noted in the chart below.** In fact, the program **increased well over 320 percent from 1996 to 2001** (the last year that actual expenditures are available).

Fiscal Year	Actual General Fund Expenditures
1996-97	$12 million
1997-98	$16.5 million
1998-99	$23.8 million
1999-2000	$34.9 million
2000-01	$31.2 million
2001-02	$38.8 million
2002-03	$32 million (plus $6.6 million in drug rebates)
2003-04	$28.5 million (plus $7.6 million in drug rebates)

According to the DHS, the primary reasons for the rapidly rising costs are:

- **Increases in blood factor expenditures for the hemophilia population which is due to conversion to more expensive manufactured recombinant factor products rather than less expensive plasma derivatives and more aggressive prevention and treatment interventions**;
- **Use of GHPP funds** to pay for services that **should have been paid by other third party payers because:**
    - Annual determinations of clients for the availability of other health care coverage are delayed for months or not done at all; and
    - Lack of staff to appropriately review provider claims for other third party sources of reimbursement by checking for the client's most recent information on insurance coverage if annual determination has been timely and completed;
- Inability to assess and collect client fees;
- Increasing enrollment of persons with marginally eligible conditions (i.e., clients who are not handicapped or even ill from their GHPP-eligible diagnosis).

Budget Act of 2002: Through the Budget Act of 2002, **authority was provided to the DHS to negotiate drug rebates for blood factor products under the GHPP (Section 125190 of Health & Safety Code).** Generally the language enabled the DHS to receive manufacturers' discounts, rebates, or refunds based on the quantities purchased under the GHPP. It is anticipated that $6.4 million in General Fund support will be obtained from this authority.

In addition under the Medi-Cal Program, the trailer legislation provided for contracting authority for medical supplies (Section 14105.3 of W&I Code). Generally, this language **granted the DHS authority to, among other things, enter into exclusive or nonexclusive contracts on a bid or negotiated basis** with manufacturers, distributors, dispensers, or suppliers of appliances, durable medical equipment, medical supplies and other product-type health care services and with laboratories for clinical laboratory services for the purpose of obtaining the most favorable prices to the state and to assure adequate quality of the produce or service.

Governor's Proposed Budget (See Hand Out): **The budget proposes expenditures of $36 million ($28.4 million General Fund, $160,000 enrollment fees and $7.4 million in drug rebates related to blood factor)** to provide treatment assistance to **about 910 average annual GHPP-only participants (an average annual cost of over $39,500 per case)**. **About 83 percent**, or almost $30 million **of the total proposed expenditures is needed for program clients with Hemophilia.**

The proposed budget reflects a *net* decrease of $2.5 million (decrease of $3.5 million General Fund and an increase of $1 million in drug rebate funds) over the revised current year budget.

In order to curtail expenditures, the Administration proposes the following adjustments:

- A **15 percent rate reduction (applies to 85 percent of the program base)**, effective July 1, 2003, for savings of **$4.2 million (General Fund);**
- An increase of $1 million, for a total of $7.4 million, **in drug rebates by contracting with all major blood factor manufacturers**;
- **Establishment of several cost contain measures as articulated in proposed trailer bill language**, **including implementation of utilization controls on blood factor products, assuring that other health care coverage is utilized prior to accessing the GHPP and implementing a more efficient system for the assessment and collection of client participation fees** for a total savings of $1 million (General Fund).

GHPP services affected by the proposed rate reduction include physician services, dental, orthodontia, pharmaceuticals, medical supplies, allied health professional services (for example vendored therapy), laboratory, and blood factor product. **The reduction will not** apply to inpatient services, outpatient services, hospice, and negotiated rate services such as some durable medical equipment.

In order to implement the above proposed changes, the DHS is seeking an increase to their state support budget by a total of $316,000 ($205,000 General Fund) proposed to be used as follows:

- **Hire three new positions**—Nurse Consultant II, Associate Governmental Program Analyst, and an Accounting Technician;
- **Contract with a consultant** for $100,000 ($61,000 General Fund) to **develop information and purchase pamphlets for clients on appropriate use of the GHPP**, **develop information and pamphlets for providers on appropriate claiming for blood factor**, **and assist with stakeholder meetings on revision and clarification of program eligibility regulations.**

The DHS states that a **Nurse Consultant II is needed to work collaboratively with hematology experts to develop authorization guidelines to assure blood factor is not being over prescribed by the GHPP special care centers or that expensive blood factor is being used when a less expensive product would be appropriate.** The proposed Nurse Consultant II would also review all GHPP requests for authorization of blood factor over $25,000. **In addition, this position would be used to revise existing GHPP regulations to more comprehensively define GHPP eligibility** and to articulate that services are to be available to those with severe illnesses who have exhausted all other affordable healthcare insurance options.

The proposed **Analyst position** would have responsibility to **(1) assure that annual determinations for the presence of other health care coverage were completed and that the information obtained is accurate and entered into the automated GHPP case management system**, and **(2) develop provider guidelines for blood factor providers on the appropriate billing of GHPP** to make certain that blood factor claims were being appropriately returned for insurance payment. **The DHS contends that a savings of five percent, or about $1 million**

(General Fund) would be achieved from these endeavors in the budget year, and about $2 million (General Fund) on an annual basis.

The proposed **Accounting Technician position would review all blood factor claims for a client and determine if other coverage is available. If so, the Accounting Technician would return the claim to the provider with instructions on billing the other insurance.**

Constituency Concerns: The Subcommittee has received information **expressing concerns with primarily three key components of the proposal—the 15 percent rate reduction, the contracting trailer bill legislation for the blood factor, and trailer bill language that provides the DHS with broad authority to contact out any service *(See Section 125190(a), page 7 of the Hand Out).***

Subcommittee Staff Comment: The conceptual framework proposed by the Administration to curtail expenditures in the GHPP makes sense. **It is suggested for the DHS, interested parties and Subcommittee staff to continue to work on trailer bill legislation regarding the contracting of blood factor products.**

However, the proposed trailer bill language that provides the DHS with broad authority to contract out any service, should be deleted. The budget identifies no savings from the proposed language and it is unclear as to what is intended.

Further, it is suggested to include the decision regarding the 15 percent rate reduction for the GHPP in tandem with the overall decision regarding the Governor's proposed 15 percent rate reduction under the Medi-Cal Program. (There needs to be consistency between programs and reimbursement levels for providers operating in both programs.)

With respect to the request for state staff, it is suggested to approve the three positions but to delete the $100,000 ($61,000 General Fund) for consultant services. The activities that would have been conducted by the consultant should be spearheaded by the GHPP **staff working collaboratively with associations and providers groups involved with issues that affect the GHPP client population, particularly those that pertain to the education and treatment of Hemophilia. The cooperation and assistance of interest groups is critical to the success of the proposed changes.**

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

- **1.** Please briefly **explain the 15 percent rate reduction** and for what specific services this reduction will be applicable.
- **2.** Please briefly **explain the drug rebate and contracting proposal, including the trailer bill language. How have recent meetings with interested parties progressed?**
- **3.** Please briefly **explain the other cost containment measures, including the proposed trailer bill language.**
- **4. Please briefly describe the need for the requested positions.**

7. California Children's Services Program—The Administration's Proposals

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**. **The CCS services must be deemed to be *"medically necessary"* in order for them to be provided.**

CCS depends on a network of specialty physicians, therapists and hospitals to provide medical care to financially eligible, enrolled children.

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).**

Children enrolled in the Medi-Cal and Healthy Families programs are deemed to automatically meet income eligibility requirements for CCS. About 75 percent of the children receiving treatment services, or about 134,000 CCS clients, are estimated to be enrolled in both CCS and Medi-Cal, whereas an estimated 13 percent are enrolled in both CCS and the Healthy Families Program. The remaining 12 percent or so are CCS-only individuals.

CCS is jointly 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.

Budget Act of 2000: Through the Budget Act of 2000, the CCS Program was provided a rate increase of 39 percent. Other than a five percent increase granted in 1999, no rate adjustment had been provided since 1982. **These rate adjustments resulted from data obtained from the Senate Office of Research and their comprehensive report on the program (published in 2000), plus rate analyses conducted by the DHS, as well as the American Academy of Pediatrics and specialty physician groups. As such, consideration of how the Administration's proposed 15 percent rate reduction would affect this program, needs to be given special consideration for conceivably, significant problems that were experienced previously, could potentially resurface if rates are reduced too signficantly.**

For example, it was documented that (1) many provider groups were having extreme difficulty retaining and hiring for pediatric subspecialty positions, (2) patients were experiencing tremendous waiting times to receive necessary subspecialty services (three months to a year depending on the service), and (3) patients in rural and suburban areas were having to travel long distances to find a doctor authorized by CCS.

<u>Governor's Proposed Budget (See Hand Out):</u> The budget proposes **total program expenditures of $141.4 million ($69.5 million General Fund, $61.5 million County Realignment Funds, $4.7 million federal Maternal & Child Health block grant funds, $2.6 million drug rebates, $260,000 patient fees, and $2.8 million other funds) for 2003-04.**

Key changes proposed by the Administration for CCS include the following:

- **Decrease of $3 million (General Fund) to reflect a 15 percent provider rate reduction effective July 1, 2003;**
- Implementation of **drug rebates for blood factor product for savings of $5.2 million ($2.6 million General Fund) effective July 1, 2003; and**
- **Establishment of several cost contain measures as articulated in proposed trailer bill language**, **including implementation of utilization controls on blood factor products.**

The Administration's proposals *generally* parallel the proposals contained under the GHPP (see item 6 in the Agenda, above). CCS services affected by the proposed rate reduction include physician services, dental, orthodontia, pharmaceuticals, medical supplies, allied health professional services (for example vendored therapy), laboratory, and blood factor product. **The reduction will not** apply to inpatient services, outpatient services (including CCS Special Care Center Services), hospice, and negotiated rate services such as some durable medical equipment.

The proposed trailer bill language for blood factor and other cost containment measures also is the same as for the GHPP.

In order to implement the above proposed changes, the DHS is seeking <u>an increase to their state support budget of a total of $405,000 ($234,000 General Fund).</u> The requested increase is to be used for **five new positions--**a Pharmaceutical Consultant II, two Associate Governmental Program Analysts, an Accounting Technician, and an Associate Information Systems Analyst.

The DHS states it intends to develop, implement, and operate a rebate/contracting program for drugs, medical supplies and durable medical equipment for CCS and GHPP in tandem with and parallel to the Medi-Cal Program.

They contend the positions are needed as follows:

- ***<u>Pharmaceutical Consultant II (Medi-Cal Program):</u>*** Among other things, this position will negotiate with manufacturers for CCS/GHPP drug rebates, and develop and oversee the fiscal intermediary'' development of the system changes necessary to operate a rebate system.
- ***<u>Associate Governmental Program Analyst (Medi-Cal Program):</u>*** Among other things, this position would coordinate the rebate program based on negotiated CCS/GHPP rebate contracts including oversight of invoicing and manufacturers' rebate payments, development of procedures and resolution of payment disputes.
- ***<u>Associate Governmental Program Analyst (CCS Program):</u>*** Among other things, this position would be responsible for (1) analysis of current product utilization by manufacturer, (2) provision of information on specific CCS and GHPP programs' operations in terms of

drug utilization, providers and claims processing and, (3) development of outreach materials and training of CCS providers and programs to assure maximum use of drugs subject to rebates when clinically appropriate.

- ***Accounting Technician (DHS Accounting Section):*** Among other things, this position would be responsible to identify the CCS/GHPP rebate checks, photocopy and route to the proper state accounting (CALSTARS) code for deposit, perform accounting functions related to tracking of claiming reimbursements from drug companies, and assign the appropriate distribution to county CCS programs and the state GHPP.
- ***Associate Information Systems Analyst (Medi-Cal Program):*** Among other things, this position would be responsible for oversight of the system changes needed to implement rebating for the CCS and GHPP programs through use of the existing DHS Rebate Accounting and Information System (RAIS). This system will allow for the automated generation of invoices for rebates due and tracking of invoice payments. This position will be responsible for ongoing performance monitoring of the RAIS as it pertains to CCS/GHPP.

Subcommittee Staff Comment: As **noted under the GHPP comments**, it is suggested (1) for the **DHS, interested parties and Subcommittee staff to continue to work on trailer bill legislation regarding the contracting of blood factor products, *and* (2) to delete the trailer bill language that provides the DHS with broad authority to contract out any service.**

Further, it is suggested to include the decision regarding the 15 percent rate reduction for the CCS in tandem with the overall decision regarding the Governor's proposed 15 percent rate reduction under the Medi-Cal Program. (There needs to be consistency between programs and reimbursement levels for providers operating in both programs.)

With respect to the requested staff positions, it is suggested to (1) approve the Associate Governmental Program Analyst for the Medi-Cal Contracting Section, the Pharmaceutical Consultant II to negotiate with the manufacturers for CCS and GHPP drug rebates and the Accounting Technician position, (2) redirect an existing Associate Governmental Program Analyst position within CCS to analyze product utilization and perform other functions, and (3) delete funds and position authority for the remaining two requested positions (i.e., the Associate Information Systems Analyst and the Associate Governmental Program Analyst).

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

- **1. Please briefly describe the various aspects of the proposal.**
- **2. Please briefly describe the need for the requested positions. Please also describe why these five positions are needed in addition to the three positions requested under the GHPP proposal.**

8. Update on the Nine West Settlement Agreement & the Administration's Proposal on Gynecologic Cancer Information

Background—Nine West Settlement (Gynecologic Cancer Information Component): Through a nationwide class action settlement agreement (State of Florida, et al., versus **Nine West** Group, Inc.), **California received $2.9 million in funds (one-time dollars for expenditure through 2006)** for several programs, including law enforcement, domestic violence shelters, breast cancer **and gynecological cancer information.**

Existing statute provides for certain settlement funds to be placed into **non-budget-act special accounts. As such, the DHS funds were placed into a special account for expenditure.**

Of the amount the DHS received, **$500,000 was identified for expenditure for Gynecologic Cancer Information. The Nine West Settlement stipulated that funds *(Phase I)* were to be used to development a series of fact sheets and pamphlets to educate women about gynecological cancer, and pay for translation and field testing of the materials in six languages. In addition, it would also serve to encourage grants from other sources to fund physician education, public education and outreach *(Phase II)*.**

The Settlement also provides that any remaining unspent settlement funds, as well as interest, shall be directed to the Gynecologic Cancer Information program for use in Phase II activities. Information obtained from the DHS shows that about $62,000 in interest has been earned and that $130,000 in unexpended funds is available.

The DHS Office of Women's Health is utilizing these funds to complete a variety of activities, including (1) revising the English brochure, (2) translating and focus testing of brochure into Spanish, Vietnamese, Chinese, Korean, Cambodian, Hmong, Russian, Farsi, and Armenian, (3) printing and stocking the brochures, and (4) marketing and distributing the brochures to health care providers and others.

Governor's Mid-Year Reduction & Section 3.90—Eliminated Gynecologic Cancer Information Funding: The Governor's Mid-Year Reduction proposed to eliminate $150,000 (General Fund), as well as the statute, for the Gynecologic Cancer Information program. Though the Legislature rejected this proposal, **the Administration proceeded to eliminate the $150,000 (General Fund) through the DHS' Section 3.90 process.**

Under Section 3.90 of Chapter 1023, Statutes of 2002 (a trailer bill to the Budget Act of 2002), authority was provided to the Administration to reduce state support expenditures. Specifically, it required the Administration to reduce by up to 5 percent appropriations for state operations.

The DHS was allocated, by the Administration, a support reduction of $7.072 million. As part of this reduction, the DHS identified the $150,000 for Gynecologic Cancer Information for reduction. In mid-February, the DOF directed the State Controller to implement all Section 3.90 reductions. As such, the funds were eliminated.

Subcommittee Staff Comment: Due to the elimination of General Fund support and the availability of special fund moneys, it is suggested to appropriate $192,000 (special funds) to the Gynecological Cancer Information Program in the Budget Bill. This program corresponds to the requirements of the Nine West Settlement and it would make sense to appropriate the funds.

Budget Issue: Does the Subcommittee **want to appropriate $192,000 (special funds) in available Nine West Settlement funds for the Gynecologic Cancer Information Program?**

9. Richmond Laboratory Information Technology Support

Background: The Richmond Laboratory is a state of the art laboratory that was dedicated in April 2001. The Richmond Laboratory represents the consolidation of seven decentralized laboratories. This laboratory serves as major support for local, state and federal agencies that have public health and environmental enforcement roles. **DHS' laboratory services programs provide analytical, diagnostic, developmental, evaluative, epidemiological, reference, quality control, education, training and consultative laboratory services.**

The DHS states that the laboratories have both special needs and obligations with regard to information, data processing, and security requirements. They note that the laboratories require up-to-date information technology infrastructure and support at the Richmond campus. **They further articulate that the laboratories will produce information and databases upon which public and environmental policy is developed and through which regulatory action is taken to protect and promote public and environmental health. Finally, they note that the research performed at this campus is also a critical component in the department's ability to respond to bioterrorism threats.**

Governor's Proposed Budget: The budget proposes **an increase of $1.6 million ($864,000 General Fund, $254,000 in federal funds and $512,000 in various special funds) to connect some of the laboratory staff to the Local Area Network (LAN)/Wide Area Network (WAN) environment which, according to the DHS, provides access to departmental e-mail, calendars, servers, and program data.** It also provides access to health-related resources at the state's data centers, the internet, and connectivity to other state, federal, county, and local entities.

Specifically, the $1.6 million ($864,000 General Fund) request is for the following:

- $630,000 Network equipment
- $350,000 Servers
- $302,000 Installation and project management
- $348,000 Ongoing data center network and support

Subcommittee Staff Comments: Due to the lack of General Fund resources and the difficult choices regarding direct health care services, Subcommittee staff suggests to **(1) approve the request, minus the $864,000 in General Fund support**, and **(2)** direct the DHS to review the availability of other funding sources that may be suitable for this purpose, such as other federal funds for bioterrorism, or other special funds. **If the DHS identifies other applicable funding sources, they may inform the Subcommittee at May Revision for further consideration.**

Senate Budget & Fiscal Review
Senator Wesley Chesbro, Chair

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

Senator Wesley Chesbro, Chair
Senator Gilbert Cedillo
Senator Tom McClintock
Senator Bruce McPherson
Senator Deborah Ortiz

Consultant, Ana Matosantos

Thursday, April 24, 2003
Upon Conclusion of Senate Floor Session
Room 4203

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5180 DEPARTMENT OF SOCIAL SERVICES

The Department of Social Services administers various programs designed to enable low-income aged, blind and disabled individuals to live independently and healthily, and to assist low-income families with children in attaining self-sufficiency by transitioning from welfare to work. The programs include CalWORKs, California Assistance Program for Immigrants, California Veterans Cash Benefit, In-Home Supportive Services and Supplemental Security Income/State Supplementary Payment. These programs serve approximately 2.8 million persons each year. The Governor's Budget provides $15.1 billion in combined federal, state and county funds to support these programs.

Summary of Expenditures (dollars in thousands)	2002-03	2003-04	$ Change	% Change
Program				
CalWORKs	5,614,994	4,803,693	(811,301)	-14.4
CAPI	102,218	95,311	(6,907)	-6.7
California Veterans Cash Benefit	4,133	3,340	(793)	-19.2
In-Home Supportive Services	2,629,046	3,152,781	523,735	19.9
SSI/SSP	7,536,525	7,026,165	(510,360)	-6.8
Total Program Expenditures	$15,886,916	$15,081,290	-$805,626	-5.1
Fund Source				
State funds	6,112,470	3,891,652	(2,220,818)	-36.3
Federal funds	8,022,077	7,307,560	(714,517)	-8.9
County funds	186,992	905,730	718,738	384.4
Reimbursements	1,565,377	2,976,348	1,410,971	90.1
Total	$15,886,916	$15,081,290	-$805,626	-5.1

I. California Work Opportunity and Responsibility to Kids (CalWORKs)

Background: The California Work Opportunity and Work Responsibility to Kids (CalWORKs) program implements in California the Temporary Aid to Needy Families (TANF). TANF, the federal welfare reform law of 1996, ended the federal welfare entitlement, introduced work participation requirements, provided services designed to support employment, and gave states block grant funding and program flexibility. CalWORKs, California's TANF program, became operational January 1, 1998.

The CalWORKs program provides eligible low-income families monthly cash benefits and a range of services, including employment services, childcare, and substance abuse treatment and mental health services, designed to support employment and assist families in moving to self-sufficiency within time limits imposed by federal and state law. It requires participants to meet work participation requirements as a condition of receiving aid and sets a 60-month lifetime limit on aid for adults in the program, unless they meet specified exemption criteria. CalWORKs operates under guidelines set at the federal and state levels.

CalWORKs is overseen by the California Department of Social Services and administered locally by counties. Counties are provided a block grant and given substantial flexibility to design and carry out the program within the state and federal program guidelines. Counties develop employment preparation and family support programs that reflect local conditions, including labor market information and availability of services for low-income families. County staff determine eligibility for the program, provide case management for recipients, including the development of welfare-to-work plans and referrals for services such as mental health and substance abuse treatment, domestic violence services, learning disability screenings, training, child care, housing assistance, and transportation. While state law establishes eligibility requirements, counties are given considerable flexibility to design welfare-to-work services.

The CalWORKs program has transitioned 450,000 families, over 46 percent of its 1994-95 caseload off public assistance. Families that have transitioned off welfare tend to face fewer barriers to employment than those that remain on the program. Former welfare recipients tend to be younger, to have smaller families and are more likely to speak English as their primary language than current welfare recipients. Most former recipients are employed in the service industry. Their average annual earnings are $15,000 and their incomes appear to be increasing modestly over time.

Over 50 percent of current CalWORKs recipients are employed yet they remain eligible for the program as their incomes are low. Families currently on CalWORKs tend to face multiple barriers to employment, including caring for a disabled child, speaking a primary language other than English, and having a limited educational attainment. A growing portion of the CalWORKs caseload is comprised of child-only cases.

CalWORKs has successfully transitioned most of its 1994-95 caseload into employment. CalWORKs is now working to transition families with multiple barriers to employment off public assistance. It is focusing on these challenging cases at the same time that the state faces a significant economic slowdown and rises in the unemployment rate. Additionally, the program faces the prospect of significant federal law changes as Congress is expected to reauthorize welfare reform this year.

Federal TANF law expired in 2002. Congress enacted a one-year extension and is currently considering multiple reauthorization proposals. Congress may increase work participation requirements, reduce the number of allowable work activities and establish special programs to encourage family building. Congress may also reduce the amount of TANF block grant funds available to states. These impending federal law changes may significantly affect CalWORKs.

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 $2.9 billion. The state share is based on historic spending on welfare in 1994, with downward adjustments if certain work participation goals are achieved.

The Governor's Budget provides $5.6 billion to fund for the CalWORKs program in the budget year. This constitutes a $811 million, or 14 percent decrease in CalWORKs expenditures from the current year. The budget reduces general fund expenditures on CalWORKs by $500 million or by 24 percent.

A. CalWORKs caseload

(1) Overall caseload

Background: CalWORKs provides cash benefits and welfare-to-work services to children and their parents or caretaker relatives who meet specified eligibility criteria including having a family income below the CalWORKs maximum aid payment, having less than $2000 in resources, and having a car valued at $4,650 or less. The average family of three must have a monthly income below $949 or 75 percent of the federal poverty level to be eligible for CalWORKs. CalWORKs recipients are required to participate in welfare-to-work activities and perform a minimum of 32 hours of work activities per week to remain eligible for benefits.

The CalWORKs program is in its sixth year of operation and enjoys a relatively stable caseload. The program has successfully transitioned 46 percent of its 1994-95 AFDC caseload off public assistance. CalWORKs is now focusing efforts on serving parents with multiple barriers to employment and adapting to a growing proportion of child only cases.

Governor's Budget: After years of decline, the Department of Social Services **estimates that CalWORKs caseload will increase by 1.9 percent in 2002-2003 and .8 percent in 2003-2004.** The budget assumes that the average monthly caseload will be 517,472.

The Legislative Analyst's review concludes that the Governor's Budget significantly overestimates CalWORKs caseload. The Analyst estimates that CalWORKs caseload costs will be approximately $250 million lower in 2002-03 and $100 million less in 2003-04, for a total of $350 million (federal TANF funds) over the two-year period.

Subcommittee Concerns and Questions: The Subcommittee has requested the Department of Social Services and the Legislative Analyst to answer the following questions:

1. Briefly discuss your caseload estimate
2. How does your estimated caseload compare to recent actual caseload data?
3. What is the effect of rising unemployment on the ability of welfare recipients to obtain employment? What is the resulting effect of unemployment on caseload?

(2) 60-month time limits

Background: TANF and CalWORKs establish a 60-month lifetime limit for receiving CalWORKs assistance for adults, unless they meet specified exemption criteria, such as being a victim of domestic violence, being disabled or being over 60 years of age. Upon reaching their time limit, parents are discontinued from aid. Most families continue to receive a safety net grant, which excludes the adult from the grant unit.

Parents began reaching their TANF time limit in December of 2001. Since CalWORKs was implemented 13 months after California began receiving TANF funds, parents began reaching their CalWORKs time limit in January of 2003. Initial estimates of the number of parents who would reach their time limit in the current year exceeded 100,000. Recent estimates project that fewer parents will reach their time limit as they choose to leave the program prior to being discontinued, transfer to different programs (SSI) or are exempted from the requirements.

Governor's Budget: The **budget estimates that** in the current year and budget year **69,200 and 47,100 cases will reach their TANF time limit and 56,700 and 100,600 parents will reach their CalWORKs time limit**. The budget assumes $221.3 million in savings for reduced CalWORKs assistance payments as a result of parents reaching their CalWORKs time limit.

The Department of Social Services is currently working with county welfare departments to re-examine the estimated number of parents who will reach their time limits in the current year and the budget year. County data suggests that the Governor's Budget significantly overestimates the number of parents who will reach their lifetime limit.

Subcommittee Concerns and Questions: The Subcommittee has requested the Department of Social Services to answer the following questions:

1. Briefly discuss your estimate of the number of parents who will reach their lifetime limit in the current and budget years.
2. How does the budget estimate compare to the analysis you have been conducting in partnership with counties? How does it compare to actual caseload data?
3. How does your new analysis affect the Governor's Budget CalWORKS caseload estimate?

The Subcommittee has requested that the Legislative Analyst answer the following questions:

1. Briefly discuss your estimate of the number of people who will reach their lifetime limit in the current and budget years.
2. How does your estimate compare to recent actual caseload data?
3. What is the effect of a lower amount of parents reaching their time limits on your over budgeting of caseload?

(3) Prospective Budgeting

Background: California is one of only eight states that requires CalWORKs and food stamps recipients to report on a monthly basis changes in their income and eligibility. The state and the federal government permitted counties to require quarterly reporting from beneficiaries. However, few counties exercised this option.

State and federal officials believe that monthly reporting greatly contributes to California's high food stamps error rate. 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 also if the monthly report is not processed on a timely basis. In addition to resulting in significant workload to counties, monthly reports deter eligible people from accessing services.

Assembly Bill 444, Chapter 1022 of the Statutes of 2002 required California to implement prospective budgeting/quarterly reporting for CalWORKs, Food Stamps and the California Food Assistance Program. The implementation of prospective budgeting is expected to reduce California's food stamps error rate, result in significant administrative savings and lead to modest increases in caseload.

The Department of Social Services has been working with stakeholders and the federal government to develop the new reporting system and obtain the necessary approvals to implement prospective budgeting. Due to delays in the federal approval of the proposed methodology, implementation of prospective budgeting has been delayed. The Governor's Budget assumes that the new system will be in place by September 2003.

Governor's Budget: The budget estimates that prospective budgeting will result in county fund savings of $9.2 million for food stamps administration and $56.3 million TANF/MOE savings for CalWORKS administration offset by a $113 million TANF/MOE increase for grant payments.

Subcommittee Concerns and Questions: The Subcommittee has requested the Department of Social Services to answer the following questions:

1. Briefly discuss the status of development and implementation of the new prospective budgeting system.
2. What is the estimated caseload impact of the new system?

B. Grants Levels

Background: CalWORKs provides monthly cash assistance to eligible children and their parents or caretaker relatives. A family's grant depends on its size, available income and resources. Grants also depend on the cost of living of the area in which the family resides.

The Department of Social Services, pursuant to state law, develops a CalWORKs grant schedule which sets standards based on family size for the two regions of the state. The current maximum grant for a family of 3 on CalWORKs is $679 per month. The annual income of a family of 3 receiving food stamps and the maximum CalWORKs payment is $11,760 or 77 percent of the federal poverty level.

Current law provides an annual cost of living adjustment of CalWORKs grants effective October 1st. The cost of living adjustment of CalWORKs grants is based on the California Necessities index. Last year's budget delayed provision of the 2002 CalWORKs COLA until June 1st. Under current law, the maximum aid payment for a family of 3 will increase to $729 in October 2003.

Governor's Budget: The budget **proposes (1) to suspend CalWORKs cost of living adjustments for the current year and the budget year and (2) to reduce CalWORKs grants by 6.2 percent, for savings of $487.6 million ($80 general fund).**

The following chart illustrates the effect of the Governor's proposals on CalWORKs grant levels:

	January 2003	June 2003	July 2003	October 2003
CalWORKs Grant Current Law	$679	$704	$704	$729
Governor's Budget	$679	$679	$637	$637
Change from Current Law	$0	-$25	-$67	-$92
Change from Current Grant			-$42	

(1) CalWORKS cost of living adjustment suspension

Background: Current law provides an annual cost of living adjustment for CalWORKs grants that is based on the California Necessities Index. The scheduled cost of living adjustments will increase the maximum CalWORKs grant from $679 to $729 in the current and budget years.

Governor's Budget: The **budget suspends the 2002-2003 and 2003-2004 cost-of-living adjustments (COLA) for the CalWORKs program to realize savings of $252.4 million in the budget year, $80 million of which are estimated general fund savings.**

Suspension of the cost-of-living adjustment will maintain grants at their current level and will not keep pace with cost of living increases such as rising housing costs. Opponents of this reduction argue that this proposal will result in significant hardship to low-income families without resulting in general fund savings.

(2) CalWORKs grant reduction
Background: The current CalWORKs grant schedule provides that the maximum grant for a family of 3 on CalWORKs is $679 per month. The annual income of a family of 3 receiving food stamps and the maximum CalWORKs payment is $11,760 or 77 percent of the federal poverty level.

Governor's Budget: The **budget reduces the maximum aid payment under CalWORKs by approximately 6.2 percent to $637 for a family of 3. This proposal generates non-general fund savings of $235.2 million.**

The budget reduces CalWORKs grants for an average family of 3 by $42 per month. The reduction will be partially offset by a $19 increase in monthly food stamps benefits. An average family of 3 with no earned income will experience a decrease in their income from 77 to 75 percent of the federal poverty level or from $980 to $957 per month.

CalWORKs recipients expend their grants to pay for rent, clothing and other necessities. They expend most of their grant on rent and utilities. According to the U.S Department of Housing and Urban Development, Fair Market Rents for a one-bedroom apartment in California average $657 per month and range from $406 in Modoc to $1535 in San Mateo, $764 in Los Angeles, $564 in Riverside, $934 in Orange and $972 in Santa Cruz. **Since 1990 rent prices have increased by 36 percent and the purchasing power of a CalWORKs grant has declined by 26.1 percent.**

In addition to reducing the resources of families on CalWORKs**, the proposed grant reduction will make some families ineligible for the program.** These families may lose their grants and lose supportive services.

The families that become ineligible for CalWORKs as a result of the proposed grant reductions are most likely headed by adults that have been participating in welfare-to-work activities and who are actively employed. These families are most likely receiving small grants and services to support the parent's continued employment. The budget does not estimate the number of families who will become ineligible as a result of the proposed grant reductions.

The proposed grant reductions may lower the statewide CalWORKs work participation rates. Families who become ineligible as a result of grant reductions are most likely working and contributing to California's work participation rates. The termination of aid to families that are working, combined with effects of working families reaching their time limit, may result in lower work participation rates. Lower work participation rates may in turn increase the federally required state match by $187 million and may result in federal penalties. The Budget does not estimate the impact of the grant reductions on California's work participation rates.

Subcommittee requests and questions: The Subcommittee has asked the Department of Social Services to answer the following questions:

1. Briefly describe the proposed CalWORKs COLA suspension and grant reduction.
2. How will these proposals affect low-income families participating in CalWORKs?
3. How many families will become ineligible for CalWORKs as a result of the proposed grant reduction?
4. How will the families that become ineligible for CalWORKs be affected by the proposed reduction? Will they lose services that support their continued employment?
5. What steps will you take to assure these families continue receiving supportive services and are able to retain their employment?
6. How will the proposed grant reduction affect California's ability to meet federal work participation requirements?

C. CalWORKs Employment Services and Administration Funding

Background: County welfare departments are responsible for the local development and implementation of CalWORKs. They receive a block grant from the state and are given substantial flexibility to design and carry out the CalWORKs program within the state and federal program guidelines. Counties develop and implement employment preparation and family support programs. County staff members determine eligibility for the program, provide case management services, develop welfare-to-work plans, and provide referrals for services such as child care, housing assistance and transportation.

California provides counties a single allocation block grant to fund CalWORKs Stage 1 childcare, employment services, transportation and program administration. Program administration funding supports eligibility determination, case management services, fraud prevention, and issuance of grants. Counties have some flexibility to move funds from one type of expenditure to another within their single allocation.

County single allocations were established during the implementation of CalWORKs and were based on each county's estimate of the level of funding necessary to fully fund their CalWORKs program. The allocations were reviewed and adjusted to reflect actual costs in the 1998-99 and 1999-00 fiscal years. California maintained counties at their 2000-01 level in subsequent years. The Budget Act of 2002 provided a one-time $128 million increase to the employment services component of the single allocation.

Governor's Budget: The budget **(1) suspends county cost of doing business adjustments; (2) reduces single allocation funding due to the implementation of prospective budgeting and the impact of time limits on caseload; and (3) provides a one-time funding increase for employment services.** The budget also proposes to realign a portion of CalWORKs employment services and administration.

(1) County Cost of Doing Business Adjustment

The **budget provides $1.75 billion to fund the delivery of CalWORKs services, childcare and CalWORKs administration.** This amount reflects a $438 million decrease in local assistance. **The proposed compensation for county services is based on 2000-01 county costs and does not include a cost-of-doing business adjustment.**

(2) 60-month time limits

Background: TANF and CalWORKs establish a 60-month lifetime limit for receiving CalWORKs assistance for adults, unless they meet specified exemption criteria. Upon reaching their time limit, parents are discontinued from aid and generally become ineligible for program services. Parents began reaching their TANF time limit in December of 2001 and their CalWORKs time limit in January of 2003.

Governor's Budget: The budget estimates that in the current year and budget year 69,200 and 47,100 cases will reach their TANF time limit and **56,700 and 100,600 parents will reach their CalWORKs time limit**. The budget **reduces CalWORKs Services and Stage 1 childcare funding by $342.2 million** as a result of parents reaching their CalWORKs time limit.

The Department of Social Services is currently working with county welfare departments to re-examine the estimated number of parents who will reach their time limits in the current year and the budget year. County data suggests that the Governor's Budget significantly overestimates the number of parents who will reach their lifetime limit.

Additionally, the budget's estimated savings are based on the average cost per case and may not reflect actual county practices. Counties report that parents reaching their time limits generally need less case management services than parents who remain on CalWORKs. Also, parents reaching their time limits tend to be employed and have children served by the Stage 2 child care program. Counties believe that savings due to time limits are significantly overestimated and will lead to inadequate county compensation.

Subcommittee Concerns and Questions: The Subcommittee has requested the Department of Social Services to answer the following questions:

1. Briefly discuss the projected effect of time limits on county funding for CalWORKs services and administration.
2. How do the budgeted savings compare to recent analysis of the number of parents who will reach lifetime limits and county service delivery practices?

(3) Prospective Budgeting

Background: California is one of only eight states that requires CalWORKs and food stamps recipients to report on a monthly basis changes in their income and eligibility. These 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 also if the monthly report is not processed on a timely basis. State and federal officials believe that California's high food stamps error rate, which has resulted in significant federal penalties, is largely due to the state's monthly reporting requirement.

Assembly Bill 444, Chapter 1022 of the Statutes of 2002 required California to implement prospective budgeting/quarterly reporting for CalWORKs, Food Stamps and the California Food Assistance Program. The implementation of prospective budgeting is expected to reduce California's error rate and result in significant administrative savings.

The Department of Social Services has been working with stakeholders and the federal government to develop the new reporting system and obtain the necessary approvals to implement prospective budgeting. The Governor's Budget assumes that the new system will be implemented by September 2003.

Governor's Budget: The budget estimates that prospective budgeting will result in CalWORKs, Food Stamps and CFAP administration savings of $75.2 million in the budget year.

Due to delays in the federal approval of the proposed new system, implementation of prospective budgeting/quarterly reporting has been delayed. Therefore, California will most likely not realize the total estimated administrative savings in the budget year.

Counties believe that the budget overestimates the administrative savings of implementing prospective budgeting. They argue that the budget does not consider the number of clients that will be required to report changes in circumstances during the quarter and the staff workload associated with these reports. Counties note that the budget does not provide resources to train staff and clients. The County Welfare Directors Association expresses concerns that reductions in administrative savings will undermine the effectiveness of implementing quarterly status reports.

Subcommittee Concerns and Questions: The Subcommittee has requested the Department of Social Services to answer the following questions:

1. Briefly discuss the status of development and implementation of the new prospective budgeting system.
2. Briefly discuss the impact of implementing prospective budgeting on state and county workload.

(4) Employment Services

Background: California provides counties a single allocation grant to fund CalWORKs Stage 1 childcare, employment services, and program administration. These single allocations were established during the implementation of CalWORKs and were based on each county's estimate of the level of funding necessary to fully fund their CalWORKs program. The allocations were adjusted to reflect actual costs in 1998-99 and 1999-00. California has maintained counties at their 2000-01 level in subsequent years.

Counties that chose to implement their CalWORKs program's incrementally have been negatively affected by the state's single allocation freeze. Their single allocation is based on their 1999-00 costs, not the actual cost of operating their program at full implementation. These counties tend to have less resources to operate their CalWORKs programs.

State and federal laws require counties to complete specified administrative functions, including determining eligibility and issuing checks, within specified timelines. Counties are given greater flexibility in the provision of employment services. As a result, counties tend to expend their funds on mandated activities first and have more limited resources to fund employment services.

The Budget Act of 2002 provided a one-time $128 million increase to the single allocation to equalize program funding across counties and to support the provision of employment services. This funding augmented available county resources for employment services functions. However, the increase was partially offset by current year and budget year CalWORKs administrative funding reductions.

Governor's Budget: The budget provides a single allocation increase of $241.5 million to fund county delivered employment services.

Subcommittee Concerns and Questions: The Subcommittee has requested the Department of Social Services to briefly discuss the proposed single allocation increase and the rationale for this proposal.

(5) Realignment of CalWORKs employment services and administration

Background: The CalWORKs program provides eligible low-income families monthly cash benefits and a range of services designed to support employment and assist families in moving to self-sufficiency within time limits imposed by federal and state law. CalWORKs requires participants to meet work participation requirements as a condition of receiving aid and sets a 60-month lifetime limit on aid for adults in the program, unless they meet specified exemption criteria.

CalWORKs is overseen by the California Department of Social Services and administered locally by counties. Counties are provided a block grant and given substantial flexibility to design and carry out the program within the state and federal program guidelines. Counties develop employment preparation and family support programs that reflect local conditions, including labor market information and availability of services for low-income families. County staff determine eligibility for the program, provide case management to recipients, including the development of welfare-to-work plans and referrals for services such as mental health and substance abuse treatment, domestic violence services, learning disability screenings, training, child care, housing assistance, and transportation. While state law establishes eligibility requirements, counties are given considerable flexibility to design welfare-to-work services.

The CalWORKs program is in its sixth year of operation and enjoys a relatively stable caseload. The program has successfully transitioned 46 percent of its 1994-95 AFDC caseload off public assistance. CalWORKs is now focusing efforts on serving parents with multiple barriers to employment and adapting to a growing proportion of child only cases. CalWORKs also faces the prospect of TANF reauthorization and possible federal law changes that may increase work participation requirements.

Since the early 1990s counties have funded 2.5 percent of CalWORKs (previously AFDC) grant costs. Federal and state funds have historically financed 97.5 percent of grants and all costs for program services.

Governor's Budget: The budget **proposes to realign CalWORKs administration, CalWORKs employment services and Stages 2 and 3 of childcare for general fund savings of $881 million.**

The budget proposes that counties fund Stages 2 and 3 of childcare and for 50 percent of the cost for CalWORKs employment services and administration. The budget estimates expenditures for CalWORKs administration and employment services to remain at their current level in the budget year. Counties estimate that the CalWORKs program is currently under funded by $297 million.

The Legislative Analyst's review of the Governor's proposed realignment concluded that CalWORKs is a good candidate for realignment as its caseload is relatively stable and counties already enjoy a substantial amount of program control. The Analyst recommends that the Legislature consider realigning a higher share of CalWORKs grant costs along with employment services, childcare and administration.

Subcommittee requests and questions: The Subcommittee has requested that the Department of Finance and the Department of Social Services answer the following questions:

1. Briefly describe the proposed realignment and discuss factors such as caseload and programmatic issues that may affect the need for future expenditure increases.

2. How will program operations change at the state and county level due to realignment?
3. What would the role of the state be in the context of realignment?
4. What reductions in state operations expenditures has the Administration identified as a result of the proposed realignment?

The Subcommittee has requested that the Legislative Analyst discuss their analysis of the proposed program realignment and their recommendation that the Legislature consider realigning a higher share of CalWORKs grant costs along with employment services, childcare and administration

D. CalWORKs Funding Structure and Maintenance-of-Effort Requirements

Background: The CalWORKs program is funded through a federal TANF block grant which amount to $3.7 billion and federally required state matching funds. In addition to funding the CalWORKs program, California funds the KinGAP program, childcare programs and other programs that serve low-income families and youth with TANF funds. TANF funds also support county probation facilities, community colleges and teenage pregnancy prevention efforts.

The federal government requires, as a condition of receiving TANF funds, that state funding to assist needy families be at least 75 percent of the state's federal fiscal year (FFY) 1994 expenditures level. The required level of spending increases to 80 percent if the State fails to comply with federal work participation requirements. California is federally required maintenance of effort is $2.9 billion.

California meets its federal MOE requirement primarily through state and county spending on the CalWORKs program. Thirteen million in state spending for other DSS programs and $377 million in state funding for other departments is also used to satisfy the MOE requirement. Since 1998, California has maintained MOE spending at the federal minimum.

The full implementation of the CalWORKs program, increased demand for services as a result of the placement of CalWORKs participants in employment, and caseload growth in TANF funded programs, such as KinGAP, have increased pressure within TANF/MOE funding. To keep program funding at the minimum MOE level the state has maintained counties at their 2000-01 funding levels and delayed or suspended CalWORKs cost of living adjustments.

Federal TANF Reauthorization may increase the pressure within TANF/MOE funding. Congress is currently considering a series of TANF Reauthorization proposals that would increase work participation requirements, reduce the number of allowable work activities and establish special programs to encourage family building. Congress may also reduce the amount of TANF block grant funds available to states. These proposals would limit California's ability to continue funding CalWORKs within the TANF/minimum MOE funding.

Governor's Budget: The **budget maintains state spending to meet the TANF MOE at the federal minimum.**

The Governor's Budget also proposes to spend all but $200 million of available federal TANF funds in 2003-04, including the projected carry-over of unexpended funds ($262 million) from 2002-03. The $200 million will be held in a reserve for unanticipated future program needs. Any net augmentation to the CalWORKs program above the reserve amount would result in additional GF costs above the MOE requirement.

The table below illustrates how the MOE is met with State/County funds in the 2003-2004 Governor's budget.

CalWORKs Maintenance of Effort (MOE) Expenditures 2003-2004 (In Thousands)	
CDSS local assistance expenditures for CalWORKs	1,558,828
CDSS state support expenditures	2,766
Other countable CDSS TANF MOE expenditures	1,849
Other department TANF MOE expenditures	62,724
County CalWORKs expenditures *	1,044,510
TOTAL MOE Spending	**2,670,677**
* Includes $315 million in proposed child care expenditures realigned to counties.	

Subcommittee requests and questions: The Subcommittee has requested the Department of Social Services to discuss the status of CalWORKs funding, factors affecting TANF/MOE spending and the state's continued ability to fund the existing CalWORKs program and maintain spending at the federal MOE minimum.

II. Supplemental Security Income/State Supplementary Payment (SSI/SSP)

General Background: 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 resource requirements. Individuals who receive SSI/SSP are categorically eligible for the Aged, Blind or Disabled Medi-Cal Program with no share of costs, for the In-Home Supportive Services Program and may be eligible for other programs designed to keep individuals living in the community like the Multipurpose Senior Services Program.

The SSI/SSP program is administered by the federal Social Security Administration. The Social Security Administration determines eligibility, computes grants, and disburses monthly payments to recipients. The state establishes the level of State Supplementary Payment support for individuals and contributes the funds for this portion of the program.

More than 1.1 million Californians receive SSI/SSP. Over two-thirds of recipients are disabled, 30 percent are elderly, and two percent are blind.

Caseload

The budget estimates that program caseload will grow by 2.2 percent in the 2002-2003 fiscal year and by 1.9 percent in the 2003-2004 fiscal year. The total caseload for 2003-2004 is estimated to be 1,148,176 (1,133,789 if the grant reduction proposal goes through). 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 (2.4%) than the caseload for aged (1.1%) or blind (0.1%), a consistent trend over the recent past. Due to changing demographics and a projected increase in California's aging population, the SSI/SSP program caseload is likely to continue its growth in future years.

SSI/SSP grant levels vary based on a recipient's living arrangement, marital status, minor status and whether she or he is aged, blind or disabled. Currently there are 19 different SSI/SSP payment standards. These standards are generally adjusted each calendar year. The current maximum grant for an aged or disabled individual living independently is $757 per month. It is $1344 for couples living independently.

Governor's Budget: The budget **proposes (1) to suspend cost of living adjustments for SSI/SSP grants for the current and budget years and (2) to reduce SSI/SSP grants to the federal maintenance of effort level.** The budget assumes $1 billion in savings as a result of these proposals.

The following chart illustrates the effect of the Governor's proposals on SSI/SSP grants.

		January 2003	June 2003	July 2003	January 2004
SSI/SSP Grants—Individuals					
Current Law					
	SSI	$552	$552	$552	$566
	SSP	$205	$226	$226	$239
	Total	$757	$778	$778	$805
Governor's Budget					
	SSI	$552	$552	$552	$566
	SSP	$205	$205	$156	$156
	Total	$757	$757	$708	$722
Change From Current Law					
	SSI	$0	$0	$0	$0
	SSP	$0	$21	$70	$83
	Total	$0	$21	$70	$83
Change from Current Grant					
	SSI			$0	$14
	SSP			-$49	-$49
	Total			-$49	-$35

(1) Suspension of state SSI/SSP cost of living adjustment
Background: Current law provides an annual state cost of living adjustment for SSI/SSP grants, which is based on the California Necessities Index. The scheduled cost of living adjustments will increase the maximum SSI/SSP grant for an individual from $757 to $805.

Governor's Budget: The Budget suspends the 2002-2003 and 2003-2004 cost of living adjustments for the SSI/SSP program to realize savings of $363.2 million. The budget proposes to continue pass-through of the federal SSI COLA.

Suspension of the state cost-of-living adjustment will maintain grants at a level that does not keep pace with cost-of-living increases such as rising housing costs.

(2) Reduction of SSI/SSP grants to the federally required maintenance of effort level
Background: California provides cash assistance to 1.1 million aged, blind or disabled individuals through the SSI/SSP program. Grant levels vary based on a recipient's living arrangement, marital status, minor status and whether she or he is aged, blind or disabled. The current maximum grant for an aged or disabled individual living independently is $757 per month. It is $1344 for couples living independently.

<u>Governor's budget:</u> The budget proposes to reduce cash assistance payments to low-income elderly, blind or disabled individuals to the federal maintenance of effort. It reduces SSI/SSP grants for aged or disabled individuals by $49 per month and reduces their income from 101.2 percent to 94.6 of the federal poverty level.

California's SSI/SSP beneficiaries are ineligible for Food Stamps benefits and depend on their grants to pay for rent, food, clothing and other necessities. They expend most of their grant on rent and utilities. According to the U.S Department of Housing and Urban Development, Fair Market Rents for a studio apartment in California average $555 per month and range from $332 in Alpine to $1250 in Santa Clara, $638 in Los Angeles, $507 in Riverside, $855 in Orange and $766 in San Diego. Since 1990 rent prices have increased by 36 percent and the SSI/SSP purchasing power has declined by 18 percent.

The budget reduces the grants for aged or disabled individuals by $49 per month and for couples by $119 per month. It will reduce the income of SSI/SSP recipients from 101.2 percent to 94.6 of the federal poverty level. It will also make approximately 14,500 individuals ineligible for the SSI/SSP program.

The 14,500 individuals who become ineligible for SSI/SSP as a result of the grant reduction will lose their categorical eligibility for free Medi-Cal benefits and for the In-Home Supportive Services Program. They may be required to pay a share-of–cost each month to continue receiving services. The required share-of cost payment is based on the amount by which that individual's income or assets exceed the applicable Medi-Cal limits. The required share-of-cost payment may be significant for people on fixed, low-incomes. Individuals who lose their health care benefits as a result of the grant reductions may be at risk of institutionalization at a significantly higher cost to the state.

The Governor cites the state's fiscal crisis as the reason why he is proposing to reduce SSI/SSP grants and suspend cost of living adjustments for the current year and the budget year. The Governor notes that California's SSI/SSP grants are higher than grants in the other ten most populous states.

Opponents of the proposed SSI/SSP grant reductions argue that the reductions will disproportionately affect the most vulnerable members of society. They further argue grant reductions will force SSI/SSP beneficiaries to choose between rent and food. Opponents assert that grant reductions will increase the risk of homelessness and institutionalization for disabled and aged individuals.

Subcommittee request and questions: The Subcommittee has asked the Department of Social Services to answer the following questions:

1. Briefly describe your proposals.
2. How will the COLA suspensions and grant reductions affect low-income aged, blind and disabled individuals? How will they affect their ability to live independently?
3. How many individuals will be made ineligible for SSI/SSP as a result of the proposed grant reduction?
4. What will be the effect of becoming ineligible for SSI/SSP for these individuals?
5. How many of these individuals will be at risk of institutionalization as a result of these reductions?

III. Cash Assistance Program for Immigrants

Background: The Cash Assistance Program for Immigrants (CAPI) was established in 1997 to provide cash benefits to aged, blind and disabled legal immigrants who became ineligible for SSI as a result of welfare reform. This state-funded program is overseen by the Department of Social Services and administered locally by counties. CAPI serves approximately 11,000 individuals each year. Its caseload is relatively stable and is expected to decline over time.

CAPI grant levels are statutorily established at 10 dollars less than the applicable SSI/SSP monthly grant. Given the link of CAPI grants to SSI/SSP grant levels, the proposed reduction of SSI/SSP grants will result in a comparable reduction of CAPI grants

Governor's Budget: The budget reduces the maximum CAPI grant for an individual living independently by 6.5 percent to $698 per month. This reduction will generate savings of $5.6 million general fund.

Subcommittee requests and questions: The Subcommittee has requested that the Department of Social Services discuss the impact of the proposed grant reduction on low-income aged, blind and disabled immigrants and its effect on their ability to live independently.

Governor's Budget: Additionally, the budget proposes to realign the CAPI program to counties and assumes $95.3 million as a result of the proposed realignment. The budget proposes to grant counties total flexibility in administering the CAPI program, including flexibility to eliminate the program.

The Legislative Analyst's review of the proposed realignment concludes that CAPI is not appropriate for realignment, as it is a statewide program that benefits from uniform payment standards and consistent eligibility criteria.

Subcommittee requests and questions: The Subcommittee has requested that the Department of Social Services answer the following questions:

1. Briefly describe the proposed realignment.
2. How would program operations change at the state and county level as a result of realignment?
3. What type of flexibility can the state grant counties? What type of flexibility does the state envision providing counties? What will be the programmatic effect of granting this flexibility?

The Subcommittee has requested that the Legislative Analyst discuss their analysis of the proposed realignment.

IV. Cash Benefits for Veterans

Background: Assembly Bill 1978 (Cedillo), Chapter 143, Statutes of 2000, established a state funded cash benefit for Filipino veterans of World War II who were receiving SSP benefits on December of 1999 and who have returned to the Republic of the Philippines. The veterans receive a payment equivalent to California's State Supplemental Payment. The program serves approximately 1,700 veterans on an annual basis.

The proposed SSI/SSP grant reduction will reduce the cash benefit received by these individuals by 8% to $570 per month ($414 federal benefits and $156 SSP).

Subcommittee request and questions: The Subcommittee has requested that the Department of Social Services discuss the effect of the proposed grant reduction on the veterans served by the Cash Benefits for Veterans program.

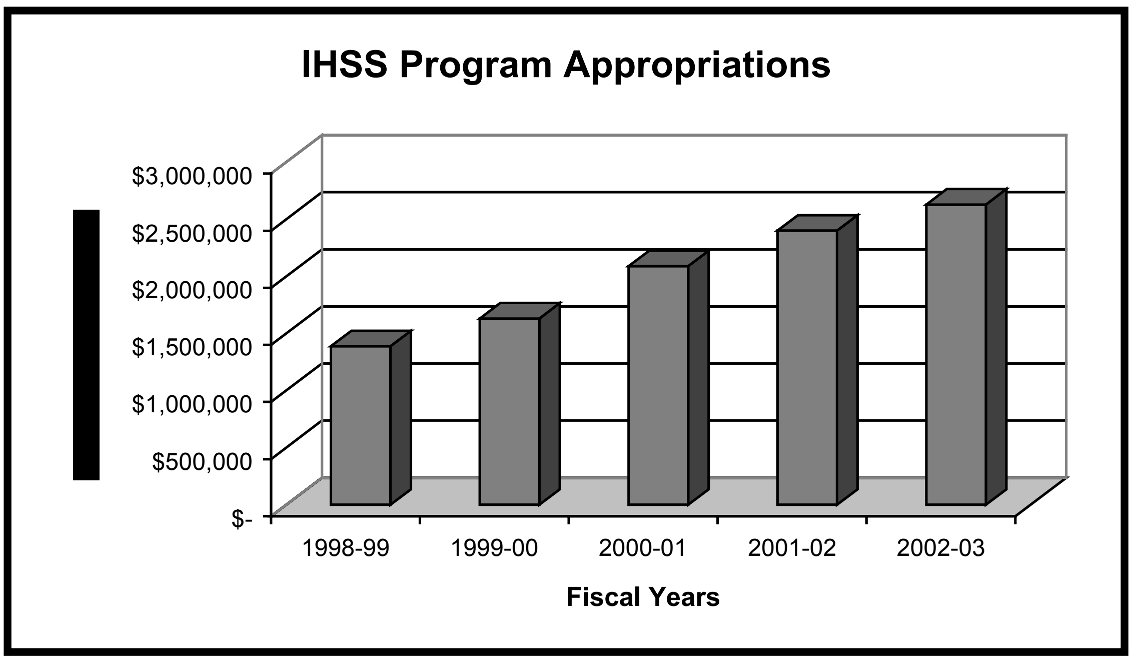
V. In-Home Supportive Services (IHSS)

Background: The In-Home Supportive services (IHSS) program provides services to aged, blind or disabled individuals that allow them to remain safely in their own homes as an alternative to out-of-home care. Services include domestic services (meal preparation, laundry), nonmedical personal care services, assistance while traveling to medical appointments, teaching and demonstration directed at reducing the need for support, and other assistance. Services are provided through individual providers hired by the recipient, county contracts with service providers, or through welfare staff. 76.6 percent of the persons receiving IHSS are provided federally reimbursable services through the Personal Care Services Program, a Medicaid option implemented in California since 1993. The remaining are served through the State's IHSS Residual Program.

The IHSS Residual program serves clients when the only services required are domestic chores or protective supervision tasks. It also serves persons who are not Medicaid eligible, including recipients covered by third party insurance. Lastly, the Residual program funds services in cases where the recipient is severely disabled and receives payment in advance of service delivery; and services provided by relatives, spouses and parents to their own minor children.

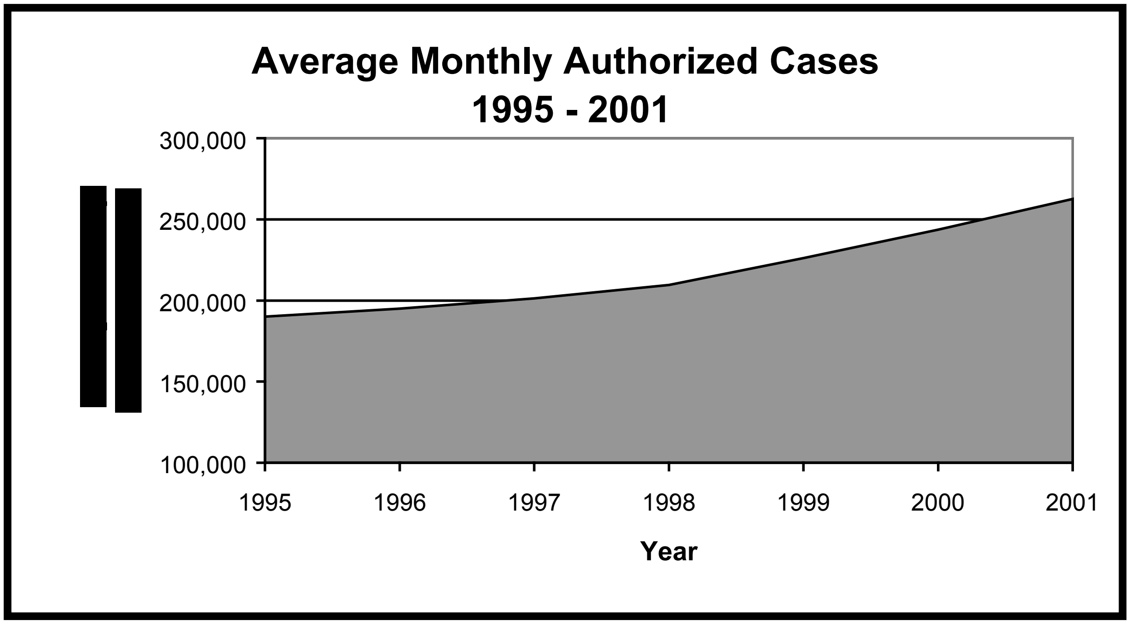
The IHSS caseload has grown faster than population growth. Caseload is estimated to grow by 8.5 percent in the current year and by 7.8 percent in the budget year. This caseload growth has been fueled by the aging of California and a clinical and programmatic shift to support elderly persons and persons with disabilities in community settings. As a result of increased caseload and increased provider rates, General Fund costs in this program have increased dramatically. Regardless, costs per individual (less than $7,000) are less than one-fifth the costs of nursing home placement.

The total cost of the IHSS program has nearly doubled from $1.39 billion appropriated in fiscal year 1998-99 to $2.63 billion appropriated in 2002-03. In 2003-2004, the total IHSS program budget will be $3.2 billion ($15.8 million General Fund) compared to $2.8 billion ($1.1 billion General Fund) in 2002-2003. The budget reflects a 14 percent increase in one year.



The IHSS program's rate of growth has been fueled by increases in caseload and higher provider rates. Demographic trends have increased and will continue to increase the number of eligibles.

Wage increases have also contributed to caseload growth as higher wages have made it easier for beneficiaries to hire providers and fully utilize the program. IHSS cases increased 38 percent from 1995 to 2001. This rapid growth is expected to continue in the future, given demographic and utilization trends. Caseload is estimated to average 320,622 per month in the budget year, an increase of 7.8 percent over the current year.



Effective January 2003, the state requires that counties act as or select an employer of record for IHSS providers. A total of 53 counties have established public authorities to meet the employer of record mandate and collectively bargain with IHSS workers. An additional county will establish a public authority by the end of the budget year. The budget assumes that providers working for a Public Authority will serve over 90 percent of the caseload in the budget year.

Governor's Budget: The budget proposes (1) to suspend the state's participation in IHSS wage increases for the budget year and (2) proposes to realign the IHSS program to counties.

1. Suspension of IHSS Wage trigger

Background: Current state law provides that the state share in provider rate increases above the state minimum wage in Public Authority and non-profit consortium counties. The state participates in provider wages up to $9.50 and individual health benefits up to $0.60 per hour. For subsequent years, the law requires that the state participate in total wages and individual health benefits up to $12.10 per hour, not to exceed $1.00 per hour increase in any fiscal year, when general fund revenues meet specified targets.

Governor's Budget: The budget proposes to suspend the state's participation in IHSS wage increases for the budget year.

Under state law, California would be required to participate in IHSS wage increases if general fund growth exceeds five percent of the 2002-03 general fund revenues. The state will most likely not reach this level of general fund growth in the budget year.

2. Proposed realignment of the IHSS program.

Governor's budget: The budget proposes to realign the In-Home Supportive Services Program to counties and requires counties to fund 100 percent of non-federal program costs.

Prior to the first realignment, IHSS was principally funded through state sources with minor federal block grant funding. Counties bore approximately two percent of the total cost. In 1991, counties became responsible for 35 percent of the non-federal cost. The 1993 creation of the Personal Care Services Program (PCSP) brought in federal funding for this program totaling $1.2 billion in fiscal year 2002-03. The budget calls for counties to fund 100 percent of the non-federal cost of this program.

Subcommittee requests and questions: The Subcommittee has requested that the Department of Finance and the Department of Social Services answer the following questions:

1. Briefly describe the proposed realignment of the IHSS program.
2. Discuss factors such as caseload growth and outstanding programmatic issues that may affect the need for future increases in program expenditures.
3. How would program operations change at the state and county level as a result of realignment?
4. What type of flexibility can the state grant counties? What type of flexibility does the state envision providing counties?
5. What would the role of the state be in the context of realignment?
6. What reductions in state operations expenditures has the Administration identified as a result of the proposed realignment?

Senate Budget & Fiscal Review

Senator Wesley Chesbro, Chair

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

Senator Wesley Chesbro, Chair
Senator Gilbert Cedillo
Senator Tom McClintock
Senator Bruce McPherson
Senator Deborah Ortiz

April 28, 2003
2:30 PM, or Upon Adjournment of Session
Room 4203

Item	*Description*
4440	**Department of Mental Health—Capital Outlay *(only)***
4120	**Emergency Medical Services Authority--*Selected Issues as Noted***
4280	**Managed Risk Medical Insurance Board-- *Selected Issues as Noted***
4260	**Department of Health Services—*Selected Issues as Noted***

I. ITEMS RECOMMENDED FOR CONSENT (Items "A" through "B")

A. Department of Mental Health—Selected Capital Outlay

1. Administration's Proposed Budget Bill Language On Napa Sanitation Easement

Background and Finance Letter Request: The Napa Sanitation District and Napa State Hospital would like to enter into an easement agreement that would allow the District to install a water tank and underground piping for the purpose of storing reclaimed water on Napa State Hospital property. In return for this easement the District would install a complete reclaimed water delivery system at Napa State Hospital for landscape irrigation. However, Section 14666 of the Government Code precludes this agreement, as it states that all funds received for an easement shall go to the General Fund.

This proposed agreement would benefit both entities. The state would benefit because Napa State Hospital would receive at no cost a reclaimed irrigation infrastructure for landscape use. In addition, it would reduce the amount it pays for water by using reclaimed water rather an potable water for irrigating its landscaping. The District would benefit because it obtains a large customer that will purchase reclaimed water for years to come. In addition, the water tank installed on the hospital grounds will allow the District to provide reclaimed water to customers north of the hospital approximately 10 years ahead of their current schedule.

The proposed Budget Bill Language is as follows:

> **Notwithstanding Government Code Section 14666, the Department of General Services may approve an easement, subject to Department of Finance approval, to the Napa Sanitation District at Napa State Hospital for the installation of reclaimed water piping and storage tank.**

Subcommittee Staff Recommendation: The Subcommittee staff recommends approval of the proposal. No issues have been raised.

Budget Issue: Does the Subcommittee **want to approve the Finance Letter?**

2. Reappropriation for Multipurpose Building at Atascadero & School Building at Metropolitan

Background and Finance Letter Request: The Budget Act of 2002 contained funding for working drawings and construction for both of these projects. Since there was a delay in signing the Budget Act, **both of these projects started working drawings later than originally scheduled.** As such, the DMH is requesting a reappropriation to safeguard the construction funding of $13.4 million (Public Building Construction Fund) in the event they cannot obtain permission to go to bid within the needed time frame.

Neither the LAO or Subcommittee staff have raised any issues with this proposal.

Budget Issue: Does the Subcommittee want to adopt the Finance Letter?

3. Patton State Hospital—Addition of Seismic Component

Background and Finance Letter Request: The Governor's January budget included $7.6 million (Public Building Construction Fund) for construction funding for this project. **The Finance Letter adds an additional $13.4 million (Public Building Construction Fund) to have this project include a seismic retrofit of the building**

Neither the LAO or Subcommittee staff have raised any issues with this proposal.

Budget Issue: Does the Subcommittee want to adopt the Finance Letter?

B. Emergency Medical Services Authority

1. Alternative to the Transfer of the EMSA to the Department of Health Services

Background and Governor's Proposed Budget: The EMSA was created as a separate entity from the Department of Health Services in 1980, primarily due to dissatisfaction among emergency medical service constituency groups with the state's emergency medical service system.

In an effort to reduce state government, the Administration has proposed to consolidate the EMSA with the Department of Health Services. **The budget assumes savings of $342,438 ($138,440 General Fund, $128,198 federal funds, $62,607 EMS Personnel Fund, and $13,193 EMS Training Program Approval Fund) from this proposal.**

Specifically, the savings would be achieved by eliminating five positions--the Chief Deputy, Health Program Manager III, and three clerical support. In addition, it assumes that the Director of the EMSA is downgraded to a Career Executive Assistant (CEA) III level for savings of almost $13,000 (total funds). In addition, the Administration proposes trailer bill language which would achieve the proposed consolidation.

1.
Subcommittee Hearings and Constituency Comment: In the Subcommittee's January 15th hearing and March 3rd hearing, numerous **constituency groups testified against the consolidation. Among many comments presented, it was noted that the EMSA:**

- Needs to remain independent in order to effectively manage and coordinate the multiple functions for which it is responsible and meet the needs of constituencies;
- Has conducted a comprehensive planning process for the Future Vision of California's EMS System which now needs to proceed with implementation;
- Has a long history of successfully working with a wide representation of constituencies on emergency preparedness and response;
- Needs to maintain the Commission on EMS as a regulatory body, not change to an advisory body as would occur under the proposed consolidation; and

- Is recognized as being expert at establishing medical standards and regulations for local EMS systems, including a hospital standards component.

The Subcommittee did not receive any testimony in support of the consolidation, nor has it received any correspondence in support of it.

Subcommittee Staff Alternative—Adopt Budget Bill Language: **In lieu of the consolidation**, it is suggested for the Subcommittee **to (1) reduce the EMSA state support item by $138,000 (General Fund),** the same amount as attributable to the proposed consolidation, **(2) adopt Budget Bill Language, and (3) restore the approximate $ 204,000 in federal and special funds** that would not be transferred over to the DHS. The suggested language is as follows:

Item 4120-001-0001 Provision 1.

It is the Legislature's intent for any reduction taken in this item to be obtained from state support only and not local assistance. This may include efficiencies and savings obtained from personnel expenditures, operating expenditures or equipment.

This proposed alternative was discussed by the Subcommittee in its March 3rd hearing. At that time, there were no objections by constituency groups on the proposal (i.e., if reductions need to be made).

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

2. Childcare Preventive Health Analyst—*Finance Letter*

Background and Finance Letter Request: The EMSA is requesting to **redirect one existing position to support the Childcare Preventive Health Training Program** for expenditures of $58,000 (Training Program Approval Fund), and **a corresponding decrease of $53,000 General Fund.**

Section 1797.191 of Health and Safety Code requires the EMSA to review, approve and monitor course quality for Childcare Preventive Health Programs. Specifically, responsibilities include reviewing and approving initial applications for Childcare Preventive Health Training Programs, re-certifying these programs every two years, and providing technical assistance to training programs. Currently, 1.5 staff positions have conducting the essential duties of this area.

However, the EMSA contends that an additional position is needed due to work load. The EMSA receives on average 12 initial applications for review and approval. In addition, they currently have a backlog of 24 programs that require initial review and approval. The EMSA has issued temporary approvals to these programs. In most cases, the EMSA must provide technical assistance to raining programs to ensure that curricula meet with state child preventive health standards and that all items necessary to complete the review process are included in the program's application package. **This position is necessary to ensure that childcare preventive health programs comply with state standards and ultimately should ensure safe conditions for children in childcare facilities.**

<u>II. ITEMS FOR DISCUSSION</u>

<u>A. 4120 Emergency Medical Services Authority (EMSA)</u>

<u>1. California Poison Control System—Administration's *Modified* Proposal</u>

<u>Background--Overall:</u> **The California Poison Control System (CPCS) is a major source of poison information**, **treatment and referral assistance to public and health professionals through their emergency hotlines (24-hour, 7 days a week).** It should be noted that the calls not only pertain to the ingestion of potentially toxic household products**, but also allergic reactions to products such as hair products, over-the-counter medications, the use of home cleaners,** and even the potential poisoning of pets/animals.

The staff also provides **a 24-hour interpreter service, Hazmat, public health surveillance and state of the art information references. They are currently preparing information and procedures to prepare for biological, chemical and nuclear terrorism threats to California.**

It should be noted that a portion of the CPCS activities consists of receiving and responding to transferred 911 calls.

California saves over $55 million annually in health care-related costs as a result of poison control consultations.

<u>Background—Key Statistics:</u> At the request of the Subcommittee, the CPCS has provided the following statistics regarding their services:

- Managed more than 367,000 poison calls in 2002
- 51 percent of poisonings involved children under 5 years of age.
- CPCS saves $7 for every $1 of cost
- 61,000 emergency department/physician office visits were averted by poison control consultants.

<u>Current Year Funding:</u> The CPCS has expenditures of about $9 million or so annually. Funding is obtained from a variety of sources, including in-kind support from the University of California at San Francisco, the City and County of San Francisco, some industry contracts, $1.6 million in federal HRSA funds, **$3.6 million in General Fund support from the EMSA and about $3.3 million in federal supplemental funds obtained from the California Medical Assistance Commission (CMAC). The Budget Act of 2002 reduced General Fund support by $400,000.**

It should be noted that some Medi-Cal supplemental federal funds which had been previously made available to the CPCS will no longer be provided by CMAC. This is due to changes in the state's Selective Provider Hospital Contract Medicaid Waiver which was just approved by the federal government a few weeks ago. In essence, additional funds to be made available under the Waiver need to be provided for other uses, most notably disproportionate share hospitals, the Los Angeles County Health System, Children's Hospitals and graduate medical education assistance.

Finance Letter: **The Governor's January budget had proposed to use $3.6 million from proposed increased fee revenues from the 911 Account to backfill for General Fund support for the California Poison Control System (CPCS). However, this proposal is now being rescinded.**

In place of this original proposal coupled with the loss in federal funds (i.e., $3.6 million plus $3.3 million), the Administration is proposing to provide an increase of $6.9 million (General Fund) to fund the CPCS for the budget year.

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

- Please **briefly describe the Administration's revised proposal.**

Budget Issue: Does the Subcommittee want to adopt the Finance Letter, pending receipt of the May Revision?

B. 4280 Managed Risk Medical Insurance Board (MRMIB)

1. Oral Health Demonstration Project—*Finance Letter*

Background: The **California Children and Families First Commission (Commission), created under Proposition 10, adopted an initiative to implement an insurance-based oral health demonstration project.** This initiative seeks to significantly reduce the incidence of dental decay in very young (birth to five years) children. **Specifically, the initiative grew out of the Commission's desire to address early childhood bacterial infections, the most prevalent chronic disease of early childhood and a major cause of school absenteeism.**

In partnership with the Commission, **the Managed Risk Medical Insurance Board (MRMIB) will administer the three year insurance-based oral health demonstration project through contracts with dental and health plans who are presently participating in the Healthy Families Program (HFP). MRMIB's administrative costs will be funded through the project funds.**

Participating dental and health plans would be required to partner with dental providers, clinics, dental schools, and pediatric care providers to develop proposals to test innovative ways to:

- Increase the utilization of preventive dental benefits among young children;

- Increase the capacity of medical and dental providers to serve the oral health needs of young children (including those with disabilities and other special needs); and
- Increase access for young children in rural and frontier areas to dental services

The initiative targets $10 million (Proposition 10 Funds)--$3 million (over three years) for an insurance-based oral health demonstration project and $7 million (over four years) for an education and training project.

Finance Letter: The **MRMIB is requesting an increase of $142,000 ($92,000 federal Title XX and $50,000 in Reimbursements from Proposition 10 Funds) to fund an Associate Governmental Program Analyst position (three year limited-term) and a small inter-departmental contract (i.e., $23,000).**

Through the terms of the Inter-Agency agreement between the Commission and MRMIB, up to **five percent of the total project** funds can be used to cover the administrative costs of MRMIB.

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

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

2. County Health Initiative Program *(See Hand Out)*

Background: Chapter 648, Statutes of 2001 (AB 495) established a process whereby **counties, local initiatives and County Organized Health Care Systems could use local public agency funds to draw down matching federal Title XX funds** (i.e., State Children's Health Insurance Program) **and provide health insurance coverage to children with family incomes between 250 percent and 300 percent of the federal poverty level and who would otherwise qualify for the Healthy Families Program.**

The legislation further provided that these federal funds would be used prior to the expiration of their period of availability for programs designed to improve and expand access for uninsured persons. **Given the current period of availability of federal Title XX funds and the time needed to completely ramp up California's Healthy Families Program, the MRMIB estimates that sufficient federal Title XX funds will be available in the budget year to fund the Healthy Families caseload, as well as this County Health Initiative Program (i.e., the local entity programs/projects).**

MRMIB is required to administer the program in collaboration with the Department of Health Services. The enabling legislation contained specified administrative functions to be implemented, including, review and approval of applications for funding, auditing the expenses incurred by the applicant in implementing its program, and many other related functions.

Finance Letter: The Administration **is requesting an increase of (1) $153.8 million ($99.8 million federal Title XX funds and $53.7 million county/local entity funds) for local assistance** to fund projects as approved, and **(2) $280,000 ($182,000 federal Title XX funds and $98,000 county/local entity funds)** for state support. This proposed appropriation will enable the legislation to be implemented.

The MRMIB states that they have received a total of 20 concept statements—eleven are for expansions of health insurance coverage for children, and nine are for other types of public health or outreach activities. The local funds reported available for these proposals total $35.8 million and with the federal matching funds to be drawn down of $66.3 million, the total funding level for these 20 projects would be $102.1 million.

However, given the interest expressed by other counties to submit a proposal, the MRMIB projects that up to $153.8 million ($53.8 million county/local funds) may be expended under the County Health Initiative Program.

Counties most ready to begin to access the federal funds are Santa Clara, Alameda, San Mateo and San Francisco.

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

- **1.** Please **provide a brief description of the proposal**.
- **2.** Please **briefly** describe the need for the **state support funds**.

C. Department of Health Services

1. Proposed Reduction to Domestic Violence Program *(See Hand Out for contractors)*

Background—Overall Program: Established in 1994 through legislation, the Battered Women's Shelter Program began primarily as a shelter-based program that expanded services to establish 17 new shelters statewide and funded creative and innovative service approaches. **The Budget Act of 1996 specified that a portion of the funds be spent on prevention efforts.**

Specifically, existing statute requires the Battered Women's Shelter Program to fund:

- Shelters;
- Prevention Projects;
- **Unserved and underserved populations;**
- At least one technical assistance and training contract; and
- Statewide evaluation.

These public health approaches distinguish the Battered Women's Shelter Program from other government-funded domestic violence programs in California having a criminal justice approach. **It should be noted that as a condition of receiving funding, shelters must, among other things, provide matching funds or in-kind contributions equivalent to not less than 20 percent of the grant they would receive.**

The DHS notes that the total demand for shelters is not being met. Nearly 105,000 women, men and children were served in state-funded shelters in 2000; however, more than 23,000 individuals were turned away because shelters were full.

Background—Unserved and Underserved Populations Grants: Anecdotal information supports that priority populations do not generally access shelters as often as other populations. **As noted by the DHS, for some communities of color and youth, the use of battered women shelter resources and the identification with and understanding of the concept of "domestic violence" are not culturally relevant or appropriate. Although culture, poverty and age are not causes of domestic violence, communities of color and youth have unique cultural differences, differing traditions and beliefs, and speak different languages that are to be taken into account when working with these communities.** It is well recognized that societal problems related to domestic violence must be addressed in a comprehensive and multi-faceted manner to gain a full appreciation of the complex role that culture plays in program development and service delivery.

With respect to providing services to unserved and underserved populations, the DHS presently funds 15 shelters and community-based partner agencies to reach unserved and underserved populations. A total of $2.2 million (General Fund) is currently used for this purpose. According to the DHS, they define "unserved and underserved" populations with descriptors such as ethnicity, age, culture, language, literacy level, geography, physically challenged, sexual preference, and other criteria that inhibit access to services.

The DHS notes that each of the 15 grants is different, depending on the target population and community. Usually the shelter collaborates with a community organization to assist in getting a specific message out. Normally the message is conveyed through presentations and visits to community leaders (such as pastors, school officials) to teach them to look for warning signs that domestic violence is occurring and to break down cultural barriers to seeking help. **Each grant receipt currently receives about $150,000.**

Governor's Proposed Budget: The budget **proposes a reduction of 50 percent, or $1.1 million (General Fund), from shelters that provide services to unserved and underserved populations.**

The Administration states that to implement their proposal, either each contract would be reduced by half (from $150,000 each to $75,000 each), the number of contracts would be reduced, or some combination of the two. No decision has been reached as yet on how to best implement the proposal.

Constituency Concern and Suggestion: The Subcommittee is in receipt of information from the **Domestic Violence Advisory Council** which **reflects recommendations from their January, 2003 meeting.** One of the **recommendations pertains** to $1.1 million reduction from shelters that provide services **to unserved and underserved populations.**

First, it is noted that these grants should not be considered outreach but rather key to essential services that impacts communities of color and youth. Second, they unanimously recommend to redirect $1.1 million in funds from technical assistance and training contracts, the UC San Francisco data collection contract, and the CA State University at Sacramento meeting coordination contract to backfill for the proposed reduction to the unserved and underserved populations grants, *at least for the upcoming budget year*.

It was further noted **that one technical assistance project should remain**—the **"Safenetwork"—**which provides useful information via the internet.

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

- **1.** Please **briefly describe how funds for the unserved and underserved population grants are currently being used.**
- **2.** Please describe how the proposed $1.1 million will affect the grants.
- **3. From a technical assistance basis, could funds from technical assistance be used—at least for the budget year—for the reduction, instead of the unserved and underserved grants?**

Budget Issue: Does the Subcommittee **want to modify the Governor's proposed reduction to the unserved and underserved populations grants and instead, obtain the reduction from reducing funds from the technical assistance funds—at least for the budget year?**

2. Proposed Elimination of TeenSMART Program *(See Hand Out for contractors)*

Background--Overall: The latest report from the DHS shows birth rates among teens aged 15 to 19 years dropping to their lowest level since 1991. In addition for the first time, birth rates have dropped across all ethnic groups. Further, the abortion rate is on the decline in California, indicating that the efficacy of teen pregnancy prevention programs plays a role in reducing both teen births and abortion**. However, California has the nation's second-highest rate of teen pregnancies.**

Background—TeenSMART: The **TeenSMART Program, initiated in 1995**, provides counseling and outreach that actively promotes behaviors that reduce the risk of pregnancy. **Activities include referral services and providing information about clinic services to teens. The purpose of TeenSMART is to help adolescents make and sustain "smart" decision related to their sexual behavior and use family planning services including contraception.**

Adolescents who access TeenSMART services through designated Family PACT providers have an opportunity to discuss their beliefs, values, sexual and contraceptive behaviors during enhanced counseling sessions with a family planning counselor. These education and counseling services are reimbursed through a fee-for-service system and paid in addition to regular office visits for reproductive health care.

Teen SMART Outreach projects target adolescents at risk for pregnancy or cause pregnancy, including those who may already be parenting, are homeless, in foster care, victims of abuse, and/or school dropouts. Strategies for successful outreach may include community information campaigns, establishing linkages between Family PACT providers and other organizations that serve adolescents to facilitate referral to family planning services, and individual and group presentations to youth outside of clinic settings by trained outreach or peer workers.

TeenSMART is currently funded at $1.7 million ($848,000 General Fund and $848,000 federal Title XIX funds) and funds 25 projects. Based on recent data, about 40,700 total clients were served in 2002.

Governor's Proposed Budget--TeenSMART: The budget proposes **to eliminate the TeenSMART Program for savings of $1.7 million ($848,000 General Fund).**

Constituency Concern: The Subcommittee is in receipt of several letters which express considerable concern with the reductions overall, **but particularly the TeenSMART Program.** They maintain that cutting teenage pregnancy prevention programs places the state in danger of incurring spiraling social costs that will place an additional burden on California's budget crisis, now and in future years. **Further they note that the women and men who depend upon these programs to maintain their reproductive health will be left with an every shrinking number of options.**

Subcommittee Staff Comment: It should be noted that the **Governor's budget also proposes to (1) eliminate the Teen Pregnancy Prevention Media Campaign for savings of $7.8 million**

(General Fund), ***and*** **(2) reduce by $1.7 million (General Fund) the Information and Education Project component designed to decrease teen and unintended pregnancy through proactive prevention education. These two proposals, coupled with the proposed elimination of the TeenSMART Program significantly impacts the state's efforts to mitigate teen pregnancy, reduce sexual abuse and facilitate responsible parenting. It is a core component to the state's overall efforts.**

Due to the fiscal crisis, it is suggested to (1) adopt the Administration's proposal to eliminate the media campaign for savings of $7.8 million General Fund, **(2)** adopt the Administration's proposal to reduce by $1.7 million General Fund the Information and Education projects, and **(3) to direct Subcommittee staff to identify other General Fund reductions to off-set the TeenSMART elimination and to retain it.**

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

- **1.** Please **briefly describe *all* of the existing key components or programs operated by the DHS that offer services to mitigate teen pregnancy prevention.**
- **2.** Please **briefly describe the TeenSMART Program and its value to at-risk adolescents *and its affect* to the Family PACT Program and federal approval of our Waiver.**

Budget Issue: Does the **Subcommittee want to adopt or modify the Administration's proposal to eliminate the TeenSMART Program?**

3. Licensing and Certification Fee Restructuring Proposal *(See Hand Out)*

Background: Licensing and Certification functions conducted by the state are either fee-supported or reimbursed by the federal government (Title XIX funds—Medi-Cal). **Existing law (Section 1266 of H&S Code) provides that health care facilities (hospitals and nursing facilities), except for those owned by public entities, are to pay an annual per-bed license fee.**

This per-bed fee is calculated by the DHS based on the amount of license fee revenues needed to fund *current-year* spending (not budget year) for the regulatory and licensing and certification enforcement program. The proposed fee level is then reviewed by the Legislature through the annual budget process. Since public entities are statutorily exempt from paying licensing fees and those costs are not covered by other licensees, the General Fund must pay the difference.

Governor's Proposed Budget: The Administration **is proposing two changes to the existing method used to calculate the licensing and certification fees.**

First, they are proposing to **change the way fees are *calculated*** for health care facilities. **Current methodology** calculates the fee for facilities by dividing the total expenditures by the total number of beds in all facilities **(both public and private)**. **The proposed change would calculate the fee by dividing the total expenditures by the number of *private beds only*.** As such, the non-exempt health facilities will cover the difference; thereby saving General Fund expenditures. **The Administration states that savings of $4.7 million (General Fund) will be achieved by this particular change.**

Second, the Administration is proposing to change from the existing process of calculating the upcoming budget year needs based on current year (i.e., 2002-03) expenditures to basing it on anticipated 2003-04 expenditures. Historically, any new funding proposals would be floated by the General Fund for one year before the fees would be adjusted the following year to include the added resources. **Under the Administration's proposed change, the fees would be based on *estimated* actual needs in the budget year (2003-04) thereby eliminating any dependence on the General Fund to float resources. The Administration states that savings of just over $1 million (General Fund) will be achieved by this particular change.**

Therefore, these two proposed trailer bill language changes would result in savings of about $5.8 million (General Fund).

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

- **1.** Please **briefly describe the two proposed changes.**
- **2.** Based on the **proposed new methodology to cover exempt facilities**, what would the average fee increase be for those facilities affected by the change?
- **3.** Based on the **proposed new methodology to use anticipated budget year expenditures**, what would the average fee increase be for those facilities affected by the change?

Budget Issue: Does the Subcommittee want to adopt the Administration's proposed trailer bill language as referenced, or does it want to make modifications?

4. DHS Staff for Wage Pass-Through Adjustment

Background: As the result of a "wage pass-through" provision, as contained in the Budget Act of 1999, the DHS received **6 *one-year limited*-term Health Program Auditor positions to perform wage pass-through audits. The Budget Act of 2000 included an additional wage pass-through requirement and the DHS received approval to extend the 6 positions for an additional two-years. This last two-year extension period expires as of June 30, 2003.**

Existing statute requires each nursing home facility receiving funds from the DHS or county health facility for purposes of the wage pass-through **to certify on a form (by October 2001) provided by the department that these funds were expended for increased direct care and other staff salary, wages and benefits increases.**

AB 1075 (Shelly), Statutes of 2001, among other things, revises the Medi-Cal reimbursement methodology for nursing facilities and requires that wage pass-through funding be included in the development of facility specific rates. In the Budget Act of 2002, the DHS audit branch received 23 positions to implement AB 1075.

Governor's Proposed Budget: The Administration **is requesting an increase of $585,000 ($293,000 General Fund) to extend 6 two-year limited-term positions for two additional years.**

The DHS contends that these Health Program Auditor positions need to be extended an additional two years to ensure that the wage pass-through funds are built into the facility specific rates required by AB 1075. They maintain that over 30 percent of the nursing homes audited do not comply with the wage pass through.

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

- **1. Please explain why these 6 positions would need to be extended by another two-years when the wage pass-through adjustment was last done in the Budget Act of 2000.**
- **2. Why have some nursing homes opted to not comply with the law?**

Budget Issue: Does the Subcommittee want to adopt or modify the Administration's proposal?

5. Request for State Staff for Federal Balanced Budget Act (BBA) of 1997 Functions

Background—State's Fair Hearings: As the state's single state agency for the federal Medicaid Program (Medi-Cal in California), the DHS is responsible for administering and implementing all federal mandates.

The DHS administers the Medi-Cal State Fair Hearing process in conjunction with the Department of Social Services (DSS). This is done through an interagency agreement whereby the DHS prepares "position statements" on cases and **the DSS Administrative Law Judges conduct the hearings and adjudicate the cases.**

Background—Federal Balanced Budget Act of 1997: The federal **Balanced Budget Act (BBA) of 1997 imposes new oversight requirements and administrative obligations on the state's Medi-Cal Managed Care Program, including conducting periodic onsite reviews, promulgating regulations, and developing and implementing contract amendments to conform to BBA requirements**. According to the DHS, the Final Federal Rule on the BBA was published in June, 2002 and became operational as of August, 2002. **Full state compliance will be required by no later than August 14, 2003.**

As such, the Administration contends that the state must begin developmental work to implement the BBA provisions **or risk losing federal matching funds** (referred to as "federal financial participation"-FFP). They further note that failure to meet these requirements may also expose the state to legal action from interested or affected parties.

Among other things, the DHS states the BBA does the following:

- **Requires enhanced Medi-Cal Managed Care "member" protections in the area of State Fair Hearings and will require an expedited process.** As such, the DHS states that Medi-Cal members **may demand an expedited** (three-workday versus existing 90-day process) **State Hearing based on self reported medical need.** The BBA also requires the DHS to include certain specifications in Medi-Cal Managed Care contracts to monitor compliance with this provision.

- **Imposes new requirements on Medi-Cal Managed Care Organization relative to member grievances and appeals.** Specifically, it requires that the Medi-Cal Managed Care Organization dispose of grievances and resolve each appeal, and provide notice as expeditiously as the enrollee's health condition requires.

The DHS states that in creating an expedited dispute resolution process, the BBA requirements are expected to generate increased numbers of new cases directed into the State Fair Hearing process (conducted by the DSS). The DDS State Hearing Division is responsible for providing a system of administrative hearings which must meet the due process standards set forth in federal regulations and state law.

Governor's Proposed Budget: The Administration is requesting **an increase of $1.3 million ($670,000 General Fund) to fund 8 new positions—Administrative Law Judges-- within the Department of Social Services (DSS).**

The Administration states that these new positions are needed due to an ***anticipated*** increase in the current level of 2,400 cases to as many as 4,375 cases due to the Balanced Budget Act changes.

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

- **1.** Please provide **an update on the status of implementing the BBA in California.**
- **2.** Please **briefly describe why these positions are needed.**

Budget Issue: Does the Subcommittee want to adopt or modify the request for positions?

6. DHS Staff for Breast and Cervical Cancer Treatment Processing

Background: The primary goal of the Breast and Cervical Cancer Treatment Program (BCCTP) is to reduce the breast and/or cervical mortality rate in California by ensuring low-income patients expedited access to urgently needed treatment services. In the 13 months since the program's initial implementation, the BCCTP has served over 5,000 women.

The DHS was allocated 13 positions to implement and administer the (BCCTP) in the Budget Act of 2000, including six Eligibility Specialists who determine final eligibility for applicants needing breast and/or cervical treatment. These 13 positions were funded by Tobacco Settlement Funds and federal matching funds

Finance Letter: The Administration **has requested an increase of $525,000 (General Fund) to backfill for Tobacco Settlement Funds which are no longer available due to issues related to the securitization of Tobacco Settlement Fund moneys to make bond payments.**

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

- **1.** Please explain the need to continue the positions.
- **2.** Please **explain why General Fund support is now needed. Is this need anticipated to change or be modified at the May Revision?**

Budget Issue: Does the Subcommittee want to approve or modify the Finance Letter?

7. DHS Staff for Estate Recovery Program

Background: The DHS Estate Recovery Unit recovers Medi-Cal expenditures from the estates of certain deceased Medi-Cal beneficiaries for services received on or after the individual's 55th birthday. **Both state and federal laws require reimbursement of Medi-Cal costs from the estates of deceased Medi-Cal beneficiaries or from anyone receiving assets after the beneficiary's death, unless specific exemptions or other limitations apply. These funds are then placed back into the program to assist in the care of other medically needy individuals. No repayment is due until after the beneficiary's death.**

The Personal Injury Recovery Program identifies and recovers health care services expended on behalf of Medi-Cal beneficiaries when a third party is liable, ensuring that Medi-Cal is the payer of last resort. As required by law, attorneys, county welfare agencies, and insurance companies must notify the department of tort actions involving a Medi-Cal beneficiary. **DHS staff review Medi-Cal expenditures paid for injury-related services, then file liens for recovery against any settlement, judgement or award.**

Governor's Proposed Budget: The budget **proposes an increase of $954,000 ($239,000 General Fund) to fund 15 positions**—Five Tax Compliance Representatives, two Senior Tax Compliance Representatives, six Program Technician IIs and two Program Technicians—**to conduct a variety of activities associated with collecting additional recoveries stemming from personal injury cases and estate recovery.**

It should be noted that the DHS assumes a staffing compliment of one Program Technician II for every two Tax Compliance Representatives for processing purposes, and one Supervisor (Senior Tax Compliance Representative) for every six positions.

The Administration **assumes that $6 million ($3 million General Fund) in savings can be achieved from these positions in the budget year** and that $13 million (total funds) can be obtained annually. **The proposed budget year savings level is reflected in the Medi-Cal estimate for local assistance.**

Subcommittee Staff Comment: Due to the fiscal crisis, staff suggests to reduce the staffing compliment and assume a longer phase-in of personnel due to the existing Administration imposed hiring freeze. **As such, it is suggest to provide funds for a total of four Tax Compliance Representatives, one Senior Tax Compliance Representative and two Program Technician IIs for a total of 7 positions. This level of staffing would reduce the budget request by *about* $128,000 General Fund. It is further recommended to have the DHS report back to the Subcommittee at its May 12th hearing on other options/ideas for obtaining increased estate and third party collections.**

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.** Could increased estate or other third-party collections be obtained using other means that adding additional staff?

<u>Budget Issue:</u> Does the Subcommittee **want to adopt the Subcommittee staff suggestion pending receipt of May Revision, adopt the Administration's proposal or adopt another option?**

<u>8. DHS Staff for Fingerprinting</u>

<u>Background:</u> The purpose of the Licensing and Certification (L&C) Program is to protect the health and safety of patients, clients and residents receiving health care in licensed and/or certified facilities, agencies or by health care professionals certified or licensed by the program.

As part of the certification function, L&C receives complaints regarding licensed or certified staff, such as allegations of abuse, neglect or misappropriation of patient property. L&C investigates those complaints and takes disciplinary actions when appropriate. L&C may place the licensee or certificate holder on probation, suspend their license/certification, or revoke it.

L&C is also responsible for conducting criminal background checks of certified nurse assistants and home health aides.

<u>Governor's Proposed Budget:</u> The budget **is requesting an <u>increase of $1.6 million ($805,000 General Fund) to</u> <u>hire 19 new positions</u>—16 Health Facilities Evaluator II positions, one Health Facilities Evaluator Manager, and one Program Technician.**

Specifically, **the DHS is requesting 9 positions to address staffing needs to process and investigate criminal background checks** of nurse assistant/home health aide applications, owners, administrators and direct care staff in a timely manner. **The remaining 10 request positions would be used to process complaints of possible abuse and neglect.**

<u>Subcommittee Staff Comment:</u> Based on information provided by the DHS, there are currently 13 positions (including two redirections) used to handle criminal background checks and 19 used to handle possible abuse and neglect cases (of the 19 positions, 9 were added through the Budget Act of 2002).

Though this is an important area of concern, <u>it is suggested</u> <u>to provide 3 Health Facilities Evaluator II positions and one Program Technician position for a total of 4 new positions</u>. It is further suggest for the DHS to decide how to best allocate these positions (i.e., between the criminal background checks and the potential abuse and neglect investigation functions). <u>This proposed action would save *about* $ 635,000 (General Fund).</u>

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 and why the requested positions are needed.
- **2.** Are there any existing vacancies within the L&C Division that could be redirected to provide assistance to handle criminal background checks and/or abuse and neglect cases?

Budget Issue: Does the **Subcommittee want to adopt the staff suggestion pending receipt of the May Revision, approve the Administrations proposal, or adopt another action?**

9. Enhanced Medi-Cal Budget Estimate Redesign (EMBER)

Background: The **Medi-Cal Estimate is a highly detailed and complex estimate package.** It forecasts expenditures, eligibility, and the impact of regulatory and policy changes to the Medi-Cal Program. It is integral to the preparation of the State Budget.

The EMBER project was first approved to proceed in the Budget Act of 1999. **Following completion of the initial study phase, it was found that there is substantial risk associated with the age of the existing Medi-Cal budget estimate system. Specifically, it was designed on a Wang minicomputer in 1978, and ported to a DEC VAX minicomputer in 1984 with no upgrade to the server, operating system, database management system or application package since 1994.**

Due to the criticality of the existing system to the preparation of the Medi-Cal estimate, the risk of attempting further revisions or substantial modifications to the production system is significant and it is neither feasible nor desirable to build a mirrored development and test platform. Further, the interested parties are increasingly requesting information that the existing system simply cannot deliver. **Therefore, it was determined by the Administration that a redesigned estimate information system was both beneficial and necessary to the continuation of this critical business function.**

A Feasibility Study Report (FSR) was completed and approved. The DHS states that development of the project is to begin in April 2003, with full implementation by April 2005. The DHS states that resources are now needed to continue with this effort.

Finance Letter: The Governor's January budget requested an increase of $930,000 ($232,000 General Fund) to proceed with the EMBER implementation. **However upon further review, the Administration has submitted a <u>Finance Letter</u> which proposes to shift more of the EMBER implementation functions to an in-house (versus consultant) operation. <u>Through this shift, a savings of $144,000 (General Fund) has been identified from the January budget.</u>**

Therefore, the revised total requested increase for EMBER is $355,000 ($88,000 General Fund). This funding level assumes the following:

- Two positions—Senior Information Systems Analysts—to conduct some of the work in-house and to proceed with various implementation steps;
- Consultant services (about $200,000) to develop the replacement system; and
- Minor equipment expenditures.

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

- **1.** Please **provide a brief description** of the project.
- **2.** Please **describe how the positions are needed.**

Subcommittee Staff Comment: Due to the critical nature of the Medi-Cal Estimate package to the budget process and the need to develop and use extensive data sets for program planning, policy development and related management aspects, **it is suggested to approve the Finance Letter.**

Budget Issue: Does the Subcommittee want to approve the Finance Letter pending receipt of May Revision, or modify the request?

10. Staff for--Continuous Skilled Nursing Care Pilot Project (AB 359, Statutes of 1999)

Background: This legislation required the DHS to establish **a Waiver pilot program** (up to ten sites) **to explore more flexible models of health care facility licensure to provide continuous skilled nursing care to medically fragile developmentally disabled individuals in the least restrictive environment.** Current licensing categories do not provide the flexibility to allow these individuals to reside in small, non-institutional health facilities.

This ICF/DD-CN pilot program began enrolling recipients on April 3, 2002. The pilots have an expiration date of January 1, 2006. **This sunset date was adjusted through the omnibus health trailer bill that accompanied the Budget Act of 2002. The date was moved back due to the late start in getting the pilots designed and implemented.**

The DHS was provided positions for the implementation, monitoring and evaluation of the pilot. These positions are slated to expire.

Governor's Proposed Budget: **The DHS is requesting to extend four limited-term positions to January 1, 2006 consistent with the sunset date for the pilot for increased expenditures of $364,000 (total funds).** The positions include: one Staff Services Manager I, an Associate Governmental Program Analyst, a Nurse Evaluator II, and a Health Facility Evaluator Nurse.

In addition, the budget is requesting $250,000 (total funds) to conduct an "independent assessment" as required by federal law (i.e., condition of the Waiver for the pilot).

The DHS states that the positions are needed in order to maintain compliance with AB 359 during the projected Waiver pilot period.

Subcommittee Staff Comment: **It is suggested to delete the $250,000 (total funds) for the independent assessment and instead, have the DHS do an agreement with the DOF to conduct the evaluation.** The DOF's evaluation unit has conducted several independent assessments for the Medi-Cal Program, including one for managed care and one for mental health. In both situations the assessments were informative and provided to the federal CMS as required. In the past, these assessments were done within available resources.

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

- **1.** Please provide a brief update regarding the Waiver pilots.
- **2.** Please explain why the positions are needed.

Budget Issue: Does the **Subcommittee want to delete the funding for the independent assessment and make any other adjustment, or adopt the Administration's proposal?**

Senate Budget & Fiscal Review
Senator Wesley Chesbro, Chair

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

Senator Wesley Chesbro, Chair
Senator Gilbert Cedillo
Senator Tom McClintock
Senator Bruce McPherson
Senator Deborah Ortiz

Consultant, Ana Matosantos

Thursday, May 1, 2003
Upon Conclusion of Senate Floor Session
Room 4203

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4200 Department of Alcohol and Drug Programs

The Department of Alcohol and Drug Programs (DADP) 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 Department is the lead agency in the implementation of Proposition 36 (the Substance Abuse and Crime Prevention Act of 2000). In FY 2002-03 the Department estimates that, through its county partners, services will be delivered to 347,800 persons. Appropriations in the budget year are proposed to decrease by $91.3 million (15.8 percent) due to the proposed realignment to counties of alcohol and drug services.

Summary of Expenditures (dollars in thousands)	2002-03	2003-04	$ Change	% Change
General Fund	$232,811	$5,673	-$227,138	-97.5
Sale of Tobacco to Minor Control Acct.	-2,000	-2,000	0	0.0
Driving-Under-the-Influence Program Licensing Fund	1,573	1,573	0	0.0
Narcotic Treatment Program Licensing Fund	1,450	1,550	100	-6.8
Audit Repayment Trust Fund	67	67	0	0.0
Federal Trust Fund	274,717	275,266	549	.1
Resident Run Housing Revolving Fund	39	39	0	0.0
Reimbursements	65,813	200,976	135,163	205.0
Substance Abuse Treatment Trust Fund (non-add)	[120,087]	0		
Total	$574,470	$483,144	-$91,326	-15.8

1. Little Hoover Commission Report on Substance Abuse Treatment Services in California

Background: The Little Hoover Commission recently examined the economic and human impact of alcohol and drug abuse in California, the demand for substance abuse services, and the current service delivery system. **The Commission reports that the estimated annual economic impact of drug abuse exceeds $32.7 billion per year.** Substance abuse contributes to high health care, social services, and public safety costs, as well as substantial losses due to crime and diminished productivity. Nationally, **drug and alcohol abuse cost employers more than $140 billion per year** due to absenteeism, lost productivity, accidents and medical claims.

According to a University of California at Los Angeles (UCLA) study, **2.3 million Californians need substance abuse services each year.** Sixty-one percent of those in need of substance abuse services are non-institutionalized adults, 10 percent are youth, and half of them are eligible for publicly funded programs. Seniors are a growing percentage of the population in need of treatment. An estimated 330,000 Californians seek publicly funded treatment in any given year; 130,000 of them will be served.

Substance abuse is a growing problem among institutionalized Californians as **61 percent of persons arrested and 85 percent of youth in California Youth Authority facilities have a substance abuse problem.** California spent $130 million to deliver substance abuse services to these individuals in 2001-02.

Similarly, substance abuse is a significant factor affecting California's ability to protect children from abuse or neglect. A 1992 study found that 11 percent of infants were exposed to alcohol or drugs in the womb. Approximately **80 percent of the state's 125,000 cases of child abuse or neglect involve substance abuse.** According to the Department of Social Services, **substance abuse is a significant factor in the cases of 80 percent of California's 90,000 youth in foster care.** Children whose parents abuse drugs and alcohol and are three times likelier to be physically or sexually assaulted and more than four times likelier to be neglected than children whose parents are not substance abusers. These children are also four times more likely to become addicts in the future.

California funds and administers numerous programs to prevent and treat substance abuse. These programs serve pregnant women, youth, CalWORKs recipients, inmates, parolees, drug offenders, low-income parents and low-income aged or disabled individuals. In 2001-02, California spent approximately $730 million in federal, state and local funds to support alcohol and drug abuse treatment.

The Little Hoover Commission's examination of the demand for substance abuse services and the state's existing service delivery system identified significant unmet needs and programmatic deficiencies. **The Commission concluded that the state's substance abuse prevention and treatment system is fractured, lacks flexibility, and would benefit from enhanced service coordination and prioritization efforts.** The Commission writes that California could do much more to coordinate drug control efforts, target resources, improve the quality of treatment, integrate interventions to improve effectiveness and make the most of available funding.

The Commission recommends that California:

- Work with counties to assess the impact of substance abuse on communities and target treatment resources to clients posing the greatest social and financial costs
- Shift resources to intervene earlier with substance abusers and target prevention dollars to children with the highest risk factors for alcohol and drug abuse
- Establish accountability outcomes for state and local substance abuse programs

- Implement outcome based quality control standards for treatment personnel, programs and facilities to encourage ongoing quality improvement
- Facilitate the integration of alcohol and drug treatment with other social services to reduce substance abuse and related public costs
- Maximize available resources that can support treatment by maximizing available federal funds, pursuing client reimbursement, expanding private sector participation, and identifying new sources of revenue

The Commission also recommends that California define and enhance the role of the director of the Department of Alcohol and Drug Programs, accelerate DADP's implementation of the new California Outcomes Measurement System, and adopt specified reforms to improve the quality of substance abuse services.

Subcommittee request and questions: The Subcommittee has requested that the Little Hoover Commission answer the following questions:

1. Briefly discuss the economic and social impact of substance abuse in California, including the fiscal impact of alcohol and drug abuse, the prevalence of substance abuse in the public safety system, and the impact of substance abuse on state efforts to protect children from abuse and neglect.
2. Briefly discuss your recommendations, including targeting resources to clients posing the greatest social and financial costs to the state.

The Subcommittee has requested that the Department of Alcohol and Drug Programs answer the following questions:

1. Briefly discuss the state's efforts to prevent and treat substance abuse in California.
2. Briefly discuss the findings and recommendations of the Little Hoover Commission and their implications on the existing treatment delivery system.
3. Discuss the programmatic and fiscal implications of targeting resources to clients posing the greatest social and financial costs to the state and the factors affecting program and funding flexibility.

2. Drug Medi-Cal

Background: The Drug Medi-Cal program provides specified substance abuse treatment services to low-income parents, children, seniors and persons with disabilities enrolled in the Medi-Cal program. Drug Medi-Cal is overseen by the Department of Alcohol and Drug Services and administered locally by county alcohol and drug programs, in collaboration with county welfare departments. The program is funded by state and federal matching funds at an approximate ratio of 1 to 1.

Drug Medi-Cal serves approximately 37,941 persons through one of four treatment modalities, Narcotic Treatment Program, Day Care Rehabilitative, Outpatient Drug Free, and Perinatal Substance Abuse Services.

The treatment modalities include the following specific services:

- **Narcotics Treatment Program** provides narcotic replacement drugs, treatment planning, body specimen screening, substance abuse related physician and nurse services, counseling, annual physical examinations, laboratory tests and medication services to person who are opiate addicted and have substance abuse diagnosis. The program does not provide detoxification treatment.
- **Day Care Rehabilitative** provides specific outpatient counseling and rehabilitation services to persons with substance abuse diagnosis who are pregnant, in the postpartum period, and/or are youth eligible for Early and Periodic Screening, Diagnosis and Treatment.
- **Outpatient Drug Free** provides admission physical examinations, medical direction, medication services, treatment and discharge planning, body specimen screening, limited counseling, and collateral services to stabilize and rehabilitate persons with substance abuse diagnosis.
- **Perinatal Substance Abuse Services** is a non-institutional, non-medical residential program that provides certain rehabilitation services to pregnant and postpartum women with substance abuse diagnosis.

During prior years' budget deliberations, the Subcommittee has considered programmatic factors that limit access to appropriate substance abuse services for Medi-Cal beneficiaries. The Subcommittee has been particularly concerned about the effect of the limited scope of Drug Medi-Cal services on the state's ability to serve low-income children and youth appropriately. Prior year efforts to expand covered services were impeded by delays in necessary federal approvals and the state's fiscal status.

Treatment services to Californians, including children and youth, remain significantly below estimates of the incidence of substance abuse in the population. UCLA estimates that **2.3 million Californians need substance abuse services each year.** Sixty one percent of those in need of substance abuse services are non-institutionalized adults, 10 percent are youth. Half of them are eligible for public programs. UCLA estimates that 330,000 persons seek publicly funded treatment each year; 130,000 of them receive services.

Governor's Budget: The budget (1) reduces program funding by $2.6 million and (2) proposes to realign the program to counties for general fund savings of $49 million.

The proposed program funding reduction reflects slightly reduced program caseload, cost adjustments and changes in utilization of services. According to DADP, the caseload reductions are the result of changes in the department's estimating methodology.

Subcommittee request and questions: The Subcommittee has requested that the Department of Alcohol and Drug Programs answer the following questions:

1. Briefly discuss key program features and the extent to which the program meets the estimated need for alcohol and drug services.
2. Discuss the proposed Drug Medi-Cal estimate.
3. Does your estimate consider the proposed Medi-Cal eligibility reductions? What is the effect of these reductions?

3. Substance Abuse and Crime Prevention Act

Background: In November 2000, **California voters approved Proposition 36,** the Substance Abuse and Crime Prevention Act (SACPA), **to provide substance abuse treatment instead of incarceration to non-violent drug offenders.** Since the voters approval, the Department of Alcohol and Drug Programs, the Judicial Council, the Department of Corrections, counties and other stakeholders from the public safety and alcohol and drug treatment communities have worked collaboratively to implement the proposition in an expedited manner. **California has implemented the new law in all counties and has significantly expanded available substance abuse treatment services.** Preliminary data suggests that the new law has significantly increased access to substance abuse services for non-violent drug offenders and is generating prison savings.

SACPA changed state 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. The Act excludes offenders who refuse treatment or who are found by the courts to be "unamenable to treatment". The Act further requires that 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.

SACPA 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.

Proposition 36 prohibits the use of funds from the Substance Abuse Treatment Trust Fund for the cost of drug testing. Most alcohol and other drug treatment professionals view mandatory and random drug testing as an important and integral component of successful treatment. Accordingly, **the Legislature approved legislation in 2001 (SB 223, Burton, Chapter 721) that allows drug testing for clients treated under SACPA.** The bill required that funding be provided to supplement existing testing programs and provides that federal funds can be used for drug testing where consistent with federal law. It also 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 counties to have an approved plan to receive funds for testing. Last year's budget provided approximately $8.6 million in federal funds for drug testing.

DADP released the first annual report regarding the programmatic and financial impact of Proposition 36 in November 2002. The report discusses the Act's implementation and provides early data based on program outcomes between July 1 and December 31, 2001.

The Department reports that:

- **SACPA was implemented quickly and efficiently.** State and local agencies representing the judiciary, law enforcement, health, drug treatment, social services, and government administration have worked collaboratively to implement the initiative.

- The initiative is operational in all 58 counties

- **Eligible drug offenders are being assessed, referred, and admitted to treatment services** rather than jail or prison. An estimated **12,000 were processed by the criminal justice system and received services in the first 6 months.**

- **The number of licensed and certified substance abuse treatment providers has increased by 42 percent since November 2000.**

- New partnerships between universities, private foundations, and the state have been formed to support technical assistance to counties.

- A long-term evaluation of program outcomes has been designed and is underway. The Integrated Substance Abuse Programs Division of the University of California, Los Angeles, is conducting the evaluation. It will examine patterns of implementation, system impacts, net costs, adequacy of funding, offender outcomes related to criminal recidivism, substance abuse, employment, education, training and health and family well-being.

Preliminary data indicates that:

- **Approximately 12,000 clients were processed through the criminal justice system and received treatment under SACPA during the first six months.**

- 60 percent individuals referred to treatment were admitted in the first six months. By the end of the first year, this percentage rose to 70 percent. Not everyone who is eligible for Proposition 36 is referred to treatment as clients can opt out. Some individuals accept treatment as an option, and for various reasons, do not show up for treatment. In some cases, there were system impediments to quickly moving individuals from the courts and parole to treatment.

- Treatment capacity across the state has expanded, with licensed residential programs increasing by 17 percent and certified outpatient programs increasing by 81 percent.

- **SACPA clients represent 9% of the total treatment population and look similar to other treatment populations in terms of age at admission to treatment, ethnicity and gender.** 48% are white, 31% are Hispanic, and 15% are African-American. 71% are male. More than 53% of clients were between 31 and 45 years old at admission to treatment. Almost 63% were younger than 20 years old when they first used their primary drug; more than 21% reported being younger than 15 years of age at first use. **Unlike other treatment populations, methamphetamine was the drug of choice for nearly half of SACPA clients (48%).**

- SACPA clients typically received outpatient treatment (76%) or long-term residential treatment (12%). Some counties are reporting that SACPA clients are requiring a substantially higher level of care than they expected.

- Counties spent 15 percent of allocated funds in the first six months. Spending increased to 62 percent of the allocation by the end of the first year.

- During the first six months, county expenditures for treatment and criminal justice were divided 68 percent/32 percent, respectively. By the end of the year, service expenditures increased to 77 percent. Counties expect a continued shift toward services as clients enter treatment programs and criminal justice costs are distributed over the full year.

Governor's budget: The Budget (1) proposes to realign SACPA to counties and (2) proposes $120 million in county funding for implementation of SACPA. An additional $8.6 million in federal funds is provided by the Department for drug testing.

Subcommittee request and questions: The Subcommittee has requested that the Department of Alcohol and Drug Programs answer the following questions:

1. Briefly discuss the status of SACPA implementation.
2. Briefly discuss who is being served by SACPA and how they compare to other treatment populations.
3. Discuss the initial program outcome data, including the rate of client participation in treatment services.

4. Drug Courts

Background: California's **drug court programs work to reduce drug usage and recidivism through the provision of court supervised substance abuse treatment.** They integrate drug treatment with other rehabilitation services to promote long-term recovery and reduce social and financial costs of substance abuse. Judges modify program services based on client needs and exercise different enforcement options to assure client compliance with treatment. Drug courts are diverse and serve different populations including adults, juveniles, repeat drug offenders, multiple offenders, and probation violators. Generally, **drug court participants have abused alcohol or other drugs for ten or more years and received little or no substance abuse treatment.**

California supports drug courts through the Drug Court Partnership (DCP) and the Comprehensive Drug Court Implementation (CDCI). The state provides $11.6 million in total funding for drug courts, of which $419,000 is used in state support.

The Drug Court Partnership program was established as a four-year demonstration project in 1998. Last year, **Assembly Bill 444 (Chapter 1022, Statutes of 2002) extended and modified the program.** AB 444 required that counties only serve adult defendants, who have been convicted of felonies and placed on probation, conditioned on their participation in the drug court program, and that they provide DADP with data to measure cost avoidance. Thirty-three counties are currently participating in the program.

DCP program funds are administered by the Department under program design and implementation guidelines developed in consultation with the Judicial Council. Funds are allocated as a grant amount for small/medium programs and large programs, depending on county size.

Preliminary outcome data of modified DCP program demonstrates state prison savings of $1.42 per dollar spent. It is likely that future data will show a higher level of savings. Future savings are expected to be higher in part because some counties are not required to restructure their program to focus on post-plea felons until May 2003.

Established in 1999, the Comprehensive Drug Court Implementation Program provides grants to 47 counties to operate varying drug court models that serve adults, juveniles and parents whose children are dependents of the state. CDCI grants are allocated according to a population-based methodology. Funds can be used for pre- or post-plea services. CDCI receives $7 million in funding.

CDCI has averted $23.8 million in prison day costs. Additionally, the DADP reports the following program outcomes:

<u>Adult Drug Courts:</u>

- 56 percent of participants successfully completed the program avoiding 561,417 prison days and 367,456 jail days.
- 96 percent of the 263,900 drug tests administered were negative
- 44 percent of participants obtained jobs while in the program
- 96 percent of babies born to female participants were drug-free
- 87 percent of homeless participants obtained housing while in the program
- 1,022 participants enrolled in educational or vocational programs

- 1,002 participants reunified with their family and 379 participants made child support payments regularly

Juvenile Drug Courts

- 29 percent of participants successfully completed the program avoiding 1,270 days in California Youth Authority, 40,955 days in Juvenile Hall and 7,298 days in group homes.
- 25,850 of 28,397 drug tests administered were negative (91%)
- 31 percent of participants obtained jobs while in the program
- 98 percent of babies born to female participants were drug-free
- 25 percent of participants improved their GPA and 60 percent increased school attendance
- 23 percent enrolled in school, vocational programs or post-secondary education
- 18 percent graduated from high school or received their GED and 35 participants completed vocational and/or other educational programs

Dependency Drug Courts

- 29 percent of participants successfully completed the program
- 21 percent were compliant with, or completed the reunification plan
- 193 participants' dependents were unified with one or both parents, and avoided 10,205 days in foster care or guardianship
- 96 percent of drug tests administered were negative and 91 percent of babies born to female participants were drug-free

Governor's Budget: The budget provides $11.6 million in funding for drug courts and proposes to realign the programs to counties. Annualized funding for the Drug Court program amounts to $14.75 million.

Subcommittee request and questions: The Subcommittee has requested that the Department of Alcohol and Drug Programs answer the following questions:

1. Discuss how have drug courts evolved since the implementation of Proposition 36.
2. Discuss drug court program outcomes, including their fiscal impact. How do program outcomes and savings vary between programs (DCP and CDCI) and court models (adult, dependency, and juvenile, as well as pre- and post-plea).

5. Substance Abuse Management Recovery System

Background: The Substance Abuse Recovery Management System (SARMS) is a dependency drug court operating in San Diego county which works to foster care costs by providing substance abuse treatment to parents who are involved in dependency court cases. SARMS is funded by a combination of funding sources and with approximately

1000 parents enrolled. SARMS is one of several programs providing substance abuse services to parents whose children are dependents of the state. Given estimates that 80 percent of the state's 125,000 substantiated cases of child abuse or neglect and 80 percent of the 90,000 foster care cases involve substance abuse, the state will likely benefit from treatment modalities that effectively reduce the incidence of substance abuse among parents involved in dependency court.

Last year, the Legislature enacted legislation to determine the costs and fiscal benefits of SARMS. Assembly Bill 444 (Committee on Budget), Chapter 1022, Statutes of 2002, established the intent of the Legislature that the State Department of Social Services (DSS), in collaboration with the Judicial Council, the Department of Alcohol and Drug Programs, and San Diego County, evaluate SARMS. The bill established the Legislature's intent that DSS identify possible funding, including available resources from local government agencies, private foundations, universities, and federal grants for purposes of the evaluation.

Subcommittee request and questions: The Subcommittee has requested that the Department of Social Services answer the following questions:

1. Briefly describe the SARMS drug court.
2. Briefly discuss the status of the SARMS evaluation and its scope.
3. Discuss the effect on child welfare services programs of dependency courts or similar programs operated by other states.

6. Perinatal Programs

Background: California supports the delivery of perinatal substance abuse treatment services to 37,600 women to reduce the incidence of substance abuse among mothers and reduce fetus exposure to alcohol and drugs. Comprehensive perinatal services include alcohol and drug treatment services, such as body fluid screening, medication services and treatment planning, as well as, comprehensive case management, cooperative child care, parenting skills, health and child development education, linkages to medical, HIV/TB testing and counseling.

California provides perinatal services through the Drug Medi-Cal Program, non-Drug Medi-Cal community treatment program, and the "Women and Children's Residential Treatment Services" program. Drug Medi-Cal services and other community treatment services are limited in scope and do not provide collateral services. Drug Medi-Cal services are limited to the time of pregnancy and 60 days following the birth of the child.

The Women and Children's Residential Treatment Services provide a system of comprehensive services to pregnant and parenting women. It establishes a funding set aside for a network of Perinatal Treatment Programs, initially funded by the federal Center for Substance Abuse Treatment grants. These nine 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 nine federal network programs, and the full-service residential programs they operate, reportedly have 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 outpatient 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.

California has funded the nine federal network programs with state funds for the last five years. Advocates for these programs would like to see the designated funding continue.

<u>Governor's budget:</u> The budget proposes to realign alcohol and drug treatment programs to counties and does not provide a set aside for the nine federal network perinatal programs.

Advocates for the program request that the Legislature continue providing set aside funding for these nine programs and propose the following budget control language to accomplish that goal:

Of the funds appropriated in this item, $6,408,000 shall be used to fund existing residential perinatal treatment programs that were begun through the federal Center for Substance Abuse Treatment grants but whose grants have since expired and currently are constituted as Women and Children's Residential Treatment Services. For counties in which there is such a provider, the Department of Alcohol and Drug Programs shall include language in those counties' allocation letters that indicates the amount of the allocation designated for the provider during the fiscal year.

Pursuant to Section 11840.1 of the Health and Safety Code, the treatment programs that were established through the federal Center for Substance Abuse Treatment grants are not subject to the county 10 percent match. All of the funds allocated for programs shall be passed through those counties directly to the designated nine residential treatment programs in each county, respectively.

Notwithstanding any specified amount in other provisions of this Item, any general reduction in Item 4200-104-0001 shall be made proportionately between the Women and Children's Residential Treatment Services and other perinatal programs.

Subcommittee request and questions: The Subcommittee has requested that the Department of Alcohol and Drug Programs answer the following questions:

1. What counties do the Women and Children's Residential Treatment Services treatment providers currently serve?
2. What is the effect of funding set aside, such as the one proposed by the California Perinatal Treatment Network, on the ability of counties to modify program services to meet program needs?

7. State Incentive Grant

Background: The Department of Alcohol and Drug programs recently applied for and was awarded federal funding to support expanded prevention efforts to reduce the incidence of substance abuse among youth. The **federal funding will support the development and implementation of science based substance abuse prevention programs and practices at the local level.** The federal funding can also be used to increase collaboration and coordination at the state level among agencies with prevention initiatives that target youth and young adults. **California's State Incentive Grant (SIG) will support local projects to reduce binge drinking among 12-to 25-year old youth.**

In addition to funding expanded prevention efforts, the State Incentive Grant will provide California an opportunity to plan and implement performance based programs and services as the federal government moves towards performance-based accountability practices.

Governor's Budget: The budget provides $4 million in federal funds to implement science based substance abuse prevention programs and practices at the local level that target youth. $3.5 million of these funds are proposed for local assistance and $500,000 for state operations.

The Department is in the process of developing an RFP for the program. It plans to award grants to 20-25 counties based on a competitive process. Grant sizes will depend on the scope of the proposed local initiative, but will not exceed $250,000.

The budget establishes three limited term positions to evaluate, plan and implement the State Incentive Grant. DADP argues that the positions are necessary to accommodate program interaction with grantees and the federal government, as SIG will operate through a federal/state cooperative agreement and federal program staff will be directly and substantially involved in designing and implementing all aspects of the state program. The proposed administrative expenditures are below the 15 percent maximum for state administration established by the federal government.

Subcommittee request and questions: The Subcommittee has requested that the Department of Alcohol and Drug Programs describe the proposed State Incentive Grant, the status of implementation, and the state's efforts to assure SIG grantees and the constituencies they serve are geographically, economically, and ethnically diverse.

8. Substance Abuse Prevention and Treatment Block Grant

Background: California applies for and receives on an annual basis a federal Substance Abuse Prevention and Treatment (SAPT) Block Grant funds from the Substance Abuse and Mental Health Services Administration to support substance abuse prevention and treatment services. For federal fiscal year 2003 (beginning October 1, 2002), the grant award amount is $251,851,368. SAPT funds must be used to plan, carry out, and evaluate activities to prevent and treat substance abuse. In California, SAPT funding support all the modalities (residential, outpatient, perinatal, narcotic treatment) and prevention activities.

As a condition of receiving SAPT Block Grant funds, California must comply with a maintenance of effort (MOE) requirement. California must maintain state expenditures for substance abuse prevention and treatment services at a level equal or higher than the average state expenditures for the preceding two state fiscal years.

The state must also maintain an MOE for pregnant and parenting women. Funding for substance abuse treatment services for pregnant women and women with dependent children must be at least $26.349 million of which not less than $15.554 million must be from SAPT Block Grant funds.

The state must meet an MOE for tuberculosis services, which is at least $237,200.

Lastly, there is an MOE for HIV Early Intervention Services. The State must maintain state expenditures for HIV Early Intervention Services at $2,050,000. In the FFY 2003 SAPT Block Grant application, state expenditures for HIV Early Intervention services were $18,292,000.

Failure to meet the MOE requirement results in a dollar of federal funds lost for every dollar below the amount required for the MOE. ADP requested to have Proposition 36 funds excluded from the MOE. SAMHSA denied the request. Further, when formally asked for an appeal process the SAMHSA advised there is no appeal process.

The total MOE for 2003-04 is $247,984,000. The MOE is not a fixed amount that is changed through policy actions. Rather, it is a reflection of non-federal funds expended by the debt for grant eligible activities. Because Proposition 36 now must be included in the MOE, the Department meets its MOE requirement. As a result of the federal denial of the request to exclude Proposition 36 from the MOE calculation, California must maintain the non-federal expenditures at the current level or risk losing SAPT Block Grant funds. If in 2005-06 Proposition 36 funding should be terminated, and the General

Fund expended by the Department decreased commensurately, the SAPT Block Grant funding level would be reduced for the subsequent 2 federal fiscal years.

Subcommittee request and questions: The Subcommittee has requested that the Department of Alcohol and Drug Programs answer the following questions:

1. Describe the proposed expenditure level for substance abuse prevention and treatment efforts. Is it sufficient to meet the federal MOE?
2. Discuss the implications of the federal decision to include Proposition 36 funding within the state's SAPT MOE.

9. Performance Partnership Grants

Background: The federal Children's Health Act of 2000 **requires the Federal Secretary of Health and Human Services to develop a plan to provide state flexibility and establish accountability measures that are based on outcomes and other performance measures.** The Act designates substance abuse prevention and treatment programs among those to operate under the new Performance Partnership Grants (PPG) commencing October 2003.

It appears the federal government will delay implementation of the new performance based system. However, in the foreseeable future, states will be required to transition to the new PPG system. **States will be required to measure performance on core indicators including alcohol use, all other drug use, criminal justice involvement, employment, pregnant addicts, HIV transmission, Tuberculosis and co-occurring disorders.** States will also develop and negotiate two to ten unique performance measures and associated outcome targets. **It is unclear if and when federal program funding will be based on program outcomes.**

California has begun the process of evaluating its program and planning for the implementation of PPGs. State planning activities include reviewing current systems, programs, regulatory and statutory schemes to assure they are consistent with the new system, and develop a process to establish state performance measures and outcome targets. The state is also evaluating fiscal and program processes to assure they are consistent with the new system.

Governor's Budget: The budget provides $242,000 to fund 3 positions to evaluate, plan and implement the federal Performance Partnership Grants.

Subcommittee request and questions: The Subcommittee has requested that the Department of Alcohol and Drug Programs answer the following questions:

1. Discuss the status of the federal implementation of Performance Partnership Grants.
2. How will the federal delay in implementation affect the state's workload to plan for and implement PPGs?

10. Realignment of Alcohol and Drug Treatment Programs

Background: California funds and administers numerous programs to prevent and treat substance abuse. The programs serve pregnant women, youth, CalWORKs recipients, inmates, parolees, drug offenders, low-income parents and low-income aged or disabled individuals. California's substance abuse treatment programs include Drug Medi-Cal, Proposition 36, non-Drug Medi-Cal community treatment programs, perinatal programs and drug courts. The Department of Alcohol and Drug Programs partners with county alcohol and drug programs, the Judicial Council, courts and other state and local entities to administer these programs.

Requirements vary significantly across alcohol and drug programs. For example, specific federal and state eligibility and program criteria govern Drug Medi-Cal. Non-Drug Medi-Cal community treatment programs function in accordance with state requirements, local priorities and federal SAPT maintenance of effort requirements. Proposition 36 operate in compliance with state criteria but vary significantly across the state. Unlike Drug Medi-Cal and other community treatment programs, Proposition 36 programs and Drug Court programs hinge on effective collaboration between public safety entities, the courts and county alcohol and drug treatment programs.

Governor's Budget: The budget **proposes to realign alcohol and drug treatment programs to counties for general fund savings of $230 million.** The realigned programs include Drug Medi-Cal services, drug court programs, Proposition 36 funding and non-Medi-Cal alcohol and drug services.

The proposed realignment of drug and alcohol programs may provide an opportunity for innovation at the local level and a chance to address barriers to individuals accessing services within the existing alcohol and drug treatment programs. However, federal maintenance of effort requirements, current program design and the degree of inter-agency cooperation in the implementation of these programs significantly complicate the proposed realignment. Additionally, federal maintenance of effort requirements limit county flexibility to establish funding priorities and modify program services to meet local needs.

Alcohol and drug treatment providers, including county alcohol and drug programs and private providers, oppose the propose realignment. They argue that it will result in variance in the availability of substance abuse services across the state and will diminish access to treatment services for Californians. Opponents believe that disparities between the proposed revenue streams and the rate of growth of the realigned programs will erode available funding for substance abuse treatments. Further, opponents argue that the proposed realignment violates the requirements of Proposition 36 and court judgements that narcotic treatment services be available to Medi-Cal beneficiaries across the state.

The Legislative Analyst's review of the Governor's proposed realignment concluded that alcohol and drug treatment programs might be good candidates for realignment. The Analyst believes that Proposition 36 requirements and federal maintenance of effort requirements seriously complicate the proposed realignment.

Subcommittee request and questions: The Subcommittee has requested that the Department of Finance and the Department of Alcohol and Drug Programs answer the following questions:

1. Briefly describe the proposed realignment and discuss factors such as caseload and programmatic issues that may affect the need for future expenditure increases.
2. Discuss the impact of federal MOE requirements and Proposition 36 requirements on the proposed realignment structure.
3. How will program operations change at the state and county level due to realignment?
4. What would the role of the state be in the context of realignment?
5. What reductions in state operations expenditures has the Administration identified as a result of the proposed realignment?

The Subcommittee has requested that the Legislative Analyst briefly discuss their analysis of the proposed program realignment.

Senate Budget & Fiscal Review
Senator Wesley Chesbro, Chair

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

Senator Wesley Chesbro, Chair
Senator Gilbert Cedillo
Senator Tom McClintock
Senator Bruce McPherson
Senator Deborah Ortiz

Consultant, Ana Matosantos

Thursday, May 8th, 2003
Upon Conclusion of Senate Floor Session
Room 4203

Pursuant to the Americans with Disabilities Act, individuals who, because of a disability, need special assistance to attend or participate in a Senate Committee hearing, or in connection with other Senate services, may request assistance at the Senate Rules Committee, 1020 N Street, Suite 255 or by calling 916-324-9335. Requests should be made one week in advance whenever possible.

4130 Health and Human Services Agency Data Center

The Health and Human Services Agency Data Center (HHSDC) seeks to increase efficiency and effectiveness in the use of electronic data processing resources by providing services to departments and agencies within the Health and Human Services Agency in a consolidated manner. HHSDC is supported entirely by reimbursements from departments that contract with the data center for services. The HHSDC budget is increased by $16 million in spending authority, an increase of 5.2 percent.

CONSENT ITEMS:

1. Operations and Infrastructure investments

Background: The HHSDC provides computer services, telecommunications support, information systems, and training support to departments in the Health and Human Services Agency. The budget provides $117.6 million to fund HHSDC operations.

Governor's Budget: The **budget decreases the HHSDC's overall spending authority from $132 million in 2002-03 to $122 million.** The budget provides some increases to the HHSDC spending authority to fund various increased operational costs including infrastructure improvements and changes to better meet customer needs. The proposed spending authority increase will support the following activities:

a. **Purchase computer equipment and establish new positions to support the HHSDC increased activities ($4.7 million).** The increased spending authority will fund the upgrade of a shared central processing unit, augment the HHSDC enterprise disk storage capabilities, accommodate enterprise tape processing, distributed server, and UNIX growth. It will also fund fifteen new positions to accommodate the increase in the infrastructure workload and support workload growth in computing and cost recovery services.

   Subcommittee recommendation: The subcommittee considered this proposal on March 13 and referred to the "action agenda" a recommendation to deny funding.

b. **Establish an operational recovery services site to serve the Employment Development Department and the Department of Developmental Services ($1.2 million).** These services will assure that EDD can continue to operate its tax program system, Unemployment Insurance system and Disability Insurance system in case of a disaster such as a flood, fire or sabotage. The services will also permit DDS to utilize the California Developmental Disabilities Information System, which the department uses to manage service delivery and provider reimbursements, in case of a disaster. **The HHSDC states that this proposal will allow EDD to comply with a federal requirement that it establish a contingency plan to assure the use of its databases in the case of a disaster.**

   The Legislative Analyst recommends that the Legislature reduce this item by $180,000, as these funds are being requested to begin operational recovery activities that have not been requested by client departments.

The Subcommittee considered this issue on March 13 and referred to the "action agenda" a recommendation to deny funding pending a review of the federal requirement that EDD establish a contingency plan to assure the use of its databases in case of a disaster.

Staff recommendation: Adopt the LAO recommendation to reduce funding for the operational recovery site by $180,000.

c. **Increase spending authority by $4,260,000 to reflect current costs.** The Governor's Budget reduces the HHSDC spending authority by $22.9 million to capture excess spending authority for program operations. A recent Department of Finance letter states that the budgeted reduction is overstated by $4.3 million, $2.8 million of which had been previously reduced from the base, and $1.5 million related to the operation of the MEDSTAT project. **The letter requests that HHSDC's spending authority be increased to reflect actual operation costs.**

   Staff recommendation: Adopt the Finance letter request to increase the HHSDC's spending authority by $4,260,000.

2. Training Center – proposed budget bill language

Background: The HHSDC operates the state's IT training center which is used by both state and local governments. The HHSDC uses contractors to teach the training classes and only purchases contractor services after enough students have enrolled in the proposed classes. Based on past workload growth trends, HHSDC estimates that its current expenditure authority will be inadequate to meet the state's training needs.

Governor's budget: The budget **proposes budget bill language that authorizes the Department of Finance to increase the HHSDC's expenditure authority to accommodate additional training requests.**

The ***Legislative Analyst*** **recommends deletion of the proposed budget bill language** as the HHSDC already has budget bill language that authorizes the Department of Finance to increase its authority for unanticipated workload.

Subcommittee recommendation: The subcommittee considered this proposal on March 13 and referred to the "action agenda" a recommendation to delete the proposed budget bill language.

3. Statewide Automated Welfare System Consortium

Background: SAWS is a multi-program automated system that provides support to eligibility determination, benefit computation, benefit delivery, case management and management information for various health and human services programs. 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; Welfare Client Data System, 18 counties; and Consortium IV, 4 counties).

The Data Center is responsible for the state-level project management of the Statewide Automated Welfare System Consortium and provides oversight for the four consortia, including review of project documents and budgets, deliverables and risk management. The HHSDC provides computing, application maintenance and operational support services for the 35 ISAWS consortium counties.

Finance Letter: A Finance Letter requests that the Legislature increase HHSDC spending authority for the ISAWS Consortium by $906,000.

The requested spending authority increase will assure that the HHSDC's spending authority is consistent with the anticipated project costs. It will not increase or otherwise modify total project costs.

Staff recommendation: Approve the Spring Finance Letter to increase HHSDC's spending authority for the ISAWS Consortium by $906,000.

4. Electronics Benefits Transfer Project – Department of Social Services' staffing

Background: Electronic Benefits Transfer (EBT) is the automation of welfare benefit authorization, delivery, redemption and reconciliation. The system will replace paper food stamp coupons and benefit checks with transfers and the use of benefits through point-of-sale devices and automated teller machines. Federal welfare reform enacted in 1996 requires states to implement EBT for food stamps by October 2002.

Due to contracting challenges, California's implementation of an EBT system has been delayed. According to the current schedule, which has been approved by the federal government, California will implement EBT fully by September 2004.

Responsibility for development and implementation of the new EBT system is divided between the Health and Human Services Data Center and the Department of Social Services. The Data Center is responsible for technical development and operation of the system. The Department of Social Services is responsible for protecting the fiscal integrity of the program and meeting federal requirements that the state have a higher degree of control in the issuance of benefits.

Governor's budget: **The budget proposes to increase the Department of Social Services' budget by $205,000 for EBT related staffing needs**. The funding increase will support the conversion of a limited term position to a permanent position and the establishment of a position to address program integrity issues, as well as the conversion of a limited term position to permanent and the establishment of a new position to provide fiscal oversight.

Subcommittee recommendation: The subcommittee considered this proposal on March 13 and referred to the "action agenda" a recommendation to deny the new positions and the accompanying funding.

5. Statewide Fingerprint Imaging System (SFIS)

Background: 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. The law also establishes imaging as a requirement of eligibility for CalWORKs and a condition of issuance for Food Stamps. California's Statewide Fingerprint Imaging System was designed and implemented to meet the state law requirements.

SFIS works to identify duplicate applicants for CalWORKS and Food Stamps benefits. It seeks to protect program integrity by deterring or detecting duplicate-aid fraud. SFIS matches fingerprint images of program applicants against a database containing fingerprint images of existing program participants. **California has spent $53.7 million on SFIS and continuing program costs are estimated to be $10.7 million per year.**

The California State Auditor recently evaluated the level of fraud detected through SFIS, the level of fraud deterrence resulting from the system and SFIS's deterrence of eligible applicants, and the system's cost-effectiveness. **The Auditor concludes that the level of detected duplicate-aid fraud has been very small, and that there is insufficient evidence to substantiate SFIS's cost-effectiveness.** The Auditor also concludes that the system may run counter to legislative and federal efforts to increase participation in the Food Stamps Program among eligible individuals.

The Department of Social Services disagrees with the Auditor in a number of ways, including its estimate of the system's cost effectiveness. DSS argues that the budget assumes $68.6 million in savings as a result of fraud deterred by SFIS. The department estimates that the lost savings due to termination of SFIS would be significantly lower than the assumed savings due to an assumed gradual return of the deterred caseload.

Governor's Budget: The budget **includes $10.7 million in funding for ongoing maintenance and operation of the SFIS system.**

Subcommittee recommendation: The subcommittee considered this issue on March 13 and referred to the "action agenda" a recommendation to eliminate SFIS for savings of $10.7 million.

ITEMS FOR DISCUSSION

1. Report on Efforts to Lower Costs and Rates

Background: The Supplemental Report of the 2002 Budget Act directed the HHSDC to perform a study to identify operations that should be improved and would result in reduced rates and costs. The information contained in this report may assist the Data Center and the Legislature in identifying efficiencies and reducing costs. The Budget did not specify a due date for the required report. The HHSDC testified before the Subcommittee that it would not complete the report until June or July 2003.

The Legislative Analyst comments in her analysis that unlike other departments whose budgets are based on reimbursements, the HHSDC has not proposed reductions to its spending authority outside those linked to the statewide elimination of vacant positions and adjustments for completed projects. For example, the Department of General Services decreases its spending authority by $17 million in the budget year. The HHSDC does not propose similar decreases to its spending authority.

The Data Center reports that it reduced rates by 9.6 percent in November 2000. HHSDC also expects to reduce the rates it charges departments by approximately 8 percent in the budget year based on projected increases in utilization and administrative savings. The Data Center reports that its rate decrease is contingent on the data center having sufficient expenditure authority to accommodate the increased utilization.

Budget issue: Does the Subcommittee wish to adopt budget control language which requires the HHSDC to reduce its rates effective July 1, 2003 and to adopt a reduction in spending authority commensurate with the required rate reduction?

4170 Department of Aging

The Department of Aging (CDA) is the state agency designated to coordinate resources to meet the long term care needs of older individuals, to administer the federal Older Americans Act and the State Older Californians Act, and to work with Area Agencies on Aging to serve 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 Department's **budget is reduced by $2.2 million (1.2 percent)** in the budget year. The **General Fund contribution** to the Department **is reduced by $6.4 million or 16.7 percent.**

CONSENT ITEMS:

1. Respite Registry Program Elimination

Background: The Respite Registry Program provides temporary or periodic services to frail or elderly adults with functional impairments to relieve persons who are providing care, recruits and screens providers, and matches respite providers to clients. The program began as a pilot project in 1996 and it was expanded statewide in 1998-99. Today the program operates at 16 sites throughout the state.

According to the Department of Aging, the Respite Registry program received 2,875 contacts in 2001-2002. Of these, 1,438 resulted in successful matches. It is not known how many providers are currently registered with the program.

Governor's Budget: The budget **proposes to eliminate funding for the Respite Registry Program for savings of $135,000 and proposes legislation to eliminate the statutory authority for the program.**

Subcommittee recommendation: The subcommittee considered this proposal on March 6 and referred to the "action agenda" a recommendation to approve the proposed reduction and adopt legislation to make program implementation contingent on a budget appropriation.

2. Senior Companion Program elimination

Background: The Senior Companion Program supports the delivery of volunteer light respite care and peer support services to frail elderly individuals, helping them live independently and remain in their homes. The Program provides a modest stipend to volunteers who are 60 years of age or older, who are low-income with an annual income at or below 12,000 per year, and who provide at least 20 hours of volunteer services per week. Last year, 474 seniors provided 317,000 hours of service to 3,059 seniors.

Governor's Budget: The budget proposes to **eliminate funding for the Senior Companion Program for savings of $2 million and proposes legislation to eliminate the statutory authority for the program.**

Subcommittee recommendation: The subcommittee considered this proposal on March 6 and referred to the "action agenda" a recommendation to approve the proposed reduction and adopt legislation to make program implementation contingent on a budget appropriation.

3. Foster Grandparent Program Elimination

Background: The Foster Grandparent Program supports the delivery of volunteer services to children with special needs. Foster Grandparent volunteers are low-income, sixty years of age or older, and are not members of the regular workforce. They volunteer twenty hours per week. Volunteers receive a modest stipend, a free meal or meal reimbursement on each day of service, and an annual free physical examination. Last year, 313 volunteers provided 197,000 hours of service to 4,770 special needs children.

Governor's Budget: The budget is proposing to **eliminate funding for the Foster Grandparent Program for savings of $1.1 million and proposing legislation to eliminate the statutory authority for the program.**

Subcommittee recommendation: The subcommittee considered this proposal on March 6 and referred to the "action agenda" a recommendation to approve the proposed reduction and adopt legislation to make program implementation contingent on a budget appropriation.

4. Senior Wellness and Prevention Media Campaign (StayWell)

Background: The Senior Wellness and Prevention Media Campaign (StayWell) promotes wellness by providing information on healthy aging practices to seniors, their families, caregivers, and health professionals. Program funding has supported the development and implementation of the public education campaign to provide information to aging Californians about physical fitness, nutrition, physical and mental health.

Governor's Budget: The Budget **proposes $495,000 in funding for the StayWell program** to support the continued publishing and distribution of a quarterly or semi-annual newsletter, the development of a poster to advertise the CDA's toll-free number for health and resources information, and translation of materials.

Subcommittee recommendation: The subcommittee considered this program on March 6 and referred to the "action agenda" a recommendation to reduce program funding by $295,000 and adopt legislation to make program implementation contingent on a budget appropriation.

5. Older American's Act Program Funding

Background: The federal Older Americans Act provides funding to support a series of programs designed to support seniors in living healthy and independent lives. The Act supports congregate nutrition meal programs, home delivered meals, ombudsman services, services to family caregivers, such as counseling and respite care, and other supportive social services, which include transportation and legal assistance.

California will receive a net increase of $1.1 million in federal Older American Act program funding in the budget year. Funding for supportive services and for congregate nutrition will decrease by $123,000 and $464,000 respectively. Funding for home-delivered nutrition, for preventive health, for the Family Caregiver Support Program, and for the State Office of Long-term Care Ombudsman will increase by $1.8 million.

Finance Letter: A Finance letter requests that the Legislature provide an increase in federal funding for Older Americans Act programs of $1,144,000.

Staff recommendation: Adopt the Finance letter to increase federal funding for Older Americans Act programs by $1,144,000.

ITEMS FOR DISCUSSION:

1. Health Insurance Counseling and Advocacy Program (HICAP)

Background: The Health Insurance Counseling and Advocacy Program (HICAP) is a consumer oriented health insurance counseling and advocacy program. It provides community education to Medicare beneficiaries, legal referrals and individual health insurance counseling and advocacy services regarding Medicare and other health insurance claims and appeals.

HICAP is funded by a combination of state and federal funds. The program receives federal State Health Insurance Assistance Program funds and a Medicare+Choice Program grant. It also receives state funds from the HICAP fund and the Insurance Fund, two special funds supported by fees assessed by the state from health plans.

In 2002, the federal government discontinued the Medicare+Choice grant funding. As a result, California's HICAP program will lose $560,000 in federal funds in 2003-04. The Department of Aging argues that core HICAP staffing and responsibilities should not be interrupted by this reduction. However, several local HICAPs will experience varying levels of funding reductions.

Senate Bill 413 (Speier), a measure currently before the Senate, seeks to increase HICAP program funding by increasing available fee revenues. The bill authorizes the Department to increase the existing HICAP assessment on health plans by 20 cents and requires plans that offer Medicare supplement contracts, including Medicare Select contracts, to be subject to the HICAP assessment.

Finance Letter: A Finance letter requests that the Legislature reduce HICAP funding by $560,000 to reflect the loss of federal Medicare+Choice funds.

Subcommittee request and questions: The Subcommittee requests that the Department of Aging discuss the status of HICAP funding and the effect of the requested funding reduction on local programs and seniors.

Budget Issue: Does the Subcommittee wish to adopt the requested funding reduction?

4200 Department of Alcohol and Drug Programs

The Department of Alcohol and Drug Programs (DADP) 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 Department is the lead agency in the implementation of Proposition 36 (the Substance Abuse and Crime Prevention Act of 2000). In FY 2002-03 the Department estimates that, through its county partners, services will be delivered to 347,800 persons. Appropriations in the budget year are proposed to decrease by $91.3 million (15.8 percent) due to the proposed realignment to counties of alcohol and drug services.

CONSENT ITEM:

1. Safe and Drug Free Schools and Communities Grant

Background: The Safe and Drug Free Schools and Communities grant funds a variety of statewide mentor programs, such as Friday Night Live Youth Mentoring. The grant also funds multiple alcohol and drug abuse prevention programs operating across the state and support the provision of technical assistance to statewide alcohol and drug prevention organizations and providers. The Department of Alcohol and Drug Programs awards funds to counties and local programs through interagency agreements and direct contracts.

Finance Letter: A Department of Finance letter requests that the Legislature increase DADP's federal expenditure authority for local assistance by $1,680,000. The increased funding will be distributed to counties through competitive grant awards for a variety of local alcohol and other drug prevention programs.

Staff recommendation: Adopt the Finance Letter to increase DADP's federal expenditure authority for local assistance by $1,680,000.

Budget issue: Does the Subcommittee wish to adopt the funding increase requested by the Administration in the spring Finance letter?

5175 Department of Child Support Services

The Department of Child Support Services (DCSS) administers the child support enforcement program operated by local child support agencies. The Department provides state direction to assure that child support amounts are established, collected, and distributed to families. The Department continues to have responsibility for addressing federal fiscal sanctions related to California's failure to develop a single statewide automation system. The department oversees local program and fiscal operations, administers the federal Title IV-D state plan for securing child support, and establishes performance standards for California's child support program.

CONSENT ITEM:

1. Federal fund authority for Franchise Tax Board Child Support Collections

Background: Since 1993, the Franchise Tax Board has been responsible for the collection of child support delinquencies. FTB developed the Consolidated Debt Collection System to accomplish this task. Over time, legislation mandated additional and different collection types of activities to also use this collection system. In 2002, the FTB developed the Child Support Replacement Project to move the existing child support functionality to a new platform with increased capacity.

A recent Department of Finance letter requests that the Legislature provide a $2.87 million augmentation of federal funds to fully support FTB's collection efforts and the recent Child Support Replacement Project.

Subcommittee recommendation: The Subcommittee considered this issue on April 10 and referred to the "action agenda" a recommendation to approve the requested increase in federal funds to the FTB for child support collection activities.

ITEM FOR DISCUSSION:

1. Program performance

Background: In 1999, **the Legislature enacted and the Governor signed Senate Bill 542 (Burton) and Assembly Bill 196 (Kuehl) to significantly reform California's child support system.** The measures sought to improve system accountability to children and their custodial and non-custodial parents, increase enforcement of child support and medical support orders, increase collections and assure statewide uniformity in the operation of child support programs. The legislation established the Department of Child Support Services to administer and perform necessary functions to establish, collect and distribute child support. They mandated the establishment of local child support agencies and required DCSS to develop uniform policies and procedures to govern local programs.

Since its establishment in 2000, the department has worked to develop and improve California's child support infrastructure, ensure statewide uniformity in the child support program and improve program performance.

California has generally improved its performance on federal outcome standards, although performance continues to vary significantly among counties. The federal standards consider paternity establishment, establishment of child support orders, collections on current orders, past-due collections and cost-effectiveness.

California performed significantly above the national average on the establishment of paternity and the percent of cases with a child support order. California's performance is about the national average on collection arrears.

California's performance on cost-effectiveness is significantly below the national average. California collected $2.60 per each dollar expended on collection efforts compared to the national average of $4.18. The budget assumes a ratio of $2.44 in collections for each dollar spent on collection activities. California provides baseline compensation to counties at a level comparable to 13.6% of the estimated level of collections adjusted to reflect county expenditures and available General Fund resources. This compensation constitutes the state's contribution for child support administration and is subject to a federal match of 2 to 1.

Although California has improved program performance and increased collections, its performance on current collections is below the national average. The state also continues to have a significant amount of uncollected child support payments. The state's current arrearage exceeds $17 billion dollars. A significant portion of that arrearage is owed to the state as compensation for CalWORKs and foster care services delivered to families with established support orders.

California's collection arrearage continues to rise. In 1992, the state's child support arrearage was $2.5 billion. According to DCSS data, in March 2000 California had $14.4 billion in child support arrears. The rate continues to rise due in part to low current collections.

California's collections on current support orders remain significantly below the national average. California's current collections in the 2001 Federal Fiscal Year was 41 percent compared to the national average of 56 percent. Preliminary data for the 2003 Federal Fiscal Year reflects an increase in current collections to 43.8 percent in the first quarter. Relatively low current collection rates limit the resources available to low-income families and increases the state's arrearages. Essentially, today's uncollected child support payments become tomorrow's child support arrearages.

California's high child support arrears and its low rate of current collections is in part due to inaccurate child support orders. Counties reportedly establish approximately 70 percent of support orders without participation by the obligor. In these

cases, when no income information is available, the court is statutorily required to presume a child support obligor's income level at an amount that yields the "minimum basic standard of adequate care".
Presuming income provides the court information to establish the child support order and creates an incentive for noncustodial parents to cooperate with child support agencies. However, presuming income significantly higher than the noncustodial parent's income, can result in inaccurate child support orders, excessive arrearages and discourage parents from paying child support. **Inaccurate support orders and low rates of collections on current support orders limit the resources available to families and reduce the federal incentive funding received by California for the operation of the Child Support Program.**

California's collections in the budget year are estimated to exceed $2.3 billion.

Subcommittee request and questions: The Subcommittee has requested that the Department of Child Support Services respond to the following questions:

1. Please discuss the status of current collections and collections on arrears, and the factors that affect the state's performance.
2. What is California's current child support arrearage and how is it changing over time?
3. What accounts for California's relatively low collections on current support orders?
4. What are effective ways to increase collections?

Budget issue: Does the Subcommittee wish to take any actions to increase child support collections?

5180 Department of Social Services

The Department of Social Services administers a variety of programs that have four major goals: 1) providing temporary cash assistance and services to encourage low-income families with children to attain self-sufficiency by moving from welfare to permanent employment; 2) providing social services to elderly, blind, disabled and other adults and children, protecting them from abuse, neglect and exploitation, and helping families stay together and in the community; 3) regulating group homes, preschools, foster care homes, day care and residential care facilities to ensure they meet established health and safety standards; and 4) conducting disability evaluations and providing benefit payments for federal and state programs serving the aged, blind and disabled. The department's total budget decreases by $807.4 million, a decrease of 4.5 percent. General Fund appropriations decrease by $3.9 billion, or 47.7 percent.

CONSENT ITEMS:

1. Independent Adoptions Program

Background: The **Independent Adoptions Program facilitates adoptions of children when an agreement has been reached between birth and adoptive parents.** Essentially the Department of Social Services (DSS) serves as the investigative arm of the Court and makes a recommendation to approve or deny a petition for adoption. **Through the Independent Adoptions Program, the department assists in the adoption of 1,200 children each year.**

The Department of Social Services currently charges a $1,250 fee to cover part of the costs associated with its IAP activities. The fee can be waived, reduced or deferred if the department, delegated county adoption agency or the court determine that the payment would cause economic hardship to the prospective adoptive parents and would be detrimental to the welfare of an adopted child.

Governor's budget: The **budget proposes to eliminate this program to realize savings of $3.8 million.** The Governor proposes legislation to authorize private adoption agencies to assume the responsibility for completing independent adoptions.

Senate Staff Alternative: When the subcommittee considered this proposal on March 27, it directed Subcommittee staff to develop an alternative to program elimination. As an alternative to program elimination, the Subcommittee may wish to increase the fee paid by adoptive parents to $2,950, limit waivers or fee adjustments to low-income parents only, and clarify that the payment of fees is not contingent on the outcome of the application for adoption.

Budget issue: Does the Subcommittee wish to approve the proposed program elimination?

2. Maternity Care

Background: Since 1977, **the Licensed Maternity Home Program has provided residential care, counseling and maternity-related services to pregnant, unwed residents of the State who are under 18 years of age when admitted to the program.** The Department of Social Services contracts with four faith-based organizations to provide program services.

Governor's budget: The budget provides $600,000 general fund to support the program.

Subcommittee recommendation: The subcommittee considered this issue on March 27 and referred to the "action agenda" a recommendation to eliminate funding for the program for savings of $600,000.

3. Foster and Adoptive Home Recruitment Program

Background: The Foster and Adoptive Home Recruitment program supports community based organizations in recruiting individuals from underrepresented minorities to participate as foster and adoptive parents in the state's children services programs. The Department of Social Services plans to enter into four contracts with community based organizations in the budget year to fulfill the program's requirements.

Governor's budget: The budget provides $392,000 ($242,000) general fund to support the program in the budget year.

Subcommittee recommendation: The subcommittee considered this issue on March 27 and referred to the "action agenda" a recommendation to eliminate funding for the program for savings of $242,000.

4. Shift Appropriation Authority for the State Children's Trust Fund

Background: Assembly Bill 2036 (Liu), Chapter 647, Statutes of 2002, extended the sunset for the State Children's Trust Fund check-off on the income tax form for five years and provided that monies in the Fund are subject to appropriation by the Legislature. These funds support child abuse and neglect prevention and intervention programs overseen by the Department of Social Services.

Finance Letter: A Finance Letter requests that the Legislature add a new item in the amount of $155,000 to shift appropriation authority for the State Children's Trust Fund.

Staff recommendation: Adopt the Finance Letter request to add a new item in the amount of $155,000 to shift appropriation authority for the State Children's Trust Fund.

Budget issue: Does the Subcommittee wish to adopt the spring Finance Letter?

ITEMS FOR DISCUSSION

1. Reduced Frequency of Site Visits to Facilities Licensed by the Department of Social Services' Community Care Licensing Division

Background: The Department of Social Services is responsible for licensing adoption agencies, foster care agencies and homes, childcare homes and centers and residential care facilities for disabled and elderly adults. As part of its licensing function, the **Department of Social Services conducts pre- and post- licensing site visits, and visits facilities when conducting investigations regarding incident reports and complaints.** The DSS is also required to visit annually licensed foster family agencies, group homes, residential care facilities for persons with disabilities and elderly individuals, foster family homes, and childcare centers. DSS visits childcare homes triennially.

The chart below illustrates facilities visited by DSS in 2002:

FACILITY TYPE	CASELOAD (DEC 02)	PRE/POST LICENSING VISITS	ANNUAL/ TARGETED VISITS	COMPLAINT/ CASE MANAGEMENT VISITS
All Residential Care Facilities (Foster Family Homes, Small Family Homes, Group Homes, Transitional Housing Placement Program, Adult Residential Care, Social Rehabilitation Facility, Residential Care Facilities for the Elderly)	16,914	3,925	7,708	10,845
Residential Care Facilities for the Chronically ill	28	3	27	14
Foster Family and Adoption Agencies	570	188	135	1,331
Adult Day Programs (Adult Day Care and Adult Day Support Center)	713	180	182	253
Family Day Care (Family Child Care Homes)	41,250	11,753	6,892	5,661
Day Care Centers (Child Care Centers for Children, Infants, School Age, and Mildly ill Children)	14,522	1,688	3,213	4,475

- FACILITY TURNOVER: The annual turnover rate is 20% of the caseload. Each newly licensed facility receives a prevention visit (pre-licensing & post-licensing inspections) in that year.
- FACILITY VISITS: The majority of visits to facilities are for purposes other than a yearly inspection (annual & targeted visits). These visits are for prevention and enforcement inspections.

Budget reductions sustained by the Community Care Licensing Division during the 1990s significantly reduced the length and thoroughness of the required annual inspections. According to the department, annual inspections have become procedural in nature and focus. The visits are virtually announced as the department solicits information necessary to conduct the visit in the month preceding the inspection.

Budget reductions sustained by the CCLD in the last two years as a result of unallocated budget cuts have curtailed further the department's licensing activities. The department has established priorities among its statutorily required activities. **It has prioritized the investigation of serious incident reports within the required 24-hour period. It has also prioritized conducting site visits for complaint investigations within the required 10-day period.** The annual or triennial visits are a lower priority.

A recent workload analysis of the CCLD conducted by an independent entity confirms the department's assessment that existing resources are insufficient to meet statutory requirements. As a result of the imbalance between available resources and required activities, the department is proposing to significantly change the existing licensing methodology.

Governor's Budget: The Governor's Budget proposes to **eliminate the required annual or triennial visits and proposes an alternative methodology for visiting licensees. It reduces the CCL budget by $7.6 million ($5.8 million general fund) and eliminates 57.9 permanent positions as a result of the proposed changes.** The proposed reduction of $7.6 million is comprised of a $4.5 million reduction in local assistance and a $3.1 million reduction in state operations.

The budget proposes to eliminate the requirement that licensees be visited annually or triennially and instead requires the department to visit annually the following facilities:

1. Facilities owned or operated by a licensee on probation or against whom an accusation is pending;
2. Facilities subject to a plan of compliance requiring an annual inspection;
3. Facilities subject to an order to remove a person from a facility;
4. Facilities that require an annual visit as a condition of federal financial participation such as facilities serving adults with developmental disabilities.

All other facilities would be subject to an annual inspection based on a 10 percent random sampling method. The department will continue to visit, on an annual basis, foster family agencies, adoption agencies, small family homes, adult residential facilities, residential care facilities for the chronically ill, transitional housing placement programs, childcare centers for the mildly ill, and social rehabilitation facilities.

The department estimates that proposed changes to current annual and triennial visit requirements will result in 20% of licensees being visited every year.

DSS will continue to conduct pre- and post- licensing visits, to investigate all complaints and incident reports within the required timeline, and to conduct legally required visits.

DSS comments that annual visits result in about 8 percent of the total corrective actions ordered by the department. Most corrective actions undertaken by the DSS are the result of complaints. The department argues that this proposal will enable the CCLD to focus on the oversight mechanisms most critical to assuring health and safety.

Senate Staff Alternative: The Subcommittee considered this proposal on March and directed Subcommittee staff to develop an alternative to the proposal. As an alternative to the proposal, the Subcommittee may wish to modify the Governor's proposed legislation to require DSS to visit each facility at least once every five years and to include an escalator clause which will trigger additional visits if DSS identifies a significant number of violations during visits. The Subcommittee may wish to require DSS report to the Legislature on implementation.

Budget Issue: Does the subcommittee wish to adopt the Governor's proposal or adopt the Senate option?

2. Investigation of complaints against certified family homes

Background: Foster family agencies were created in the 1980s to provide placements in a family setting as an alternative to group homes, to increase the availability of foster care placement resources, and to provide an enhanced level of services to foster children and families. They recruit, certify and contract with family homes to provide the actual placement services. The agencies are responsible for placing foster youth with the certified family homes, for monitoring the placement and for providing some case management services to the youth. Foster family agencies provide approximately 40 percent of first time foster care placements.

Foster family agencies are licensed by the Department of Social Services. As part of their license, foster family agencies are allowed to certify family homes for their exclusive use. The agencies are responsible for monitoring the homes they certify. **Historically, foster family agencies were responsible for investigating complaints filed against certified foster homes.**

High profile incidents of abuse and maltreatment of foster youth and the debate ensuing from these incidents triggered Senate Bill 933, a comprehensive legislative reform of the foster care system. SB 933 (Thompson) established rigorous licensing requirements for foster care providers, it prohibited the placement of foster youth with unlicensed out-of-state providers, and required DSS to investigate complaints filed against foster care providers. **It also transferred the responsibility for investigating complaints lodged against certified family homes from licensed foster family agencies to the Department of Social Services to avoid potential conflicts of interest.**

The department reports that **the transfer of responsibility for investigating complaints involving certified foster homes from foster family agencies to DSS has resulted in significantly more workload than initially estimated.** The Department initially estimated 11,619 complaints associated with certified family homes per year, as compared to complaints associated with 13,821 certified family homes in fiscal year 2001-2002. According to the department seventy-five percent of these complaints involve Levels 3 and 4 or less serious allegations such as confidentiality breaches, physical punishment that does not result in bodily harm, and lack of variety or distasteful food.

Governor's Budget: The budget **proposes to transfer responsibility for the investigation of less serious certified family home complaints to foster family agencies resulting in a budget year savings of $1.1 million (714,000 General Fund)**. The proposal would eliminate 26.1 PY at the State's Community Care Licensing Division.

The budget proposes to **transfer responsibility for investigating Level 3 and 4,** or less serious complaints**, to foster family agencies. DSS will review all complaints filed against a certified family home, regardless of who receives the complaint.** DSS will determine the level of the complaint and decide who will investigate the complaint based on whether the complaint is "serious" or "non-serious". DSS will refer "non-serious" complaints to foster family agencies, and will require the agencies to investigate the complaints, document their investigation, including their findings and corrective action. DSS will review the records of investigations during site visits.

DSS will continue to investigate Level 1 and 2, or serious complaints. These complaints may involve sexual abuse, physical abuse resulting in injury, suspicious death, unlicensed operation, and inappropriate sexual behavior or touching.

Senate Staff Alternative: The Subcommittee may wish to transfer responsibility for investigating Level 4 complaints to foster family agencies and increase the proposed certified family home fee to support the department's continued investigation of Level 3 complaints.

Budget issue: Does the subcommittee wish to approve the proposed transfer and adopt savings associated with the transfer?

3. Continue Limited-Term Positions to Process Disability Medi-Cal applications

Background: The Department of Social Services is responsible for determining medical eligibility for applicants for Medi-Cal programs that serve persons with disabilities including the Aged, Blind and Disabled program and the 250 percent of the federal poverty level Working Disabled and Elderly program. DSS considers medical and vocational evidence to make a determination about a person's disability status according to guidelines developed by the Social Security Administration.

Increases in the number of low-income working persons with disabilities who apply for the Medi-Cal program has increased the department's workload. DSS estimates a backlog of 8,000 cases by the end of the fiscal year.

Federal law requires states to complete eligibility determinations for persons alleging disability as a basis for Medi-Cal eligibility within 90 days. DSS reports that Medi-Cal applications generally are 100 days old before the department processes the application, clearly exceeding the federally required timelines.

Finance Letter: A Finance Letter requests an increase of $900,000 ($450,000 General Fund) to extend 10.5 limited term positions for two years to process increased Medi-Cal disability application workload.

Budget issue: Does the Subcommittee wish to adopt the requested increase?

4. Tyler v. Anderson

Background: *Tyler v. Anderson* was a class action lawsuit to overturn the Department of Social Services' policy of denying payment under certain circumstances to In-Home Supportive Services providers who provided range of motion exercises to IHSS recipients between June 1990 and May 1994. DSS settled this case and a Judgment was issued in January 1999 which required the department to inform potential claimants, receive and process claims and make payments to eligible claimants.

The department established a special unit to perform the required *Tyler* work on a limited term basis with positions expiring on June 2003. DSS has notified the majority of potential claimants and resolved 3,536 claims. However, due to a high volume of mailings returned as undeliverable, DSS has agreed to re-notice 170,000 potential claimants and resolve claims that may result from these contacts.

Finance Letter: A Finance Letter requests an increase of $270,000 general fund to extend 4 limited term positions for two years to complete additional activities under the Tyler v. Anderson settlement.

Subcommittee request and questions: The Subcommittee has requested the Department of Social Services to describe the request, discuss the need for the continuation of these positions and why the workload cannot be completed by existing staff.

Budget issue: Does the Subcommittee wish to approve the requested increase?

Senate Budget & Fiscal Review

Senator Wesley Chesbro, Chair

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

Senator Wesley Chesbro, Chair
Senator Gilbert Cedillo
Senator Tom McClintock
Senator Bruce McPherson
Senator Deborah Ortiz

May 12th , 2003
1:30 PM
Room 112

OPEN ISSUES
(as noted)

Item	*Description*
4440	**Department of Mental Health--*Selected Issues as Noted***
4300	**Department of Developmental Services—Capital Outlay Issues Only**
4260	**Department of Health Services—*Selected Issues as Noted***

I. ITEMS RECOMMENDED FOR CONSENT (Items "A" through "B")

A. Department of Mental Health *(Items 1 Through 5)*

1. Reappropriation for Atascadero—New 250 Bed Extension for Penal Code Patients

Background and Budget Act of 1998: Through the Budget Act of 1998, bonds funds were appropriated to construct a new 250-bed extension at Atascadero State Hospital in order to provide appropriate placement for mentally-ill penal code patients.

All of the construction has been completed and the DMH states they have been occupying some of the new units. However, there has been problems with leaks in some of the units. At this point in time it is unclear whether the leaks have been caused by poorly installed windows or from other design or construction problems. According to the DMH, the Department of General Services is working to discern the problem.

Finance Letter Request: The DMH is requesting to reappropriate $181,000 (Public Building Fund), which is remaining from the original appropriation contained in the Budget Act of 1998, in order to address the concerns with the leaks. According to the DOF, the ability to spend the appropriation expires on June 30, 2003. This reappropriation will allow the funding to remain in place while a solution to the leaking is determined.

Subcommittee Comment: No issues have been raised.

Budget Issue: Does the Subcommittee want to adopt the Finance Letter?

2. Metropolitan State Hospital Kitchen Project

Background and Governor's Budget Request: The current kitchen facilities at Metropolitan State Hospital were constructed in the 1950's and have not had any major renovations since then. A DGS report concluded that the existing central kitchen should be replaced and the satellite serving kitchens should be renovated to bring the hospital's food service up to current technology. In addition it has been found that the existing kitchen building has a Risk Level V rating which means it is in dire need for a seismic retrofit.

The Governor's budget proposes an appropriation of $18.7 million (Public Building Fund) for preliminary plans, drawings and construction of a new central kitchen and the renovation of the existing satellite serving kitchens at Metropolitan State Hospital.

Legislative Analyst's Office Recommendation: The **LAO Capital Outlay section recommends approval of the project with the following Budget Bill Language:**

> "The Department of Finance will provide written notification to the Joint Legislative Budget Committee, within ten days of receipt, of any requests for an augmentation of project costs, change in project scope, and any requested change in project schedule, for projects identified in Schedule 2."

The LAO believes this language is necessary in order to ensure Legislative oversight of the project.

Budget Issue: Does the Subcommittee **want to adopt the proposal along with the recommended Budget Bill Language (as noted above)?**

3. Federal Projects for Assistance in Transition from Homelessness (PATH) Grant

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 (about 45). 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.

The Budget Act of 2002 provided $5.5 million (federal funds) for PATH of which $1.334 million was specifically earmarked for supportive housing demonstration projects. After administrative costs of $109,000, the remaining amount of about $4 million was allocated to 45 counties that elected to participate in PATH. Counties receiving PATH funds must annually develop a service plan and budget for utilization of the funds.

According to the DMH, smaller PATH-funded counties have voiced concerns over the significant reporting and program requirements mandated by the federal government. Recently, two counties have elected to discontinue applying for PATH funding due to these concerns. Therefore, the DMH is proposing to relieve the smaller counties of administrative and reporting requirements by replacing PATH funds with more flexible federal SAMHSA block grant funds.

Finance Letter Request: The DMH is requesting **an increase of $256,000 (federal PATH funds)** to reflect the receipt of additional federal funds and to modify how it operates the PATH Program. **Specifically, the DMH is proposing that each county currently receiving less that $10,000 from the federal PATH grant (eight counties in all) have their funding shifted to federal SAMHSA block grant funding (same amount). This would provide more flexibility for the smaller counties, less reporting requirements and an adequate base allocation.**

The remaining 37 PATH-funded counties (receiving over $10,000) would be allocated the $256,000 increase based on the Cigarette and Tobacco Surtax formula. (This formula has been in existing since 1989 and is still used to allocate some mental health funds even though there is no longer any Proposition 99 funds provided to county mental health; these funds were discontinued in 1993/94.)

Subcommittee Comment: No issues have been raise by this proposal.

Budget Issue: Does the **Subcommittee want to adopt the Finance Letter?**

<u>4. Early Mental Health (Proposition 98 Funding)</u>

<u>Background:</u> Under the Early Mental Health Initiative, the state awards grants (for up to three-years) to Local Education Agencies (LEAs) to implement early mental health intervention and prevention programs for students in Kindergarten through Third Grade. Schools that receive grants must also provide at least a 50 percent match to the funding provided by the DMH. Schools use the funds to employ child aides who work with students to enhance the student's social and emotional development.

Students in the program are generally experiencing mild to moderate school adjustment difficulties. Students must have parental permission to participate in the program. In addition, all Early Mental Health Initiative programs are required to contract with a local mental health agency for referral of students whose needs exceed the service level provided in this program.

The Early Mental Health Initiative is an effective school-based program. **It serves children experiencing school adjustment issues who are *not* otherwise eligible for special education assistance or county mental health services because the student's condition is usually not severe enough to meet the eligibility criteria in these other programs (such as the Children's System of Care Program or EPSDT services).**

Under the current budget year, 78 programs are in their first year of the grant cycle, 65 programs are in the second year and 63 programs are in their third year (i.e., ending as of June 30, 2002).

<u>Governor's Mid-Year Reduction Proposal:</u> The Administration proposed to revert $549,000 (Proposition 98 General Fund) in **unexpended** funds in 2002-03 and to eliminate the program in 2003-04 for savings of $15 million (Proposition 98 General Fund). **The Legislature adopted the Mid-Year Reduction of $549,000 (Proposition 98 General Fund) but deferred action on the budget year proposal.**

<u>Governor's Proposed Budget:</u> The **budget proposes to eliminate the Early Mental Health Initiative for savings of $15 million (Proposition 98 General Fund).**

<u>SB 26(x)—Modified Statute:</u> At the request of the Administration, Chapter 9, Statutes of 2002, **modified the existing Early Mental Health Program statute to make funding continent upon appropriation in the annual Budget Act or other statute. As such, this change in effect provides the Governor with the ability to reduce or veto funds appropriated by the Legislature for the program.**

<u>Staff Comment and Recommendation:</u> Both the short-term and long-term effect of this reduction is that children with mild to moderate school adjustment problems will likely not receive services and may, as a consequence, need more intensive services later. **Further, these students may end up doing poorly in school and developing other problems.**

For the budget year (2003-04), 78 programs of the programs would be moving into their second year of the grant cycle, and 65 programs would be moving into the third year. According to the

DMH, it would cost $5.2 million to continue the 78 programs, and $4.8 million to continue the 65 programs, for a total of $10 million (Proposition 98-General Fund). **As such, it is suggested to provide $10 million (Proposition 98-General Fund) to continue these programs into the budget year. This will enable the program to proceed with completing the three-year cycle.**

If the DMH needs staff to process the grant applications, they should temporarily redirect positions from within existing resources as needed.

Budget Issue: Does the **Subcommittee want to provide a $10 million (Proposition 98-General Fund) increase to continue the Early Mental Health Program to continue funding for the schools that will be in the second and third year grant cycles?**

5. Crime Victims with Disabilities Program

Background and Governor's Proposed Budget: The Budget Act of 2000 implemented a new program—Crime Victims with Disabilities. The purpose of the program was to employ crime victim specialists who would be responsible for crime prevention efforts, encourage County Mental Health Plans to include a personal safety component in their treatment planning process and to provide some trainings on the topic of crimes against individuals with disabilities to various departmental staff within the CHHS Agency.

The Governor is proposing to eliminate the program since the Crime Victims Restitution Fund which was funding the program is now running a deficit. As such, the DMH is requesting to eliminate the program.

Subcommittee Comment: No issues have been raised by this proposal.

B. Department of Developmental Services

1. Porterville Developmental Center—96-Bed Expansion for Forensic Population

Governor's Budget & Finance Letter: The Governor's January budget **included $44.5 million (Public Building Construction Fund) for the planning and construction of six 16-bed residential units, a protective services facility, and related security improvements for the Secured Treatment Program at Porterville DC.** This proposal also includes an extension of the perimeter security equipment, new water well, emergency generator building, and related site work. Currently, the Secure Treatment Program is at full capacity and based on the DDS' projections of the forensic/severe behavioral population, 96 additional beds will be needed over the next five years.

In addition, the Governor's January budget proposed expenditures of $5.7 million (Public Building Construction Fund) for the planning and construction of a recreational center within the Secured Treatment Program fenced area at Porterville.

A Finance Letter which proposes an adjustment of about $13.1 million (Public Building Construction Fund) to reflect final budget package costs has also been proposed. This consists of an additional $752,000 for a recreational complex at Porterville, as well as an adjustment of $12.3 million for the preliminary plans, working drawings and construction of the 96-bed facility.

Legislative Analyst's Office—Recommended Budget Bill Language: The LAO Capital Outlay Section concurs with the need for the project and is recommending the following Budget Bill Language in order to try and meet federal requirements:

> "It is the intent of the Legislature that the 96-bed Forensic Residential Expansion and Forensic Recreation and Activity Center projects at the Porterville Developmental Center be completed in a manner that would support the Department's efforts to secure federal Medicaid certification and the recovery of federal Medicaid reimbursements. The Department of Developmental Services is to make every effort to secure federal certification of the forensic facilities at the Porterville Developmental Center."

Budget Issue: Does the Subcommittee want to adopt the Governor's budget and Finance Letter, as well as the recommended LAO language?

C. Department of Health Services

1. Phase II of Richmond Laboratory

Background and Finance Letter Request: Phase II of the Richmond Laboratory will be about 330,000 square feet and will house 425 staff. The current project cost is $108.7 million (Public Construction Bond Funding).

According to the DHS, schedule delays have extended the original contract completion from January 2002 to June 2003, or perhaps later. The liquidation period for the original construction funding authority expires as of June 30, 2003. Although the DHS will occupy the majority of the facilities by June 30th, actual completion and closeout of the work, settlement of any disputes and potential claims, as well as final payment, will take beyond that date. In addition, the DGS has determined that the original contractor needs to make some design changes that were omitted from the construction documents.

As such, the Administration is requesting to provide for reappropriation authority of $13.1 million (Public Buildings Construction Fund) to extend the liquidation period of the original construction appropriation. (The original appropriation was contained in the Budget Act of 1998.) **The $13.1 million represents $6.6 million that is already authorized to DGS for expenditure and remains unliquidated, and $6.5 million in bid savings remaining in the appropriation that may be required for future projects on this Phase II.**

Subcommittee Staff Comment: No issues have been raised.

II. ITEMS FOR DISCUSSION—DEPARTMENT OF HEALTH SERVICES

1. DHS Report Regarding Nursing Home Liability Insurance

Background: Through the omnibus health trailer bill (AB 430, Statutes of 2001) that accompanied the Budget Act of 2001, **the DHS was directed to convene a workgroup** with the Department of Insurance, the Office of Statewide Health Planning and Development, and the Department of Finance **regarding general liability and professional liability insurance for long-term care providers in California.**

From the deliberations of this workgroup, and related information, the DHS was to submit a report to the Legislature by no later than March 1, 2002. This report has yet to be provided one-year later.

The report on liability insurance for long-term care providers is to focus on elements that include:

- **(1)** the number and cost of claims and trends;
- **(2)** trends in average long-term care liability premiums;
- **(3)** projections on future cost of claims and premiums based on past and current loss experience;
- **(4)** identification of the factors contributing to trends in claims, costs, and premiums related to general liability and professional liability insurance for long-term care providers; and
- **(5)** related other factors.

The Subcommittee is in receipt of a letter from Senator Johnson who has requested the Chair to query the DHS on the status of the report and when it will be provided to the Legislature.

Subcommittee Chair's Request: Senator Chesbro has asked the DHS to respond to the following questions:

- **1.** Did the workgroup discussions occur?
- **2.** Has the report been drafted?
- **3.** When will the report be provided to the Legislature?
- **4.** Can a draft report be provided during the interim?

2. Maternal & Child Health—Perinatal Profiles Funding

Background: The Perinatal Profiles Project is an essential element in California's improvement in **(1)** reducing very low-birth weight births, and **(2)** improving the numbers of women receiving prenatal care in the first trimester.

The DHS notes that the Perinatal Profiles are the **only state quality improvement tool which allows hospitals to review their perinatal outcomes and compare them to comparable-level facilities and to the region, as well as the state.**

The Perinatal Profiles are developed from data on the Birth Cohort file (birth file linked with death files). **They provide facility-specific, risk-adjusted fetal and neonatal mortality rates and other perinatal data for each of the 300 plus delivery hospital and birthing facilities in the state.** Each facility is mailed its own (confidential) data, and statistical data on other comparable-level facilities in the state as well as regional and statewide data. **Since the Profiles are confidential, scientific and risk-adjusted, hospitals have been receptive to making necessary changes to improve performance and obtain better birth outcomes.**

Regional Perinatal Program nursing staff use the Profiles to provide hospitals with guidance and supplemental education to improve their performance.

It is presently funded at $200,000 (California Health Data and Planning Fund) in the current year.

Budget Act of 2002: **In the Budget Act of 2002 and accompanying trailer bill legislation, the project was shifted from using federal Title V funds to using the California Health Data and Planning Fund for one-year.** The California Health Data and Planning Fund is a fee-supported fund whereby hospitals pay a fee to the state Office of Statewide Health Planning Department and the funds are used to analyze a wide variety of hospital data.

Governor's Proposed Budget: The Governor's budget proposes to eliminate the Perinatal Profiles project for the budget year.

Subcommittee Staff Recommendation: In an effort to maintain the Perinatal Profiles Project, it is recommended to **adopt trailer bill language to continue to use $200,000 from the California Health Data and Planning Fund on an ongoing basis.**

The suggested trailer bill language is as follows:

> Amend Section 127280.1 of the Health and Safety Code as follows:
>
> Notwithstanding any other provision of law, up to two hundred thousand dollars ($200,000) of the moneys collected pursuant to Section 127280 may be used ~~in the 2002-03 fiscal year~~ by the State Department of Health Services for data collection on, analysis of, and reporting on, maternal and perinatal outcomes, if funds are appropriated in the Budget Act.

<u>According to the Governor's Fund Condition Statement for the California Health Data and Planning Fund, there will be about $4.1 million in reserve for 2003-04. As such, a $200,000 allocation can easily be provided by the special fund.</u> Further, the data being collected for this project is directly pertinent to hospitals. Therefore, use of the special fund makes programmatic sense, and is a reason why it was used last year.

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

- **1.** DHS, please briefly describe the Perinatal Profiles Project.
- **2.** DHS, from a technical assistance basis, has the Perinatal Profiles Project been useful?
- **3.** DHS, are these Profiles needed **in order for the state to provide some of the data required for the state to receive its federal Title V** Maternal and Child Health block grant funds?

<u>Budget Issue:</u> Does the **Subcommittee want to adopt trailer bill language as shown and provide $200,000 from the California Health Data and Planning Fund to continue the Perinatal Profiles Project?**

<u>3. Medi-Cal Managed Care Program—Proposed Quality Assessment Fee</u>

<u>Background:</u> California utilizes several Medi-Cal Managed Care models for the delivery of health care services, including County Organized Health Care Systems (COHS), the Two Plan model (local initiatives and commercial HMOs), and Geographic Managed Care. The DHS **presently contracts with 31 health plans, many of which are considered *non-public* agencies.**

Under both state and federal requirements, the capitation rates paid under a managed care model must be below the fee-for-service cost equivalent. **The rates paid to Medi-Cal Managed Care plans have been frozen for the past two years and as noted below, the Governor's January budget proposes to reduce these rates by 15 percent for savings of $423 million ($211.5 million General Fund).**

Under the authority of the Social Security Act, Title 19, Section 1903(w)(7)(A), the state may impose a "quality assessment fee" on managed care contracts providing services under the Medicaid Program (Medi-Cal in California). **This mechanism can be used to then draw down additional federal funds.**

<u>Governor's Budget and Finance Letter:</u> The Governor's January budget **proposes to save about $422 million ($211 million General Fund) by reducing the rates paid to Medi-Cal Managed Care plans by 15 percent across-the-board.** ***(The Subcommittee has deferred a***

decision on this rate reduction, as well as the other services affected by the proposed rate reduction, until the Governor's May Revision.)

In addition, a Finance Letter proposes to implement by *January 1, 2004*, a quality assurance fee for Medi-Cal Managed Care plans as allowed for in federal law. Under this proposal, the DHS would assess a quality assurance fee of 6 percent on all Medi-Cal Managed Care plans. The amount actual paid by each plan would vary, depending on their gross Medi-Cal revenue.

The quality assessment fee would then be used to (1) obtain increased federal funds to provide a rate adjustment for Medical Managed Care plans, and (2) obtain increased funds to offset about $37.5 million in General Fund support.

Based upon *preliminary* information provided by the DHS, the fiscal arrangement would be as follows:

- **6 percent fee paid by the plans** =$150 million in revenues
- **State uses 25 percent of $150 million to backfill for GF** **=$37.5 million (GF savings)**
- **State obtains federal match on remaining $112.5 million** =$225 million available for use
- **State provides plans with rate adjustment** =$225 million
- ***Net* amount** (6% fee paid versus rate adjustment) **to the plans** =$75 million (net gained--plans)
- **The DHS will need to modify the state's existing Medi-Cal "Upper Payment Level" in order to make these funds available to the plans.** The DHS would then distribute the "Upper Payment Level" amount to the various Two-Plan Model entities based on the existing DHS rate model that recognizes the cost of providing services in the county, and the plans acuity mix. For Geographic Managed Care Organizations and County Organized Health Care Systems (COHS), the California Medical Assistance Commission (CMAC) would allocate the funds through their existing contract process. In addition, the AIDS Health Care Foundation (as a primary care case management entity) would also be included in the quality assessment fee process.

Through the Finance Letter, the DHS is requesting an increase of $196,000 ($97,000 General Fund) to fund three DHS positions to implement the proposal. Specifically, the DHS is requesting two Account I Specialists and one Account Officer to conduct activities associated with quality assurance fee implementation.

Subcommittee Staff Comment—Need Additional Information: This proposed quality assurance fee for Medi-Cal Managed Care plans parallels the Administration's proposal for implementing a quality assurance fee for Intermediate Care Facilities--Developmentally Disabled (ICF-DD) which the Subcommittee has already reviewed. **Several states have been using quality assurance fees to assist in making Medicaid program improvements for several years.**

Conceptually, implementation of a quality assurance fee for Medi-Cal Managed Care plans makes sense. **However, it is recommended for the Subcommittee to withhold action on this proposal pending May Revision for the following reasons**. **First, the Administration has**

not yet provided the Legislature with the proposed trailer bill language. The language is needed in order to clarify how the proposal will be implemented, including the assessment and collection of the fee, and its allocation back to the plans. **The Administration has said it will provide the language at the May Revision.**

Second, the quality assessment fee **fiscal information is *preliminary***. The DHS is in the process of obtaining more information from its fiscal actuary, as well as in the middle of making other technical adjustments (such as caseload) that will be forthcoming at the Governor's May Revision.

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

- **1.** Please **briefly describe** the proposal to implement a quality assessment fee for Medi-Cal Managed Care plans.
- **2. Generally, how would the fees be collected from, and then allocated back, to the plans?**
- **3.** Please ***briefly*** **describe the need for the positions.**
- **4. Are the three requested positions be funded from the revenues obtained from the Medi-Cal Managed Care plans (along with the federal match) or are they funded using the portion of revenues the state receives as a General Fund backfill?**

Budget Issue: Does the **Subcommittee want to withhold action on this item pending receipt of the May Revision and more information**—language and fiscal detail?

4. Discussion Regarding Adult Day Health Care (ADHC) *(Informational Item)*

Background—What is Adult Day Health Care: Adult Day Health Care (ADHC) is **a community-based day program which provides nursing, physical therapy, occupational therapy, speech therapy, meals transportation, social services, personal care, activities and supervision designed for low-income elders and younger disabled adults who are *at risk* for being placed in a nursing home.**

ADHC has been a successful model for elderly individuals for they can obtain many services in one location. For these individuals, particularly those with mobility challenges, going to one place for health care results in better compliance with therapy, medication, nutrition, and exercise regimens. **Under Medi-Cal, individuals can participate in ADHC from one to five days per week, but usually average about three days a week.**

The general concept behind providing ADHC services is that they delay or defer individuals from going into nursing homes or other more costly forms of care and

therefore, it saves Medi-Cal money. Compared to the monthly Medi-Cal cost of a nursing home at about $3,400 per month, ADHC can cost as much as three to four times less.

According to data obtained from the California Association for Adult Day Services, generally ADHC participants can be described as follows:

- All participants have functional impairments that require supervision or assistance.
- 93 percent of all ADHC participants are Medi-Cal recipients.
- All individuals attending ADHC must be approved by a Medi-Cal field office using a "treatment authorization process (TAR) in order for the ADHC facility to receive Medi-Cal reimbursement for the individual.
- 53 percent have at least three or more medical diagnoses, such as cardiovascular disease, dementia, diabetes, stroke and mental illness.
- 64 percent are female
- 50 percent are over the age of 75 years with the average age being 78 years

<u>Background—How is ADHC Eligibility Determined (See Hand Out):</u> As noted in the Hand Out, there **is a formal intake and assessment process** to initially determine whether an individual would benefit from the ADHC services. If an individual is accepted for enrollment into the ADHC, a team meeting is convened and **an Individual Plan of Care is crafted.**

All individuals attending ADHC must be approved by a Medi-Cal field office using a "treatment authorization process (TAR) in order for the ADHC facility to receive Medi-Cal reimbursement for the individual.

<u>Background—ADHC Facility Application Process (See Hand Out):</u> In order to become an ADHC provider, there are many steps that are required to be met, including the following:

- Complete a prospective **Provider Application** and submit to the state in order to obtain licensing and certification approval (DHS and CDA reviews).
- **Obtain a facility site and secure qualified staff** in preparation of obtaining approval.
- Undergo a local planning council review to ensure if there is a need in the service area.
- **Field work is completed by the state and licensing and certification is approved.** The applicant is now a certified Medi-Cal provider.

<u>Background—How is the ADHC Funded:</u> The ADHC Program **is funded through Medi-Cal.** Based on the Governor's January budget, **California is slated to expend $305.3 million ($152.6 million General Fund) in 2003-04. This DHS fiscal project assumes the following:**

- Average cost per participant is about $777 per month (based on recent three-month average).
- Total actual participants as of June 2002 is 22,411 participants.
- Total projected participants as of June 2003 (beginning of the 2003-04 budget year) is about 29,000.
- Total projected participants as of June 2004 (end of the 2003-04 budget year) is about 36,000.

Recent Concerns with ADHC Growth: **Both the DHS and the California Association for Adult Day Services (Association) have noted that the ADHC Program began to grow** in 1999 after many years of exceedingly slow growth. ***Generally*, some of the reasons for this growth included:** **(1)** changes in the state's aging and immigrant demographics, and **(2)** the lifting of statutory restrictions against "for profit" ADHC providers. The area of most rapid growth has been in Los Angeles County where there are larger concentrations of Medi-Cal recipients (about 28 percent or so statewide).

The Association believes that the state was not prepared to respond to the consumer and provider demand. They contend that the state's regulatory system, including licensing and certification procedures, needs to be adjusted to reflect the demographic needs of California's older population and the changing competitive healthcare environment.

The DHS has conveyed that there maybe some unscrupulous ADHC providers who have expanded their services beyond the need of the demographics in certain areas.

Legislative Analyst's Office Option: As one of their "options" **the LAO has proposes for the DHS to place a moratorium on approving new Adult Day Health Centers. They contend that savings of $60.2 million ($30.1 million General Fund) can be achieved** in 2003-04 by slowing the rapid growth which they say has been occurring in the number of Adult Day Health Centers.

California Association for Adult Day Services—Option for Managed Growth: The Association has crafted a proposal **which is *generally* intended to** **(1)** strengthen ADHC services as a community-based alternative to institutional placement (such as nursing homes) **(2)** modernize the licensing and certification process, and **(3)** strengthen authority for planning and prioritizing new ADHC sites. Through this proposal, the Association intends to manage and control the growth of new sites. **The Association is also the sponsor of SB 428 (Perata),** as amended, which contains some of the components of this "Managed Growth" proposal.

Key aspects of the Association's proposal includes the following:

- **Creates a "Pre-Certification"** process that would: **(1)** require the Applicant to attend a **mandatory orientation course** offered by the state (CDA) or a contractor prior to obtaining and submitting an application; **(2)** require the Applicant to submit their application **along with a letter detailing the need for the services** in the geographic area; **(3)** require the CDA to conduct a face-to-face interview with the Applicant. Under this process, the CDA will have authority to prioritize applicants based on need factors and the department's estimation of the providers readiness. The CDA would notify the applicant of the potential timeframe for application processing.

- **Proceed with Facility Licensing**: After the Pre-Certification is complete, the Applicant would comply with the remaining requirements for the licensing process, including the identification of the facility site, submission of fingerprint cards and all health and safety rules. The Applicant would then proceed through the regular DHS licensing field office inspection.

The Association maintains that by placing requirements up-front, it will improve the application process, slow the growth of demand in areas that may not have a fully identified need for the services, and is an overall better use of state resources.

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

- **1. LAO**, please describe your option for imposing a moratorium on licensing Adult Day Health Centers.
- **2. LAO**, how could a moratorium affect the state's implementation of the Olmstead Decision?
- **3. DHS**, what is your perspective of the growth pattern regarding ADHC services?
- **4. DHS**, please comment on the concept of imposing a moratorium.
- **5. CA Association for Adult Day Services**, please provide your perspective of what a moratorium could mean.
- **6. CA Association for Adult Day Services**, please present your managed growth proposal.
- **7. DHS**, do you have any comments regarding the proposal?

5. Discussion Regarding Disease Management *(Informational Item)*

Background: **Existing state statute defines "disease management programs and services"** as services administered **to patients in order to improve their overall health and to prevent clinical exacerbations and complications utilizing cost-effective, evidence-based, or consensus-based practice guidelines and patient self-management strategies. Existing statute defines a "disease management organization"** as an entity that provides disease management programs and services, which contracts with any of the following: a health care service plan; a contractor of a health care service plan; an employer; a publicly financed health care program, or a government agency.

Disease management is a strategy to get individuals to take better care of their chronic health conditions. Such a program can improve the quality of life of patients by catching health-related problems early, enabling patients to subsequently avoid high cost medical treatments and procedures—especially those associated with hospitalizations.

The expansion of disease management programs is a nationwide trend. About 25 states have initiated disease management efforts in some form—either in their commercial market and/or in their Medicaid Program (such as Washington state, Colorado, Oregon, Missouri and others). The federal CMS has obtained Congressional approval to implement large scale demonstration projects with Medicare and Medicare/Medicaid dual eligible populations with chronic disease. **In addition, CalPERS is moving to implement a disease management program as well this upcoming year.**

Comprehensive disease management programs that assist people with the management of their chronic diseases have demonstrated their effectiveness in improving health status and patient and health care provider satisfaction. These programs have demonstrated their effectiveness in reducing the unnecessary utilization of health care services associated with caring for populations with chronic illness. **Evidence of the efficacy of these programs has been shown for a variety of chronic conditions including diabetes, coronary artery disease, chronic obstructive pulmonary disease, asthma, renal disease and other chronic illnesses.**

<u>**Many states that have implemented disease management programs for their Medicaid populations have included provisions for "guaranteed financial savings" to ensure that they are either budget neutral, or reduce costs.**</u> Under these arrangements, if net savings to the state are not achieved, the disease management program must refund a certain amount of the fees paid by the state. Third party auditors or evaluation firms are usually hired by states to verify or conduct this reconciliation.

It should also be noted that <u>SB 323 (Soto)</u> has been introduced to require the DHS to develop a strategy for providing Medi-Cal recipients with population-based disease management programs and services, and to seek all necessary federal CMS Waivers that would be needed to implement such a program. The bill was heard in the Senate Health and Human Services Committee and is now on the suspense file in Senate Appropriations.

Finally, it should be noted that Medi-Cal will expend about $13.7 million (total funds) on about 1.5 million Aged, Blind and Disabled Medi-Cal eligibles in the current-year. Many of these eligibles could be enrolled in a disease management program, if available.

<u>Legislative Analyst's Office Comment:</u> The LAO states that implementation of a disease management program for selected Medi-Cal recipients could result in significant savings by reducing the number of emergency visits or hospital stays of Medi-Cal recipients. They maintain that studies indicate that costs related to chronic conditions could be reduced by as much as 50 percent. These savings would be partly offset by the cost of disease management services.

The LAO notes that any disease management program for this population (i.e., Aged, Blind and Disabled eligibles) would need to be carefully designed in order to maintain or improve the health of patients, and to ensure cost efficiencies and savings.

The LAO estimates that it could cost about $360,000 (total funds) to implement a program and that cost savings could range from 1 percent to 9 percent **for overall net savings of from $27 million (General Fund) to $241 million (General Fund) <u>beginning in 2004-05.</u> They contend that disease management programs often require a significant up-front investment of resources for chronic care management services that offset potential savings in the short run.**

<u>Subcommittee Staff Comment:</u> As noted by SB 323 (Soto), other state's experiences, the LAO and others, disease management programs can be very efficacious for individuals with chronic health conditions, as well as cost-beneficial for health care programs. **It should be noted that if implemented for the Medi-Cal Program, the DHS will need to obtain a federal Waiver as well as craft a pilot program. Trailer bill language would be needed to provide a programmatic framework and should contain an evaluation component.**

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

- **1.** Please **comment on the potential application of disease management** programs to the Medi-Cal Program. What disease management approach or models may be applicable?
- **2.** From a technical assistance standpoint, what would the DHS need to generally do to implement such a program?
- **3. Generally, what potential savings could occur in the budget year or 2004-05?**

6. Implementation of Proposition 50—Chapters 3, 4 & 6—by the DHS

Background on DHS' Drinking Water Program: The DHS has been responsible for regulating and permitting public water systems since 1915. **The Drinking Water Program provides for ongoing surveillance and inspection of public water systems, issues operational permits to the systems, ensures water quality monitoring is conducted and takes enforcement actions when violations occur. The program oversees the activities of about 8,500 public water systems that serve more than 34 million Californians (about 98 percent of the population).**

The DHS is designated by the federal Environmental Protection Agency as the primacy agency responsible for the administration of the federal Safe Drinking Water Act. Under the federal Safe Drinking Water Act, California receives funding to finance low-interest loans and grants for public water system infrastructure improvements. To-date , California has received five federal capitalization grants totaling about $402 million (federal funds). **In order to draw down these federal capitalization grants, the state must provide a 20 percent match. Proposition 13 bond funds have been used as the state match for this purpose for the past three years. The state match for future capitalization grants will be provided by Proposition 50, as provided for in the Proposition.**

Background on Proposition 50 and Chapters Applicable to the DHS Drinking Water Program: Proposition 50—the Water Security, Clean Drinking Water, Coastal and Beach Protection Act of 2002—was approved by the voters **to provide *$3.4 billion* in funds to a consortium of state agencies and departments to address a wide continuum of water quality issues. The bond measure contains 11 chapters, or subdivisions, which delineates the funding level to be provided over the course of the bond and the activities and functions which are to be addressed. It also contains language throughout the measure that provides authority to the Legislature to *"enact such legislation as is necessary"* to implement certain chapters.**

Several chapters within the Proposition 50 bond measure pertain to functions conducted by the DHS as it pertains to the Drinking Water Program**. The DHS anticipates receiving as much as $528 million over the course of the bond measure. This potential funding includes the following:**

- ***A. Chapter 3—Water Security ($43.2 million proposed for DHS):*** Proposition 50 **provides $50 million for functions that pertain to water security, including the following:**

    - **(1)** Monitoring and early warning systems;
    - **(2)** Fencing;
    - **(3)** Protective structures;
    - **(4)** Contamination treatment facilities;
    - **(5)** Emergency interconnections;
    - **(6)** Communications systems; and
    - **(7)** Other projects designed to prevent damage to water treatment, distribution, and supply facilities.

Though the bond does not identify the implementing agency for water security functions, the Administration suggests utilizing the DHS and Department of Water Resources (DWR) for this chapter. The Administration proposes to provide the remaining $6.8 million of the bonds' $50 million total to the DWR for dam security.

- ***B…..Chapter 4—Safe Drinking Water ($435 million proposed for DHS):*** Proposition 50 provides that $435 million be available to the DHS for expenditure for grants and loans for infrastructure improvements and related actions to meet safe drinking water standards, **including the following types of projects:**
  - **(1)** Grants to small community drinking water systems to upgrade monitoring, treatment or distribution infrastructure;
  - **(2)** Grants to finance development and demonstration of new technologies and related facilities for water contaminant removal and treatment;
  - **(3)** Grants for community water quality;
  - **(4)** Grants for drinking water source protection;
  - **(5)** Grants for treatment facilities necessary to meet disinfectant by-product safe drinking water standards; and
  - **(6)** Loans pursuant to the Safe Drinking Water State Revolving Fund (i.e., the existing program whereby the state draws down an 80 percent federal match).

  In addition the Proposition requires that not less than 60 percent of the bond funds pursuant to Chapter 4 be available for grants to Southern California water agencies to assist in meeting the state's commitment to reduce Colorado River water use as specified.

- ***C. Chapter 6—Contaminant and Salt Removal Technologies ($50 million Transfer from DWR to DHS):*** Proposition 50 **provides $100 million to the DWR for grants for the following projects: (1)** desalination of ocean or brackish waters; **(2)** pilot and demonstration projects for treatment and removal of specified contaminants; and **(3)** drinking water disinfecting projects using ultraviolet technology and ozone treatment.

  According to the DHS, the DWR will be providing the DHS about $50 million (total over 4 years) through an Interagency Agreement to (1) fulfill the bond measure requirements regarding pilot and demonstration projects for treatment and removal of contaminants, including perchlorate, chromium, heavy metals, MTBE, pesticides and herbicides, radionuclides and pharmaceuticals, and(2) drinking water disinfecting projects.

Governor's Proposed Budget and Finance Letter: The **Administration proposes to <u>(1)</u> appropriate funds directly to the DHS for Chapter 3 <u>and</u> Chapter 4 of Proposition 50, <u>(2)</u> utilize a pre-application, application and priority listing process *(described below)* to allocate funds, and <u>(3)</u> provide 15.5 positions to the DHS to conduct various activities associated with implementation of the bond.**

The Administration proposes to <u>appropriate funds directly to the DHS</u> as follows:

Chapter 3 Water Security	**2003-04**	**2004-05**	**2005-06**	**2006-07**	**Year TOTALS**
State Operations (two positions)	$250,000	$250,000	$250,000	$250,000	**$1,000,000**
Local Assistance	10,112,000	10,112,000	10,112,000	10,112,000	**$40,450,000**
Bond Costs (@3.5%)	438,000	438,000	438,000	436,000	**$1,750,000**
Annual TOTALS	**$10,800,000**	**$10,800,000**	**$10,800,000**	**$10,800,000**	**$43,200,000**
Chapter 4 Safe Drinking Water					
State Operations (13.5 positions)	$1,855,000	$1,855,000	$1,855,000	$1,855,000	**$7,420,000**
Local Assistance (Total): ***(includes 5th year as shown)***	(101,839,000)	(97,839,000)	(97,839,000)	(97,838,000) *&* *(17,000,000)*	**($412,355,000)**
• **1. Grants**	15,589,000	15,589,000	15,589,000	15,588,000	**$62,355,000**
• **2. Colorado River Water Reduction**	65,250,000	65,250,000	65,250,000	65,250,000	**$261,000,000**
• **3. State Match for Capitalization Grant** ***(includes 5th year as shown)***	21,000,000	17,000,000	17,000,000	17,000,000 *& 17,000,000 for year 5*	**$89,000,000**
Annual TOTALS	$107,500,000	$103,500,000	$103,500,000	$103,500,000 *& 17,000,000 for year 5*	**$435,000,000**
GRAND TOTALS	$118,300,000	$114,300,000	$114,300,000	$114,300,000 *& 17,000,000 for year 5*	**<u>$478,200,000</u>**

It should be noted that the appropriation levels proposed in the table above <u>can be modified by the Legislature on an annual basis</u> through the Budget Act, if desired.

Proposed DHS Process for Allocation of Grants & State Staffing Request: The DHS states it **intends to use the same process for allocating funds to public water systems under both Chapter 3 and Chapter 4.**

Specifically, they outline their process to be as follows:

- **DHS will develop, distribute, review and rank pre-applications received from public water systems for the projects.**
- DHS will create a **"Project Priority List" based on the priority ranking of the projects.**
- **Selected applicants will be invited to submit full project applications.**
- **DHS staff will review and evaluate the applications and prepare a "Technical Report" for each project.** The plans and specifications for each project will also be reviewed and evaluated by DHS staff.
- DHS staff will also be responsible for conducting **project construction inspections and determining the cost eligibility of the applicant's invoices for payment**.
- DHS staff will also conduct workshops to inform the public about guidelines.

The following chart **outlines the DHS' request for 15.5 new positions for 2003-04.**

Classification	Chapter 3	Chapter 4	Total
Environmental Program Manager II		1	1
Supervising Sanitary Engineer		1	1
Senior Sanitary Engineer		1	1
Associate Sanitary Engineer	1	1	1
Sanitary Engineer	1	1	1
Staff Environmental Scientist		1	1
Environmental Scientist		1	1
Staff Service Manager II		1	1
Associate Governmental Prog Analyst		1	1
Staff Services Analyst		1	1
Office Technician		1.5	1.5
Associate Account Analyst		1	1
Accountant I		1	1
TOTAL DHS POSITIONS	**2**	**13.5**	**15.5**

Senate Bill 21 (Machado): SB 21 (Machado) is scheduled to be discussed in Senate Committee on Environmental Quality on May 12^{th} (today). As introduced, SB 21 (Machado), would **(1)** clarify specific provisions and terms in order to administer and implement Proposition 50, and **(2)** provide guidance via a statement of legislative preferences for financing projects under Proposition 50.

Among other things, the bill requires the DHS to: **(1)** consult with a public advisory committee composed of certain representatives to provide assistance in implementing the Proposition; **(2)** establish guidelines for the purposes of implementing the act; **(3)** award grants on a competitive basis; **(4)** provide for a preference for grants to be awarded to economically disadvantaged communities and severely economically disadvantaged communities; **(5)** require matching funds but allow for a waiver process of this requirement if the entity is an economically disadvantaged community or severely economically disadvantaged community; **(6)** require the

DHS to inform the Legislature of its guidelines; <u>(7)</u> inform the Legislature as to the allocation of the bond funds, including the amount awarded to each recipient.

Subcommittee Staff Comment: Proposition 50 represents a substantial investment towards the improvement of public water systems and water quality. It will be a considerable undertaking for the DHS to proceed with the implementation of Chapters 3, 4 and 6.

As such, it is recommended for the Subcommittee to adopt "placeholder" trailer bill language in a broad manner to enable discussions to continue through the policy committee process until such time that trailer bill language is needed to proceed with finalizing the budget process (i.e., early June). Specifically, it is suggested to adopt placeholder trailer bill language that would require the DHS to do the following:

(1) Use a public process for obtaining assistance with implementation;
(2) Establish guidelines for the purposes of implementing the act;
(3) Codify their process for making awards (i.e., use of the pre-application process, application process, and priority ranking);
(4) Award grants on a competitive basis;
(5) Provide for a preference for grants to be awarded to economically disadvantaged communities and severely economically disadvantaged communities;
(6) Require local matching funds in order to receive bond grant funds but allow for a waiver process of this requirement if the entity is an economically disadvantaged community or severely economically disadvantaged community or have a similar compelling need;
(7) Inform the Legislature of its guidelines; and
(8) Provide the Legislature with annual updates on the allocation of the grant awards and their expenditure.

Further, it is suggested to (1) appropriate local assistance funds for the DHS for 2003-04 as suggested by the Administration (for Chapters 3, 4 and 6), and (2) appropriate state support funds to hire 15.5 positions.

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

- **1. Please describe how the DHS intends to implement Chapter 4 of Proposition 50**, **including any relevant details** regarding the proposed pre-application, application and ranking process, **as well as public involvement.**
- **2. What criteria will the DHS use for the purposes of developing the Chapter 4 rankings? Will any priority be given to *"economically disadvantaged"* communities?**
- **3. Does the DHS intend to require any local match in order for a water system to receive funding under Chapter 4?**
- **4. Does the DHS intend to utilize any dollar cap in allocating funds under Chapter 4?**
- **5. What timeframes** does the DHS envision **for allocating funds regarding Chapter 4 projects in the first year (2003-04)?**

- **6. Does the DHS envision *any* separate or distinct process for allocating grants to Southern California water agencies to assist in meeting the state's commitment to reduce Colorado River water use as required in the bond?**
- **7. Please discuss how the DHS intends to allocate the funds made available under Chapter 6 (i.e., the $50 million over 4 years to be done through an interagency agreement between the DWR and DHS)?**
- **8. Please discuss how the DHS intend to implement the Chapter 3 provisions regarding water security.**

Budget Issue: Does the **Subcommittee want to (1)** adopt the Administration's proposal, along with **placeholder trailer bill language** as suggested by Subcommittee staff, or **(2)** modify the Administration's proposal in some other fashion?

7. Discussion Regarding the Bureau of State Audits Report
(See Summary of Recommendations from BSA Report) (Informational Item)

Background On Medi-Cal Drug Program: Nationwide pharmaceutical costs **are one of the fastest growing components 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 about 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. In the Governor's January budget, **it is estimated that the baseline state supplemental rebates will save $354.7 million ($177.3 million General Fund). With respect to the federal rebates, the budget assumes savings of $922.1 million ($459.6 million General Fund).**

In total, the Governor's January budget assumes expenditures of $2.7 billion ($1.3 billion General Fund) for drug expenditures in Medi-Cal.

The Budget Act of 2002 made substantial changes to the program. It was assumed that the DHS could obtain about $104 million in additional General Fund savings through a variety of proposals.

Though much has been done, the Bureau of State Audits notes more can, and should be, accomplished to generate additional General Fund savings from this programmatic area.

Bureau of State Audits Report and Subcommittee Request: The Bureau of State Audits (BSA) just released (April 30, 2003) a comprehensive audit regarding the Medi-Cal Drug Program. It contains considerable recommendations regarding program improvements.

The Subcommittee has requested the *BSA to specifically focus on the following topic areas within their analysis and report*. In addition, the Subcommittee *has requested the DHS to respond to each topic area and articulate potential areas for improvement and additional savings*. (*Suggested Format:* The BSA will present the key aspects of each of these topics, along with any recommendations for improvement, and the DHS will please respond where applicable.)

- ***Need for Hiring Pharmacy Staff:*** The BSA notes that the DHS should be doing more to fill vacant Pharmacy positions. The DHS has taken some action to be more aggressive in their efforts, including obtaining DPA approval for hiring bonuses and related items.

- ***Collection of Existing Rebates and Contract Issues:*** There are three key issues here. **First, the state enacted trailer bill legislation through the Budget Act of 2002 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.** This was done because California was losing rebate dollars due to manufacturers retroactively making changes, and therefore, reducing rebates. **The BSA contends that federal CMS approval is needed in order to make this state law change more effective**.

  Second, the BSA notes that the state has a huge amount—**over $200 million—in uncollected rebates that are owed to the state.** The DHS contends that a portion of these uncollected rebates are being discussed with manufacturers who have disputes about what is owed. Further, the DHS notes that more staff and better tracking of rebates are needed.

  Third, the BSA notes that there have been some rebate contracts that have expired, so the state cannot collect rebates from those drugs that are provided after that expiration date.

- ***Therapeutic Category Reviews:*** The DHS has conducted several TCRs over the years which have resulted in considerable savings. In essence, a TCR assesses the cost-effectiveness of all drugs in a therapeutic or chemical drug classification. **The BSA notes that the DHS needs to conduct more reviews and that considerable savings could be achieved through this process.**

  Under the TCR process, the Medi-Cal 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 these recommendations, obtains input from the manufacturer's of the drugs, reviews cost data, considers other sources of information 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.

- ***Maximum Allowable Ingredient Cost (MAIC):*** The Maximum Allowable Ingredient Cost (MAIC) is the maximum drug ingredient cost set by the DHS for a generic drug using a reference product that has been determined to be generally equivalent in quality to those products used by physicians throughout the state. The Budget Act of 2002 changed the existing methodology for establishing the MAIC. **The BSA contends that the DHS has not fully implemented this change and that additional action is needed (i.e., pricing information is needed from the wholesalers, and the DHS needs to dedicate staff towards this effort.)**

- ***Utilization of Step Therapies:*** Federal law requires states to have a prospective "drug utilization review" (DUR) process, which occurs before a pharmacist dispenses a drug to a Medi-Cal recipient, typically at a pharmacy. A prospective DUR process must include screening for potential drug therapy problems, such as drug interactions, incorrect drug dosage or duration of drug treatment, and clinical abuse and misuse.

  The DHS uses a computerized system for is prospective DUR process (using "soft" edits and "hard" edits). When a Medi-Cal recipient presents a prescription to a pharmacist, the pharmacist inputs the prescription into an on-line claims processing system that, for selected drugs, will notify the pharmacist of potential problems**. The BSA notes that California employs more edits than do many states, but there still could be more done which would result in cost savings, provide better quality of care, and mitigate any potential fraud.**

- ***Generic Drug Contracting:*** The Budget Act of 2002 provided the DHS with authority to contract with generic drug manufacturers. The Budget Act of 2002 assumed savings of $27 million (General Fund) from this process. The BSA contends that the DHS has not adequately proceeded with this process.

Budget Issue: **What actions can be taken in order to operate a more cost-beneficial Medi-Cal Drug Program?**

Senate Budget & Fiscal Review
Senator Wesley Chesbro, Chair

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

Senator Wesley Chesbro, Chair
Senator Gilbert Cedillo
Senator Tom McClintock
Senator Bruce McPherson
Senator Deborah Ortiz

Wednesday May 21, 2003
9:00 A M
Room 4203

AGENDA – Part I

Consultant, Kimberly Collins

Pursuant to the Americans with Disabilities Act, individuals who, because of a disability, need special assistance to attend or participate in a Senate Committee hearing, or in connection with other Senate services, may request assistance at the Senate Rules Committee, 1020 N Street, Suite 255 or by calling 916-324-9335. Requests should be made one week in advance whenever possible.

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).

April Finance Letter: Veterans home Fund Construction team-It is requested that item 8955-001-0701 be added in the amount of $165,000 to provide funding for two limited-term positions assigned to supervise the construction and development of the new veterans homes.

Staff Recommendation: Adopt April Finance Letter.

MAY FINANCE LETTERS

Department of Veterans (DVA) General Administration– It is requested that item **8955-001-0001** be increased by $1,892,000 and 28.0 positions (26.6 personnel years) to provide funding and position authority for central services positions and a Director of Medical Services. The central services positions and related funding would be transferred from the budget of the Yountville Homes
.

Yountville Veterans Home – It is requested that item **8960-011-0001** be decreased by $1,845,000 and 59.5 positions (56.5 personnel years) and amended to reflect a decrease in reimbursements of $3,182,000 and an increase in federal funds of $980,000. **This action would:**
(1) authorize DVA to expend additional federal funds received due to an increase in the United States Department of Veterans Affairs (USDVA) per diem rate, with a commensurate decrease in General Fund expenditure authority; **(2)** decrease the Home's budgeted reimbursements, with a commensurate increase in the General Fund appropriation; and **(3)** reorganize the Home-including a census reduction for Holderman Hospital, the transfer of central service positions to Headquarters, the restructuring of the urgent and ambulatory care clinics, and the consolidation of the Home's business office.

Questions from committee:

- What is the departments need for 28 positions?
- What reorganization has taken place to allow Yountville to be decreased by $1,845,000 and 59 positions?
- How long has Headquarter had the 27 position being paid from the Yountville funding?

Staff recommendation: The committee should reject the Finance Letter.

It is also requested that provisional language be added to Item 8960-011-0001, as follows:

Notwithstanding any other provision of law, unpaid balances remaining from General Fund loans extended to the Department of Veterans Affairs, Veterans Home of California-Yountville, authorized pursuant to the Budget Acts of 1999 (Chapter 50, Statutes of 1999) and 2001 (Chapter 106, Statutes of 2001) shall be forgiven.

This would provide a formal forgiveness of loans from the General Fund authorized pursuant to the Budget Act of 1999 (Chapter 50, Statutes of 1999) and the Budget Act of 2001 (Chapter 106, Statutes of 2001). The amounts that the Department projects it will be **unable to repay**, due to an inability to collect budgeted reimbursements, are **$2,000,800 from the 1999-00** loan and **$6,300,000 from the 2001-02 loan**.

Barstow Veterans Home-It is requested that Item **8965-001-0001 be decreased** by $1,759,000 and 116.6 positions (110.8 personnel years) and amended to reflect a decrease in reimbursements of $2,992,000 and a decrease in federal funds of $1,769,000. This action is due to the closure of the skilled nursing facility at the Barstow Home.

Chula Vista Veterans Home-It is requested that Item **8966-001-0001 be increased** by $22,000 and 23.4 positions (22.2 personnel years) and amended to reflect an increase in reimbursements of $1,269,000, and an increase of federal funds of $994,000. This action would: **(1)** authorize DVA to expend additional federal funds received due to an increase in the USDVA per diem rate, with a commensurate decrease in General Fund expenditure authority; **(2)** make funding adjustments due to changes in census since the release of the Governor's Budget; and **(3)** convert the Intermediate Care Facility at Chula Vista to a 60-bed Skilled Nursing Facility, in order to accommodate patients transferred from the Barstow facility.

Staff recommendation: Committee should adopt finance Letter.

ISSUES

(1) County Veterans Service Office: The Governor's January 10 proposed budget would reduce the County Veterans Service Office by $470,000, a 21 percent reduction from current year.

Staff recommendation: The committee should reject the Governor's January 10 proposal.

(2) Domiciliary Fee Increase: All veterans home residents are assessed members fees based upon the level of care they receive and their income. Residents living in domiciliary settings pay 47.5 percent of their income in member fees up to a $1,200 monthly cap.
Governor's January 10 proposed budget proposes a 7.5 percent fee increase for residents of the domiciliary wings of the state's veterans' homes.

Staff recommendation: Committee should reject the Governor's January 10 budget proposal.

LAO to present TBL for reimbursements

0559 Secretary for Labor and Workforce Development Agency

Description: The Secretary is a new cabinet-level appointment authorized by SB 1236 (Alarcòn), effective January 1, 2003. The Secretary is appointed by the Governor and subject to conformation by the Senate. The Secretary is responsible for coordinating and enforcing labor in the state.

SB 1236 also created the Labor and Workforce Development Agency, which consists of the Department of Industrial Relations (DIR), Employment Development Department (EDD), Agricultural Labor Relations Board (ALRB), and Workforce Investment Board (WIB). The bill specifies that funding for the agency come from the reallocation of existing resources allocated to the various entities prior to formation of the agencies. No funds may be reallocated from the Agricultural Labor Relations Board. It also specifies that no appropriation of new General Fund moneys would be permitted to implement the bill.

April Finance Letters: It is requested that item **0559-001-0890** be deleted, reimbursements be increased by $136,000 and item **0559-001-0001** be amended to reflect these changes.
The Budget Act of 2002 contained funding for the first year if operation of the labor and Workforce Development Agency (Agency). All fund supporting the Agency were redirected from departments under the new agency, including federal funds from the Department of Industrial Relations (DIR) and the California Workforce investment board (CWIB). The Administration now proposes to delete the Agency's federal funds appropriation and increase Reimbursements by an equivalent amount. Conforming Finance Letters revising the federal fund expenditure authority in the budgets of the CWIB and DIR are also being transmitted.

Staff recommendation: Adopt April Finance letter.

7100 Employment Development Department

Description: The Employment Development Department (EDD) links employers and job seekers. The department provides services through four main functions: (1) employment-related services; (2) tax collections and benefit payments; (3) employment training programs; and (4) Workforce Investment Act activities.

FINANCE LETTER

Unemployment Insurance (UI) Benefit Adjustments—Issue 002
It is requested that Item 7100-101-0871 be increased by $1,411,732,000 to reflect a projected increase in UI benefit payments. For technical conformity, it is requested that Item 7100-111-0890 also be increased by $1,411,732,000.

Staff recommendation: Committee should Adopt Finance Letter.

Disability Program
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.

Disability Insurance (DI) Program and Benefit Adjustments—Issues 001, 003 and 004
It is requested that Item 7100-001-0588 be increased by $14,693,000 and that Item 7100-001-0870 be amended to reflect this change. The following augmentations are proposed:

- $13,609,000 and 103 personnel years to provide for the implementation and administration of the Family Temporary Disability Insurance Program created by Chapter 901, Statutes of 2002 (SB 1661).
- $1,084,000 for administrative costs associated with annual updates of workload estimates.

It is requested that Item 7100-101-0588 be increased by $66,203,000 to reflect an anticipated increase in DI benefit payments.

School Employees Unemployment Caseload
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.

School Employees Fund—Issue 005
It is requested that Item 7100-101-0908 be increased by $39,735,000 to fund projected increases in benefit payments from the School Employees Fund.

Staff recommendation: Committee should adopt Finance Letter.

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. The Bush Administration has created a While House Office of Faith-Based and Community Initiatives, charged with the task of strengthening and expanding the role of these organizations and creating a "faith-friendly" environment where faith-based organizations can "complete equally" to provide government-sponsored services.

To further this agenda President Bush created centers for Faith Based (and Community Based Incentives in six departments: Health and Human Services, Agriculture, Education, Housing and Urban Development, Justice and Labor. **The Governor proposed $4.0 million in additional funds from the WIA discretionary funds to provide additional funding for the Faith Based Initiative.**

Trailer Bill Language:
Add Section 14003 to the Unemployment Insurance Code

14003. Grants or contracts awarded under the federal Workforce Investment Act or any other state or federally funded workforce development program shall comply with Section 4 of Article I and Section 5 of Article XVI of the California Constitution, state and federal civil rights laws, and the First Amendment to the United States Constitution in regard to pervasively sectarian organizations. These legal constraints include prohibitions on the discrimination against beneficiaries and staff based on protected categories and on the promoting of religious doctrine to advance sectarian beliefs.

LAO comments

Staff recommendation: Committee should adopt trailer bill language.

Continuation of Reed Act Funding for Unemployment Insurance Administration.
The budget appropriates $15.4 million in Reed Act funds to replace the discontinued Special Reed Act distributions formerly used to augment federal Unemployment Insurance funding.

Reed Act Funds—Issues 008, 009, and 010
It is requested that Item 7100-001-0870 (UI Administration Fund) be reduced by $48,095,000, that Item 7100-001-0871 (Reed Act) be increased by $50,448,000 and that Item 7100-001-0870 be amended to reflect this change. The proposed increased Reed Act expenditures include:

- $47,498,000 to reflect a shift from UI Administration funds to Reed Act funds to maintain administrative support of current UI workload, despite a reduction in federal UI Administration funding.
- $2,950,000 and 43.7 personnel years from Reed Act funds to support increased UI fraud prevention activities.
-

For technical conformity, it is requested that Item 7100-041-0890 be increased by $2,353,000 to reflect the difference between the $48,095,000 reduction and the $50,448,000 increase.

Staff recommendation: Committee should adopt Finance Letter.

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, 2003**, 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 subcommittee could designate a portion of Reed Act funds to the call center system to assure that the department has sufficient resources to upgrade the call centers.

Staff recommendation: Allow use of Reed act funds to upgrade call center systems.

Employment Training Panel
Description. The Employment Training Panel (ETP) is funded by the Employment Training Fund. The Employment Training Fund (ETF) generates revenues by receiving 0.1 percent of wages **(cap of $7 per year per employee)** from the Employment Training Tax levied on California employers' contributions to the unemployment insurance system.

For several years, funds have been transferred from the ETF to CalWORKs, as part of the state's Maintenance of Effort for Welfare Reform. The current-year budget appropriated $30 million for this purpose. This year's budget proposes to transfer $21.4 million from the fund to CalWORKs. Of this amount $2.9 million is allocated to EDD for the State and Local Labor Markets Information Program, $4.8 million is allocated to EDD for collection of the employment training tax, and $2.9 million is allocated to DIR for administrative support of division of Apprenticeship standards.

FINANCE LETTER

Employment Training Fund (ETF)—Issues 013 and 050
It is requested that Item 7100-001-0870 be amended to reduce Program 10, Employment and Employment Related Services by $2,915,000 and to increase Program 50, Employment Training Panel (ETP) by an equal amount. This action will eliminate funding for the Labor Market Information Program in EDD. Proposed statutory changes to implement this reduction are enclosed

ISSUE
Section 10533 of the California Unemployment Insurance code requires the Employment Development Department (EDD) to operate the State-Local Cooperative Labor Market Information Program (LMIP). The EDD meets this requirement through the California Cooperative Occupational Information System (CCOIS). The CCOIS is currently funded by the workforce Investment Act (WIA) Governor's 15 Percent Discretionary funds, and the Employment Training Fund(ETP), on an equal (50-50) share basis for at least the last six years.

Questions from committee:
- It is a federal requirement that EDD administer the LMID program. Can EDD continue to administer the program, and how, if the funds are reverted back to ETP?

Proposed Trailer Bill Language (Employment Training Fund)
Section XX. Section 1611 of the California Unemployment Insurance Code is amended, to read:

1611. Money in the Employment Training Fund shall be expended only for the purposes of Chapter 3.5 (commencing with Section 10200) of Part 1 of Division 3, and for the costs of administering this article and Section 976.6, except:

(a) With the approval of the Legislature, the fund or contributions to it may be used to pay interest charged on federal loans to the Unemployment Fund.

(b) Commencing with allocations made to the Employment Training Panel in the 1992-93 fiscal year, any moneys allocated to the panel in a fiscal year that are not encumbered by the panel in that fiscal year, shall revert to the Unemployment Insurance Fund.

~~(c) Commencing with the 1994-95 fiscal year, and for each fiscal year thereafter, to the extent that interest is earned on the money in the Employment Training Fund, that interest shall be used to fund up to 50 percent of the costs of the State-Local Cooperative Labor Market Information Program established pursuant to Section 10533, but in an amount not to exceed three million one hundred thousand dollars ($3,100,000).~~

~~(d)~~(c) It is the intent of the Legislature that the panel shall closely monitor program performance and expenditures for employment training programs administered by the panel, and that the panel shall expeditiously disencumber funds that are not needed for employment training program completion. Commencing with the 1992-93 fiscal year, those moneys that are disencumbered during the fiscal year that are not reencumbered during the same fiscal year shall revert to the Unemployment Insurance Fund.

Staff recommendation: Committee should adopt Finance Letter.

Proposed Trailer Bill Language (Employment Training Fund)
Section XX. Section 10533 of the California Unemployment Insurance Code is amended, to read:

10533. (a) The Employment Development Department shall operate the State-Local Cooperative Labor Market Information Program as the primary component of the comprehensive labor market and occupational supply and demand information system provided in Section 10532. The department shall consult with agencies listed in Section 10530 in the development and operation of this program.

(b) The objectives of this program shall be to produce, through extensive local participation and for distribution in effective formats to all local users, reliable occupational information, and to achieve cost-efficient production by avoiding duplication of efforts. The program shall be a primary source for local and statewide occupational information and shall be available in all labor market areas in the state.

(c) In producing this information, state and local agencies shall use state occupational forecasts and other indicators of occupational growth, combined with local employer surveys of recruitment practices, job qualifications, earnings and hours, advancement and outlook, to provide statistically valid occupational analyses for local job training and education programs.

(d) Local labor market information studies shall be conducted ~~under the direction of~~ by the department or by a local entity and shall include the participation of local users of the information.

~~(e) Funding for this program shall be provided annually through Budget Act appropriations to the Employment Development Department, except that no more than 50 percent of the funding shall be appropriated from the Employment Training Fund~~.

It is requested that Provision 2 in Item 7100-001-0514 be revised to provide for an interagency agreement between the ETP and the Technology, Trade and Commerce Agency under which $2,126,000 of the amount available for employment training contracts shall be used to support the Manufacturing Technology Program. Suggested. Budget bill language states:

Staff recommendation: Committee should adopt trailer bill language.

ISSUE

Proposed Provisional Language for Item 7100-001-0514

"~~2. Any funds appropriated for the Employment Development Department, State-Local Cooperative Labor Market Information Program, if not expended by June 30, 2004, shall be made available to the Employment Training Fund for the purposes of funding job training contracts.~~"

2. Of the funds available in this item for employment training contracts, $2,126,000 shall be made available for an interagency agreement with the Technology, Trade and Commerce Agency to provide grant funds of $2,000,000 and administrative costs of $126,000 for the Manufacturing Technology Program.

Questions from committee:

- ETP has requested this reversion for training purposes. How does the use of these funds for manufacturing Technology Programs contribute to ETP's training program?
- Does this appropriation create a new agency?

DOF comments

Staff recommendation: Committee should adopt Finance Letter.

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. **The Federal Governments 2004 budget proposal announced combining of the three programs- the WIA Adult program, the WIA Dislocated Worker program and the Employment Services state grants (Wagner-Peyser) into one block grant of $3.1 billion to states**. This eliminates the Employment Services as a distinct entity.

According to the Department of Labor (DOL) the calculation of the total for the block grant funding amounts for the redesign requested by the President is the same amount of the 2003 and represents significant cuts in funding for these activities, a 5 percent cut for adult programs and more than a 10 percent cut for dislocated worker program.

EDD's Employment Training Programs.
EDD administers the Employment Training Tax from employers who participate in the Unemployment Insurance system, and uses the funds in performance-based contracts to provide training to unemployed workers in high-wage, high-skill jobs, and to retrain incumbent workers in businesses challenged by out-of-state competition. EDD administers federal Welfare to Work funds from the Department of Labor, providing transitional assistance for recipients of CalWORKs. EDD coordinates the Workforce Investment Act, which provides federal funds for Adult Employment and Training, Youth Activities and Dislocated Workers Employment and Training. The majority of these funds are administered through local Workforce Investment Agencies; up to 15% is reserved for discretionary projects at the statewide level. **Governor's Budget proposes a reduction of $612,000 and 11.0 personnel years.**

<u>FINANCE LETTER</u>

Workforce Investment Act (WIA) Adjustments—Issues 011 and 012
It is requested that Item 7100-001-0869 be reduced by $22,274,000 to reflect a reduction in the U.S. Department of Labor's estimated WIA allocation to California for state operations. For technical conformity, it is requested that Item 7100-021-0890 also be reduced by $22,274,000.

It is requested that Item 7100-101-0869 be reduced by $66,643,000 to reflect a reduction in **local assistance** for the Consolidated Workers Program under WIA. For technical conformity, it is requested that Item 7100-101-0890 also be reduced by $66,643,000.

- Departments comments
- DOF comments
- LAO comments

Staff recommendation: The Finance Letter reflects the reduction from the federal budget proposal. However the department should be able to provide a revised list of proposed projects to be funded by WIA discretionary 15 percent funds. The Committee should adopt the finance Letter with the understanding the department will supply the Legislature with the revised list when available.

MAY REVISION PROPOSAL:

Workforce investment Act Programs: The May Revision reflects a reduction of $88.9 million in federal Workforce Investment Act funds. Of this amount, $66.6 million will be reduced from local assistance programs for adult employment and training, youth activities, and dislocated workers. The state operations reduction of $23.3 million will affect programs supported by 25 percent Rapid Response funds and 15 percent Governor's Discretionary funds.

DOF comments

Staff recommendation: Committee should adopt May Revision Proposal.

WIA Discretionary Funds. As described above, WIA sets aside 15 percent 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.

$2.3 million is used for administration of WIA, including both EDD and CWIB expenditures. Other federally-required activities are budgeted for $25.5 million budget year. The balance in each year is used for various programs selected by the Administration as a priority.

Trailer Bill Language States:
It is the intent of the Legislature that, beginning with 2004-05 fiscal year, both the Governor's budget, and Item 7100-001-0869 of the proposed budget act, each include a separate schedule which itemizes the proposed programs that are to be supported by federal funds pursuant to Section 128(a) of the Workforce Investment Act of 1988 (PL 105-220). The itemized schedule may include provisions authorizing the Director of Finance to make certain transfers and modifications to the schedule no sooner than 30 days after written notification to the Joint Legislative Budget Committee. Such transfer

and notification provisions would be in addition to those prescribed in Sections 26 and 28 of the proposed budget act.

Staff recommendation: Committee should adopt trailer bill language.

Treasury Offset Program (TOP)—Issues 014 and 015
It is requested that Item 7100-001-0185 be increased by $544,000, Item 7100-001-588 be increased by $56,000, and Item 7100-001-0870 be amended to reflect this change. These changes are requested to implement the TOP, which would offset federal tax refunds against delinquent State tax liabilities. This proposal is estimated to generate additional revenues of $22.5 million ($14.3 million General Fund).

It is requested that Item 7100-011-0185 be increased by $8,006,000 to reflect an anticipated increase in the amount of Contingent Funds available for transfer to the General Fund resulting from the implementation of the TOP.

Staff recommendation: Committee should adopt Finance Letter.

Technical Program Change—Issue 007
It is requested that Item 7100-001-0870 be revised to increase Program 10, Employment and Employment Related Services by $3,023,000 and to reduce Program 21, Tax Collections and Benefit Payments by an equal amount. This revision would correct a technical error in the 2003-04 Governor's Budget.

Staff recommendation: Committee should adopt Finance Letter.

7120 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 requires a comprehensive performance accountability system for workforce development programs.

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. There is a federal act that specifies at a minimum, the CWIB is to assist the Governor in certain activities.

April Finance Letter: California Workforce Investment board Item **7120-001-0890** be increased by $65.000 to reflect a technical revision necessary to provide funding for the Labor Workforce Development Agency. These federal funds will be provided as reimbursements in the Agency's budget. A separate finance Letter reducing the Agency's federal fund appropriation and increasing reimbursements is also being transmitted.

Staff recommendation: Committee should adopt April Finance Letter.

7350 Department of Industrial Relations

The Department of Industrial Relations (DIR) is intended to protect the workforce, improve working conditions, and advance opportunities for profitable employment in California. The departments major areas of responsibility include labor law, workplace safety and health, apprenticeship training, workers' compensation, statistics and research and mediation and conciliation.

April Finance Letter: It is requested that item **7350-001-0890** be increased by $71,000, item **7350-001-0452** be increased by $,373,000 and item **7350-001-0001** be amended to reflect these changes.

Revised contribution to Labor Agency: An augmentation of $71,000 to reflect a technical revision necessary to provide funding for the Labor and Workforce Development Agency. These federal funds will be provided as reimbursements in the Agency's budget. A separate Finance Letter reducing the Agency's federal fund appropriation and increasing reimbursements is also being transmitted.

Elevator Safety Inspections: An increase of $3,373,000 to provide additional resources and 37.0 positions for the Division of Occupational safety and Health to reduce the backlog of elevators currently operating with expired inspection certificates and to address new inspection workload.

Staff recommendation: The committee should adopt the April Finance Letter**.**

Division of Workers' Compensation (DWC). California's workers compensation system was established by the Legislature in 1913 and provides the exclusive remedy for industrial injuries, irrespective of the fault of the employee or employer. All employers in California, except the state, must secure payment of workers' compensation insurance by purchasing of an insurance policy or by obtaining a certificate for self-insurance from DIR. Injured workers receive medical treatment without cost as well as a variety of benefits to compensate for injuries arising out of and in the course of employment.

The Division of Workers' Compensation (DWC) is the lead state agency that oversees the administration of workers' compensation benefits to approximately 1.5 million Californians who are injured on the job each year. One of DWC's core responsibilities is the administration of California's exclusive judicial system for resolution of work injury claims.

FINANCE LETTER

Amendment to Budget Bill Item 7350-001-0223, Support, Department of Industrial Relations

It is requested that language be added to Item 7350-001-0223 to authorize a General Fund loan. This language would authorize a General Fund loan to meet cash flow needs resulting from anticipated delays in the receipt of assessments paid by employers to the Workers' Compensation Administration Revolving Fund, which supports the various workers' compensation programs and divisions within the Department of Industrial Relations. Suggested Budget Bill language States:

1. The Director of Finance may authorize a loan from the General Fund to the Workers' Compensation Administration Revolving Fund, in an amount not to exceed 50 percent ($51 Million) of the amount appropriated in this item, provided that:

(a) The loan is to meet cash needs resulting from the delay in receipt of employer assessments to support the Workers' Compensation Administration Revolving Fund.
(b) The loan is short-term and shall be repaid in two equal installments due on March 31 and June 30 of the fiscal year in which the loan is authorized.
(c) Interest charges may be waived pursuant to subdivision (e) of Section 16314 of the Government Code.
(d) 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 chairperson of the joint committee or his or her designee may determine.

Staff recommendation: Committee should adopt Finance Letter.

FINANCE LETTER CONTROL SECTION

Control section 4.15 workers' Compensation Reform: The Administration is proposing to reform the Workers' Compensation System in California in order to reduce employer cost for Workers' compensation. It is requested that the Budget Bill be amended to include **Control Section 4.15** to provide the Department of Finance with the authority to adjust amounts in any appropriation item, or in any category thereof, To reduce General Fund, special fund, and non governmental cost fund appropriations to reflect decreased Workers' compensation costs that result from reforms to the Workers' Compensation costs that results from reforms to the Workers' Compensation System.

Staff recommendation: DOF has scored a savings of $30 million with the anticipated Workers' Compensation Reform. Committee should adopt Finance Letter.

January 10 Trailer Bill Issue:
100 percent User Fees for Workers' Compensation Program. The Governor's January 10 proposed budget eliminates General Fund support for the Workers' Compensation Division, for a General Fund savings of $24.6 million in 2002-03 and $73.7 million in 2003-04. The General Fund support is replaced with revenue from a fee imposed on employers. To implement this provision, the Administration proposes a statutory law change to increase the fees.

The Administration proposes a significant increase in the fee imposed on employers for the workers' compensation program. The proposal would raise employer costs by $24 million (half year) in the current year and $70 million in the budget year. The fee proposal was introduced in the First Extraordinary Session, as SB 10x, but was not taken up when the Senate considered the December Revision.

Staff recommendation: Committee should adopt Governor's January 10 proposed budget.

Additional January 10 trailer bills
Transfer Uninsured Employers Fund Administration to SCIF $18.1 million GF savings new assessment, **Transfer Subsequent Injuries Fund Administration to SCIF** 5.4 million GF savings, new assessment, this was Formerly funded in item 8450-001-0001. **Industrial Medical Council fund Shift** ($321,000 GF Savings) these provisions are in one trailer bill.
Apprenticeship Training Contribution Fund (Provides for $1.4 million transfer to the GF and restoration in 2003-04 of the ACTF grant program in DIR. This is in a standalone bill.

Staff recommendation: Committee should adopt Trailer bill language.

Industrial Welfare Commission (IWC):
Description: According to the department, the IWC's primary responsibility is to set the minimum wage. In addition it is the only entity devoted to ascertaining the hours, and conditions of labor and employment in various occupations.

- Comments from Labor
- DOF comment
- LAO comment

Staff recommendation: Committee should decrease IWC's budget by one half from $470,000 to $235,000.

Senate Budget & Fiscal Review

Senator Wesley Chesbro, Chair

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

Senator Wesley Chesbro, Chair
Senator Gilbert Cedillo
Senator Tom McClintock
Senator Bruce McPherson
Senator Deborah Ortiz

Consultant, Ana Matosantos

Wednesday, May 21st, 2003
9:00 a.m.
Room 4203

AGENDA – Part II

Pursuant to the Americans with Disabilities Act, individuals who, because of a disability, need special assistance to attend or participate in a Senate Committee hearing, or in connection with other Senate services, may request assistance at the Senate Rules Committee, 1020 N Street, Suite 255 or by calling 916-324-9335. Requests should be made one week in advance whenever possible.

4130 Health and Human Services Agency Data Center

VOTE ONLY ITEMS:

1. Child Welfare Services/Case Management System – Issues A, B and C

Overall Background: Federal and state laws require the state to provide automated case management support to child welfare workers. California accomplishes this goal through the Child Welfare Services Case Management System.

The state has developed the main CWS/CMS system, which meets most federally required functionality requirements. The state plans to meet 15 of the remaining requirements within the existing system and is continuing to develop the system to meet all federal functionality requirements.

The Health and Human Services Data Center is responsible for the maintenance and operations of the CWS/CMS. HHSDC works with counties and with the Department of Social Services to address problems, make program modifications, and assure the system continues to adequately meet programmatic needs.

Issue A – CWS/CMS Maintenance and Operations Contract

Background: IBM Global Services developed and implemented the CWS/CMS system. California has continued to contract with IBM to maintain and operate the system. The current maintenance and operations contract will end on July 31, 2003. The state is in the process of procuring a new maintenance and operations contractors. However, federal concerns about the procurement process have delayed the state's retention of a new contractor and necessitate an extension of the current contract. **The Data Center has successfully negotiated a 3-year contract extension, which will reduce state spending** on CWS/CMS maintenance **by $10.4 million annually, or 14%** and requires increased vendor services.

May Revision: The May Revision requests that the Legislature (1) reduce funding for CWS/CMS maintenance and operations by $10,410,000 to reflect reduced contract rates and (2) establish five 4-year limited term positions to procure the new contract at a cost of $104,000.

The Legislative Analyst recommends that the Legislature approve the proposed reduction and establish 2-year limited term positions, instead of 4 year limited term positions.

Staff recommendation: Adopt the May Revision proposal.

Issue B –Hardware requested for CWS/CMS Maintenance and Operations

Governor's Budget: The Governor's Budget proposed to increase HHSDC's spending authority by $10.6 million to fund new hardware for CWS/CMS maintenance and operations. The Legislative Analyst recommended that the HHSDC finance rather than purchase hardware to reduce costs for CWS/CMS maintenance and operations in the budget year. The Subcommittee referred to the "action agenda" a recommendation to adopt the LAO recommendation.

May Revision: The May Revision incorporates the LAO recommendation that HHSDC finance the hardware purchase and requests that the Legislature reduce funding for CWS/CMS maintenance and operations by $7 million.

Staff recommendation: Adopt the May Revision proposal.

Issue C - CWS/CMS Staff Training

Background: The Department of Social Services has traditionally provided local assistance funding to support statewide training of caseworkers on the CWS/CMS system. This funding supported a contract between IBM and the Department of Social Services for the provision of computer based and web based training to caseworkers, as well as the development of instructional materials. The current contract will expire January 31, 2004.

May Revision: The **May Revision requests** that the Legislature establish **8 new permanent positions and increase the HHSDC's spending authority by $1,014,415** to support CWS/CMS training activities. The May Revision cites a recent federal review of California's children and family services which concluded that California is not operating in substantial conformity in all evaluated outcome areas and five of the seven evaluated factors, including providing adequate statewide training for CWS workers.

Staff Recommendation: Deny the requested positions and spending authority increase.

4140 Office of Statewide Health Planning and Development

VOTE ONLY ITEMS:

1. Family Physician Training Program

Background: The Song-Brown Family Physician Training Program seeks to increase the number of general practice health care providers by providing clinical training opportunities to physician residents, physician assistants and family nurse practitioners.

Governor's Budget: The **budget eliminates General Fund support for the program** for savings of $4.5 million **and offsets this reduction with revenue from a new surcharge** imposed on specific health care provider licenses.

Finance Letter: A Department of Finance Letter retracts the surcharge proposal and requests that the Legislature amend the proposed budget to provide $4,502,000 in General Fund support for the program.

Staff Recommendation: Adopt the Department of Finance Letter.

2. Health Professions Career Opportunity Program

Background: The Health Professions Career Opportunity Program (HPCOP) seeks to increase the number of health professionals who work in underserved communities by providing recruitment and mentoring services to certain undergraduate students.

Governor's Budget: The **budget proposes to eliminate the HPCOP program** for savings of $142,000 in the budget year. It also proposes implementing legislation to eliminate statutory references to the program.

Subcommittee recommendation: The Subcommittee considered this issue on April 10th and referred to the "action agenda" its recommendation to approve the proposed reduction and adopt legislation to make program implementation contingent on a budget appropriation.

3. Bateson Building Security Contract

Background: The OSHPD and various other state agencies occupy the same building and rotate responsibility for serving as custodian of the building's security contract. OSHPD will assume responsibility for entering the contract for the next three years. A recent Department of Finance letter requests that the Legislature increase OSHPD's spending authority by $225,000 to finance the security contract.

Subcommittee recommendation: The Subcommittee considered this issue on April 10th and referred to the "action agenda" its recommendation to approve the requested spending authority increase.

4170 Department of Aging

VOTE ONLY ITEMS:

1. Senior Wellness and Prevention Media Campaign (StayWell)

Background: The Senior Wellness and Prevention Media Campaign (StayWell) promotes wellness by providing information on healthy aging practices to seniors, their families, caregivers, and health professionals. Program funding has supported the development and implementation of the public education campaign to provide information to aging Californians about physical fitness, nutrition, physical and mental health.

Governor's Budget: The Budget **proposes $495,000 in funding for the StayWell program.** Of these funds $200,000 will support the Senior Farmers Market Nutrition Program and $295,000 will support the continued development, publishing, distribution and translation of educational materials.

The Subcommittee considered this issue on March 6 and referred to the "action agenda" its recommendation to reduce program funding by $295,000. The Department of Aging subsequently testified that it planned to redirect funds from the Stay Well program to the Senior Farmers Market Nutrition Program. The Department of Finance testified that the Administration had not approved the proposed funding shift.

Staff recommendation: Reduce funding for StayWell by $200,000, adopt budget control language to reduce federal funding for CDA's state operations by $600,000, and redirect the $800,000 in savings to local assistance to fund the Senior Nutrition Program.

2. Brown Bag Program Elimination

Background: The Brown Bag Program provides surplus and unmarketable fruit, vegetables and other unsold food products to low-income persons who are 60 years of age or older and who are eligible for SSI/SSP. The program assists seniors in maintaining independence and having a healthy diet, supplements the food budgets of low-income seniors, and reduces food waste. It provides seniors a yearly amount of food valued at $571, an amount roughly equivalent to a program participants' monthly income. The program serves approximately 40,000 seniors at a return for investment of $35 for each $1 of state funds.

Governor's Budget: The budget proposes to eliminate funding for the Brown Bag Program for savings of $865,000 and proposes legislation to eliminate the statutory authority for the program.

Staff recommendation: Reject the proposed elimination and restore program funding.

3. Senior Nutrition Program Reduction

Background: The Senior Nutrition Program provides home delivered meals to frail, isolated or homebound seniors and provides meals to seniors in congregate settings. The program serves persons who are 60 years of age or older with priority granted to those in greatest economic or social need and to low-income individuals from underserved ethnic groups. It provides home delivered meals to 55,000 seniors who are homebound due to illness, incapacity, disability, or who are otherwise isolated.

Governor's Budget: The budget proposes **to eliminate the state over-match for the Senior Nutrition Program for general fund savings of $2.9 million.** The reduction will result in the loss of federal funds and the elimination of 5,100 seniors from the program.

Staff recommendation: Restore $2.1 million General Fund to the program.

4200 Department of Alcohol and Drug Programs

VOTE ONLY ITEMS:

1. Drug Medi-Cal

Background: The Drug Medi-Cal program provides specified substance abuse treatment services to low-income parents, children, seniors and persons with disabilities enrolled in the Medi-Cal program. Drug Medi-Cal is overseen by the Department of Alcohol and Drug Services and administered locally by county alcohol and drug programs, in collaboration with county welfare departments. The program is funded by state and federal matching funds at an approximate ratio of 1 to 1.

Governor's Budget: The budget reduces program funding by $2.6 million to reflect an estimated decrease in caseload.

May Revision: The May Revision requests an $5.7 million general increase due to reflect an increase in the Drug Medi-Cal and the Perinatal Drug Medi-Cal caseload.

Staff recommendation: Adopt the May Revision.

2. Substance Abuse Prevention and Treatment Block Grant

Background: California applies for and receives on an annual basis a federal Substance Abuse Prevention and Treatment (SAPT) Block Grant from the Substance Abuse and Mental Health Services Administration to support substance abuse prevention and treatment services. For federal fiscal year 2003 the grant award amount is $251,851,368.

May Revision: The May Revision requests an increase of $644,000 in federal funds expenditure authority for local assistance to support prevention services and HIV early intervention services as required by the federal SAPT grant.

Staff recommendation: Adopt the May Revision.

3. State Staffing Increase

May Revision: The May Revision requests that the Legislature provide an increase of $373,000 to establish five new positions. Three of the positions will provide technical assistance to counties regarding implementation of Proposition 36 and drug court programs. Two positions will support the investigation of complaints involving Residential and Outpatient treatment providers licensed by the DADP.

Staff recommendation: Adopt the May Revision.

4. Safe and Drug Free Communities Grant

Background: The Safe and Drug Free Schools and Communities grant funds a variety of statewide mentor programs, alcohol and drug abuse prevention programs operating across the state, and the provision of technical assistance to statewide alcohol and drug prevention organizations and providers.

Finance Letter: A Finance letter requested that the Legislature increase DADP's federal expenditure authority for local assistance by $1,680,000 to support local alcohol and other drug prevention programs. The Subcommittee adopted this request on May 8.

May Revision: The May Revision requests a technical change to conform to the reversal of realigned drug and alcohol programs.

Staff recommendation: Reverse the Subcommittee's prior action and adopt the May Revision.

5. Substance Abuse Recovery Management System

Background: The Substance Abuse Recovery Management System (SARMS) is a dependency drug court operating in San Diego county which works to reduce foster care costs by providing substance abuse treatment to parents who are involved in dependency court cases. SARMS is funded by a combination of funding sources. There are approximately 1000 parents enrolled in SARMS. SARMS is one of several programs providing substance abuse services to parents whose children are dependents of the state.

Last year, the Legislature enacted legislation to determine the costs and fiscal benefits of SARMS. Initial findings suggest that SARMS has positive outcomes for parents and children participating in the program. The evaluation has found that SARMS uses creative funding sources to support the project. Given estimates that 80 percent of the state's 125,000 substantiated cases of child abuse or neglect and 80 percent of the 90,000 foster care cases involve substance abuse, the state will likely benefit from treatment modalities that effectively reduce the incidence of substance abuse among parents involved in dependency court.

Assembly Action: The Assembly Budget Subcommittee on Health and Human Services adopted placeholder trailer bill language to direct DADP to work with Department of Social Services to encourage counties to adopt model programs such as SARMS.

Staff recommendation: Conform to the Assembly.

ITEMS FOR DISCUSSION:

1. Substance Abuse Prevention and Treatment Block Grant

Background: California applies for and receives on an annual basis a federal Substance Abuse Prevention and Treatment (SAPT) Block Grant from the Substance Abuse and Mental Health Services Administration to support substance abuse prevention and treatment services. For federal fiscal year 2003 the grant award amount is $251,851,368. As a condition of receiving SAPT Block Grant funds, California must maintain state expenditures for substance abuse prevention and treatment services at a level equal or higher than the average state expenditures for the preceding two state fiscal years. The state must also maintain an MOE for substance abuse services for pregnant and parenting women, for tuberculosis services and for HIV Early Intervention Services. Failure to meet the MOE requirement results in a dollar of federal funds lost for every dollar below the required funding. The total MOE for 2003-04 is $247,984,000.

May Revision: The May Revision proposes to reduce county discretionary funding for substance abuse services by $11.5 million to maintain state spending at the MOE level.

As a result of Drug Medi-Cal caseload increases, providing annualized funding for the drug courts, and the reversal of realignment, **the May Revision assumes that absent additional changes, state funding will be $11.5 million above the required MOE level.** The Administration **proposes to reduce discretionary county funding for substance abuse services, excluding perinatal services, to maintain spending at the MOE level.** The reduction reflects a 67 percent reduction in state funded county discretionary moneys, and a total county discretionary fund reduction of 4.5 percent.

Counties will have significant discretion in determining how to absorb the proposed reductions. However, as most administrative expenditures reflect fixed costs, counties will likely reduce substance abuse prevention and treatment services to absorb the reductions. Clients in need of alcohol and other drug treatment services, particularly youth, women without children, men and single fathers, are most likely to feel the impact of this reduction through a reduction in service. The majority of the clients affected by the reductions are persons who voluntarily seek treatment and who are not involved in the criminal justice system. The proposed reduction is likely to result in about 3,400 fewer people receiving AOD treatment services in the budget year.

Since the May Revision, the DADP realized that it miscalculated the effect of proposed changes on state expenditures. The May Revision provides a level of resources that is $2.3 million below the required MOE level.

Staff recommendation: Adopt the proposed reduction of county discretionary funding.

2. Drug Courts

Background: California's drug court programs work to reduce drug usage and recidivism through the provision of court supervised substance abuse treatment. They integrate drug treatment with other rehabilitation services to promote long-term recovery and reduce the social and financial costs of substance abuse. Judges modify program services based on client needs and exercise different enforcement options to assure client compliance with treatment. Drug courts are diverse and serve different populations including adults, juveniles, repeat drug offenders, multiple offenders, and probation violators. Generally, drug court participants have abused alcohol or other drugs for ten or more years and received little or no substance abuse treatment.

California supports drug courts through the Drug Court Partnership (DCP) and the Comprehensive Drug Court Implementation (CDCI). The state provides $11.6 million in total funding for drug courts, of which $419,000 is used in state support.

The Drug Court Partnership program provides funding to counties that serve adult defendants, who have been convicted of felonies and placed on probation, conditioned on their participation in the drug court program. The program requires that counties provide DADP with data to measure cost avoidance. Thirty-three counties are currently participating in the program. **Preliminary outcome data of the DCP program demonstrates state prison savings of $1.60 per dollar spent.** It is likely that future data will show a higher level of savings, as all programs are required to focus on post-plea felons beginning May 2003.

Governor's Budget: The budget provides $11.6 million in funding for drug courts and proposes to realign the programs to counties. Annualized funding for the Drug Court program amounts to $14.75 million.

May Revision: The May Revision proposes a $2,966,000 increase to the Drug Court Partnership Program to restore savings and annualize the current funding.

Alternative Proposal: The Subcommittee may wish to (1) Adopt the May Revision funding increase, and to (2) Provide an additional $2.3 million augmentation in local assistance, funded by prison savings, to be distributed to counties according to population. The Subcommittee may also wish to adopt placeholder trailer bill language to (1) require counties to focus their adult CDCI programs on adult defendants, who have been convicted of felonies and placed on probation, conditioned on their participation in the drug court program, (2) require participating counties to report cost avoidance data, and (3) prohibit counties from redirecting funds to dependency or juvenile drug courts. **Based on cost effectiveness data of the existing program, the Alternative Proposal will result in $12.7 million net general fund savings.**

Staff recommendation: Adopt the Alternative Proposal.

4700 Community Services and Development Department

VOTE ONLY ITEM:

1. Consolidation of the Department of Community Services and Development into the Department of Social Services

Background: The Department of Community Services and Development administers the Low Income Home Energy Assistance Programs, the Department of Energy Weatherization Assistance Program, and the federal Community Services Block Grant. It also verifies eligibility of applicants for the California Alternative Rates for Energy Program, administers the Naturalization Services Program and the Lead-Based Paint Abatement and Prevention Program, and participates in the California Mentor Program.

Governor's Budget: The budget proposes to consolidate the Department of Community Services and Development with the Department of Social Services to improve efficiency in state government. The budget assumes a reduction of $922,000 in state administration costs and proposes to shift these funds to local assistance. **The proposal will not result in any general fund savings.**

The Subcommittee considered the Governor's proposal on March 6 and heard testimony from various community groups who argued that the proposed consolidation would reduce program accountability and diminish state leadership.

Staff recommendation: Reject the proposed consolidation.

ITEM FOR DISCUSSION:

1. Naturalization Services Program Elimination

Background: The Naturalization Services Program assists legal permanent residents to obtain citizenship. It conducts outreach, provides citizen preparation and assistance, skills assessments, and advocacy/follow-up. Program services are provided through contracts with community-based organizations across the state. The program assists an average of 7,400 individuals per year in the completion of citizenship applications. The average expenditure per person served is $350.

Governor's Budget: The budget **proposes to eliminate the Naturalization Services Program** to realize savings of $7.9 million ($2.9 million general fund).

Numerous constituency groups have written in opposition of this proposal arguing that the Naturalization Services Program contributes to the successful integration of immigrants, reinforces the principles of democracy, and is critical to the continued employment of immigrants and to economic growth.

The Subcommittee considered the proposed program elimination and directed Subcommittee staff to develop alternatives to the Governor's proposals.

Alternative Proposal: The Subcommittee may wish to **restore $1.5 million in funding**. The Subcommittee may wish to **adopt placeholder legislation to (1) limit funding to outreach services, citizenship application assistance, and follow-up and advocacy assistance,** (2) target funding to organizations that have succeeded in meeting program goals, (3) l**imit the maximum per client payment to $250.** The Subcommittee may also wish to require the Department to report to the Legislature in two years on program implementation. Lastly, the Subcommittee may wish to **require CSD**, in consultation with the Department of Education, legislative staff and stakeholders, **to consider elements of existing citizenship, naturalization, and ESL programs that may limit the participation of community-based organizations** and to issue recommendations to the Legislature by March 1, 2004.

Staff recommendation: Restore $2.9 million in funding or Adopt Alternative Proposal.

5160 Department of Rehabilitation

VOTE ONLY ITEMS

1. Vocational Rehabilitation Services

Background: The Vocational Rehabilitation Services (VR) program assists individuals with disabilities to prepare for, enter into, and retain competitive employment. Program services include client assessments, counseling and guidance, purchase of individualized rehabilitation services, job skills training and job placement services. Department staff members stationed in approximately 120 field offices throughout the state deliver program services to approximately 76,000 individuals who have a full range of physical and mental disabilities. The department also collaborates with school districts, county mental health programs, county welfare departments and state and community colleges to provide program services to persons mutually served by these agencies.

Governor's Budget: The **budget provides $321.2 million ($42.6 general fund) in funding** for the Vocational Rehabilitation Program. The budget maintains services to the categories of Most Significantly Disabled and Significantly Disabled clients and estimates that caseload will remain at the current year level.

May Revision: The May Revision requests that the Legislature (1) augment program funding by $1,945,000 ($556,000 GF) to reflect a caseload decrease and increase in costs of services, and (2) revert $736,000 to the GF due to a current year caseload decrease.

Staff recommendation: Adopt the May Revision.

2. Habilitation Services Program - Issues A and B

Background: The Habilitation Services Program (HSP) provides a range of services to persons with developmental disabilities to assist them in reaching and maintaining their highest level of vocational potential. HSP clients are persons with developmental disabilities referred to the program by Regional Centers. Program consumers receive work experience and ancillary work related services in a sheltered setting through the Work Activity Program or competitive employment opportunities, training and ancillary support services through the Supported Employment Program. Program services are considered an entitlement under the Lanterman Act.

Issue A – Proposed Habilitation Services Program Transfer

Background: The Governor's Budget proposed to transfer the Habilitation Services Program from the Department of Rehabilitation to the Department of Developmental Services effective July 1, 2003. The budget proposed to consolidate program administration within DDS and the Regional Center network. The budget assumed increased administrative efficiencies as a result of the proposed transfer and estimated net savings of $1.5 million general fund.

Senate Bill 24x, Chapter 7 of the Statutes of 2003, transferred HSP to the DDS and the Regional Centers effective July 1, 2004. The measure did not restore positions or program funding to the Department of Rehabilitation to reflect the one-year transfer delay.

May Revision: The May Revision requests that the Legislature amend the budget to reflect enactment of Senate Bill 24x. Specifically, it requests that the Legislature (1) restore 29.3 positions to the DOR, (2) provide $116,712,000 in program funding within the DOR budget, (3) reflect 19,790,000 in increased federal reimbursements, and make conforming changes to the DDS budget.

Staff recommendation: Adopt the requested changes to reflect the enactment of Senate Bill 24x and adopt placeholder trailer bill language to make technical changes to the enacted sections.

Issue B – Caseload Changes

Background: The Habilitation Services Program is an employment-based program, and as such, its caseload is directly affected by job availability. Program consumers, like many other Californians, have lost their jobs and are facing difficulties in securing new employment given the state's economic status and high unemployment rates.

The Governor's Budget estimated a 2.9 percent increase in the Habilitation Services Program caseload in the budget year. The May Revision modifies previous caseload projections and estimates a modest caseload decrease.

May Revision: The May Revision requests that the Legislature (1) reduce program funding by $12,259,000 general fund to reflect a caseload decrease, (2) provide a $1,783,000 increased in federal funds, and (2) revert $5.7 million to the general fund due to a current year caseload decrease.

Staff recommendation: Adopt the May Revision.

3. Work Activity Program – Issues A and B

Background: The Work Activity Program (WAP) provides work experience and ancillary work-related services in a sheltered setting to persons with developmental disabilities. The program assists individuals in reaching and maintaining their highest level of vocational potential. WAP serves an estimated 12,000 consumers through not-for-profit agencies authorized and reimbursed by the Department of Rehabilitation. WAP is a component of both the Vocational Rehabilitation Services Program and the Habilitation Services Program.

Issue A – Rate Adjustment Suspension

Background: WAP providers are reimbursed for services on a per consumer day basis. Program rates vary from provider to provider based on their WAP historical costs. WAP rates are adjusted biennially, to reflect individual provider's costs. 2003-2004 is a rate setting year.

Governor's Budget: The budget proposes to suspend WAP rate adjustments for the budget year to realize savings of $16.9 million ($12.3 general fund). Suspension of the rate adjustment will continue the current rates until the end of the 2005-2006 fiscal year.

Subcommittee recommendation: The Subcommittee considered this issue on March 13 and referred to the "action agenda" a recommendation to suspend the rate adjustment for the budget year only.

Issue B – Rate Reduction

Background: WAP services are usually provided in a sheltered workshop and include both paid work and work related services. Providers are reimbursed for services on a per consumer day basis. Program rates are established on a per provider basis and vary based on the individual provider's historical costs.

Governor's Budget: The budget **reduces provider rates in the Work Activity Program effective by 5 percent to realize savings of $3.1 million general fund.** Program rates will vary from provider to provider based on their historical costs but will be reduced by 5 percent from their 2002-03 level.

May Revision: The May Revision maintains the proposed rate reduction, but adjusts the estimated savings to reflect the caseload decrease and an increase in available federal fund. The revised general fund savings are $2.7 million.

Staff recommendation: Adopt the May Revision.

4. Supported Employment Program – Issues A and B

Background: The Supported Employment Program provides clients competitive employment opportunities and provides training and ancillary support services to enable clients to learn job skills and maintain employment. SEP services are provided in individual or group settings. Job coaches provide SEP services to approximately 15,400 clients statewide. SEP is a component of both the Vocational Rehabilitation Services Program and the Habilitation Services Program. The Department of Rehabilitation administers the program.

Issue A – Rate Reduction

Background: Supported Employment Program providers are reimbursed on a per hour basis at a statutorily established rate. The current reimbursement is $28.33 per job coach hour and generally requires that providers assist a group of 3 or 4 consumers.

Governor's Budget: The budget **reduces provider rates in the Supported Employment Program by 5 percent to realize savings of $3.2 million in general fund.** SEP rates will be lowered from $28.33 to $26.91 per job coach hour.

May Revision: The May Revision maintains the proposed rate reduction, but adjusts the estimated savings to reflect the caseload decrease and increases in available federal reimbursements. The revised general fund savings are $3 million.

Staff recommendation: Adopt a 2.5 percent SEP provider rate reduction and restore $2,156,000 ($1,515,500 general fund).

Issue B – Program Sunset

Background: Existing law authorizes the Department of Rehabilitation to adjust provider rates to assure Supported Employment Program expenditures do not exceed the annual budget appropriation. Current law also authorizes the DOR to approve or disapprove funding for new or modified supported employment programs. Both of these sections are scheduled to sunset effective September 1, 2003.

May Revision: The May Revision requests that the Legislature adopt legislation to repeal the sunset provisions.

Staff recommendation: Adopt placeholder trailer bill language to repeal the aforementioned sunset provisions.

5175 Department of Child Support Services

VOTE ONLY ITEMS:

1. Alternative federal penalty

Background: Federal law required states to develop and implement a single statewide automated child support system by October 1, 1997. California engaged in a contract to do so, but the effort failed, and the state terminated the contract in November 1997.

As a result of the state's failure to implement a statewide automated child support system, California has been subject to significant federal penalties since 1997. The penalties are based on a percentage of administrative expenditures of federal funds on state child support collection activities. California is penalized at the maximum percentage of 30%.

Governor's Budget: The Governor's Budget provides $207.1 million to fund the penalty.

May Revision: The May Revision adjusts funding for the penalty to reflect actual program expenditures. The penalty increases by $1.5 million to $208.6 million.

Staff recommendation: Adopt the May Revision.

2. County share of cost for alternative federal penalty

Background: Since 1997, California has been subject to substantial federal penalties due to the state's failure to establish a single statewide system for the collection of child support by the federal deadline. **Current law provides for payment of the penalty through a reduction in the federal funds for state and county administration of the child support program.** Since 1997, California has waived the mechanism for paying the penalty with state and county child support program funds. The state has appropriated General Fund dollars to pay for the penalty and has continued to fully fund program administration. Last year, the Governor proposed a 50 percent county share of cost of the alternative federal penalty payable with county general funds.

Governor's Budget: The budget **proposes a 25 percent county share of the alternative federal penalty and assumes a $51.8 million contribution from counties for payment of the penalty.**

May Revision: The May Revision adjusts the required county contribution to reflect the actual alternative federal penalty level. The revised county share is $52.1 million.

Staff recommendation: Adopt the Governor's proposal.

3. State Administrative Hearings

Background: California's child support reform legislation established a state hearing process to consider specified issues brought forth by custodial and non-custodial parents. Parents can use the state hearing process if an application for child support services has been denied or not acted upon within the required timeframes, if a case has been acted on in violation of a state or federal law or regulation, if child support collections have not been distributed or have been distributed incorrectly, or if they disagree with an agency's decision to close a case. The Department of Child Support Services contracts with the Department of Social Services to conduct state hearings.

Finance Letter: A Department of Finance letter requests that the Legislature augment the DCSS state operations budget by $2.0 million ($687,000 GF) to address increased workload associated with child support administrative hearings. Of this amount, $1.8 million is to reimburse the DSS for conducting state hearings. The Finance Letter also requests the establishment of 2.5 positions at the DCSS and 16.4 positions at the DSS to address the state hearings workload.

Staff recommendation: Approve the establishment of 9 limited term positions, 2 in CDSS and 9 in DSS, and approve funding increase consistent with this action.

4. Foster Parent Training Fund

Background: Since 1984, the Chancellor's Office of the California Community Colleges has operated a training program for foster parents. The Foster and Kinship Care Education program provides training to facilitate the development of foster family homes and small family homes to care for children who have special needs. It is the state's primary training program foster parents and kinship care provides, and assists foster parents in meeting licensing training hour requirements.

Most state funding provided for this program comes from the Foster Parent Training Fund. California transfers the difference between the state share of child support foster care collections and the base level of the estimated share of child support foster care collections, up to a maximum of $3 million, to the Foster Parent Training Fund. These funds support the colleges' foster parent training programs and are used to leverage $4.2 million in federal matching funds.

Governor' s Budget: The budget eliminates the transfer of child support collection revenues to the Foster Parent Training Fund for an increase of $2.6 million general fund revenue.

May Revision: The May Revision augments foster parents training funds by $10 million TANF funds. These funds can not be used to access federal matching funds.

Staff recommendation: Maintain the transfer of child support collection revenues to the Foster Parent Training Fund and restore funding to the Community Colleges.

5. Federal Incentives Funding

Background: The federal government provides states child support incentives based on a state's program performance relative to other states. Incentives consider the establishment of paternity and support orders, collections, cost effectiveness and data reliability.

Governor's Budget: The budget estimates that California will earn $52.2 million and $53.6 million in federal child support incentives if 2002-03 and 2003-04 respectively.

May Revision: The May Revision incorporates recent data which finds that California will receive additional federal incentives of $3.2 and $1.8 in 2002-03 and 2003-04 respectively. It proposes to use these funds to offset administrative costs currently funded by the General Fund.

Staff recommendation: Adopt the May Revision.

6. Electronic Data Processing Conversion and Enhancement Funding

Background: The Budget for 2002-03 included $4.7 million ($1.6 million General Fund) to convert two county consortia automation systems to another system to reduce maintenance, operation, and system enhancement costs. Project implementation has been delayed by the enactment of a late budget and the time required to procure a vendor. Consequently, $2.8 million ($934,000 General Fund) of the amount budgeted will not be expended in 2002-03.

May Revision: The May Revision requests that the Legislature reappropriate the unspent funds to the department to support completion of the system conversion in 2003-04.

Staff recommendation: Adopt May Revision.

ITEMS FOR DISCUSSION:

1. Child Support Collections

Background: In 1999, the Legislature enacted child support reform legislation to improve system accountability to children and their custodial and non-custodial parents, increase enforcement of child support and medical support orders, increase collections and assure statewide uniformity in the operation of child support programs. Since then, **California has generally improved its performance on federal outcome standards, although performance continues to vary significantly among counties.** California performed significantly above the national average on the establishment of paternity and the percent of cases with a child support order. California's performance is about the national average on collection arrears.

California's performance on cost-effectiveness is significantly below the national average. California collected $2.60 per each dollar expended on collection efforts compared to the national average of $4.18.

Although California has improved program performance and increased collections, its performance on current collections is below the national average. The state also continues to have a significant amount of uncollected child support payments. The state's current arrearage exceeds $17 billion dollars. Approximately $6 billion of the state's total arrears are owed to the state as compensation for CalWORKs and foster care services delivered to families with established support orders.

A recent analysis of the collectability of California's child support arrears conducted by the Urban Institute found that approximately $5.4 billion of the state's arrears, $2.6 billion of which is owed to the state, is collectable. The report makes a series of findings and recommendations that may significantly improve the state's collections. Specifically, the study recommends that California reduce the number of orders it establishes by default, facilitate the adjustment of child support orders to reflect new income information, consider all relevant income data sources, and grant the DCSS authority to compromise arrearages owed to the state.

The Subcommittee considered the Child Support Program's performance and directed Subcommittee staff to work with the Administration and key stakeholders to develop strategies to improve the state's child support collections.

Alternative Proposal: The Subcommittee may wish to adopt a series of program reforms to establish accurate support orders and improve collection of arrears owed to families and to the state. The Subcommittee may wish to adopt placeholder trailer bill language to do the following:

(1) Modify the presumed child support obligor's income level at the equivalent of full time minimum wage employment instead of an amount that yields the "minimum basic standard of adequate care". Permit the custodial or noncustodial parent, the local child support program, and the DCSS to petition the court to retroactively adjust the child support order up to a year from the date of first collection to consider new income information. Require local child support programs to verify the obligor's income, particularly in default orders, within a month of the first collection.
(2) Permit the DCSS to modify child support orders when the obligor is low-income and define low-income as having an annual income below 150 percent of the federal poverty level.
(3) Establish an offers and compromise program, modeled on existing FTB and IRS tax collection programs, to permit DCSS to work with custodial and noncustodial parents to arrive at negotiated settlements of child support arrears. When arrears are owed to families, prohibit the state from reaching a settlement on arrears unless the agreement has the custodial parent's approval.

(4) Apply the Financial Institution Data Match process to all child support cases owing arrears and establish a minimum amount of resources obligors will be allowed to keep. FIDM allows the state to identify accounts of child support debtors and issue liens or levies against the accounts to collect past due support.
(5) Simplify the process to liquidate securities held by obligors and intended as payment for child support arrears.

Fiscal Effect of Reforms: The reforms will generate an estimated $72.7 million in increased General Fund revenues and increase by $6.8 million the federal child support incentives earned by California. The projected new revenue will decrease over time as California reduces the child support arrearages owed to the state.

Subcommittee staff estimates increased General Fund costs of $3.9 million to implement the reforms. These funds will support the establishment of 25 new positions at the Department of Child Support Services and fund necessary automation costs.

Staff recommendation: (1) Adopt the proposed placeholder trailer bill legislation and resulting increases in General Fund revenues. (2) Increase by $6.8 million the estimated federal child support incentives earned by the state in the budget year, and reduce General Fund support to reflect increased incentives. (3) Establish 25 new positions at DCSS and increase state support by $3.9 million General Fund to support new positions and other implementation costs.

2. Local Child Support Program Compensation

Background: Local child support agencies are responsible for the administration of child support programs at the county level and perform functions necessary to establish and collect child support. Program activities include establishing child support cases, establishing child support orders, collecting current and past-due child support, enforcing medical support orders, and implementing customer service initiatives.

California provides baseline compensation to counties at a level comparable to 13.6% of the estimated level of collections adjusted to reflect county expenditures and available General Fund resources. The Department of Child Support Services allocates resources for administration of local child support programs in a lump sum and does not control county expenditures for program activities and for child support initiatives.

Baseline county funding for the implementation of local child support programs is established according to a statutory incentive formula based on child support collections. It is not based on an analysis of actual expenditures, estimated staff time to meet program requirements, or costs of the different child support activities. Individual county allocations are generally based on historic county expenditures and vary across the state.

The Subcommittee considered the Governor's Budget proposed funding for local child support programs, including the Department's budget display and methodology to establish individual county allocations, at its April 10, 2003 hearing. Among the issues considered were the effect on program performance of administrative funding reductions, and the relationship of existing allocations to program performance and actual costs.

The Subcommittee directed staff to evaluate the Department's existing budgeting and allocation methodologies and to assess the programmatic effect of adopting the LAO reduction option. Subsequently, the Chair requested technical assistance from the LAO to consider county child support allocations, the relationship of county allocations to performance and costs, and to develop budget reform options for the Legislature's consideration. Analysis of county allocations reveals substantial differences in per case funding across counties. Program performance also varied across the state and does not appear to correlate to per case funding, geographic region, or county economic condition.

Subcommittee Request and Questions: The Subcommittee has requested that the Legislative Analyst briefly discuss county allocations across the state, the relationship of county allocations to program performance and actual costs, and comment on potential options to improve the existing system.

The Subcommittee has requested that the Department of Child Support Services discuss its existing county allocation methodology, the relationship of county allocations to program performance and actual costs, and efforts by the state to address disparities in county funding as part of its effort to reform the child support program.

5180 Department of Social Services

VOTE ONLY ITEMS

1. Automation Projects and County Administration– Issues A, B, C, D and E

Issue A – Cost Allocations

Background: California uses the Statewide Automated Welfare Systems to determine eligibility and administer benefits for CalWORKs, Food Stamps, Medi-Cal, Foster Care, Refugee and County Medical Services Programs. Federal law requires California to allocate system maintenance and operations costs across the benefiting programs to reflect caseload and system utilization patterns.

May Revision: The May Revision provides a net increase of $67,000 and shifts expenditures from the Federal Trust Fund to the General Fund and Reimbursements to reflect funding adjustments to automation projects and adjust cost allocations to benefiting programs.

Staff recommendation: Adopt the May Revision.

Issue B – Electronic Benefit Transfer

Background: Electronic Benefits Transfer is the automation of welfare benefit authorization, delivery, redemption and reconciliation. The system will replace paper food stamp coupons and benefit checks with transfers and use of benefits through point-of-sale devices and automated teller machines. Federal welfare reform requires states to implement EBT for food stamps. California will fully implement EBT by Sept. 2004.

May Revision: The May Revision proposes a $33.7 million ($15.9 million GF) increase due to revised assumptions of the EBT implementation impact on county administration.

Issue C – Prospective Budgeting

Background: Assembly Bill 444, Chapter 1022 of the Statutes of 2002 required California to implement prospective budgeting/quarterly reporting for CalWORKs, Food Stamps and the California Food Assistance Program. Implementation of the new prospective budgeting system has been delayed from September 2003 to November 2003. The Health and Human Services Data Center is in the process of adapting the Statewide Automated Welfare Systems to reflect the change in program administration.

May Revision: The May Revision provides a $22.6 million ($6 million general fund) increase to reflect the new implementation schedule, methodology changes, and additional training and automation system reprogramming costs.

Staff recommendation: Adopt the May Revision.

Issue D – CWS/CMS Maintenance and Operations Contract

Background: IBM Global Services developed and implemented the CWS/CMS system. California has continued to contract with IBM to maintain and operate the system. The current maintenance and operations contract will end on July 31, 2003. **The Data Center has successfully negotiated a 3-year contract extension, which will reduce state spending** on CWS/CMS maintenance **by $10.4 million annually, or 14%**.

May Revision: The May Revision requests that the Legislature reduce funding for CWS/CMS maintenance and operations by $9.7 million ($4.9 million general fund) to reflect reduced contract rates.

Staff recommendation: Adopt the May Revision proposal.

Issue E –Hardware requested for CWS/CMS Maintenance and Operations

Governor's Budget: The Governor's Budget proposed to increase HHSDC's spending authority by $10.6 million to fund new hardware for CWS/CMS maintenance and operations. The Legislative Analyst recommended that the HHSDC finance rather than purchase hardware to reduce costs for CWS/CMS maintenance and operations in the budget year.

May Revision: The May Revision incorporates the LAO recommendation that HHSDC finance the hardware purchase and requests that the Legislature reduce funding for CWS/CMS maintenance and operations by $7 million.

Staff recommendation: Adopt the May Revision proposal.

2. Community Care Licensing – Issues A, B and C

Issue A – Transfer of Licensing Responsibilities from Fresno to DSS

Background: The Department of Social Services, the licensing entity for family child care homes, frequently contract with counties to license these facilities. Fresno County has decided to terminate its contract with the DSS to license family childcare homes effective July 1, 2003. As such, the DSS will resume licensing functions in Fresno.

May Revision: The May Revision transfers responsibility for licensing certain childcare facilities from Fresno to DSS for net General Fund savings of $114,000. Specifically, it establishes five positions and provides a $368,000 General Fund augmentation to DSS and proposes offsetting reductions to local assistance funding totaling $482,000.

Staff recommendation: Adopt the May Revision.

Issue B – Caseload

Background: The Department of Social Services Community Care Licensing (CCL) establishes standards for, and oversees eighteen types of facilities, including adoption agencies, foster care homes and agencies, childcare homes and centers and residential care facilities for disabled and elderly adults. The state monitors approximately 85,000 homes and facilities, with a capacity to serve more than 1.4 million individuals.

May Revision: The May Revision reduces General Fund support for CCL by $329,000 and provides an increase of $18,000 Federal Trust Fund due to a decrease in caseload.

Staff recommendation: Adopt May Revision.

Issue C – Erosion of Savings

May Revision: The May Revision requests an increase of $241,000 General Fund and restoration of 4.9 positions due to a delay in implementation of the Governor's Budget proposed changes to annual licensing visit requirements.

Staff recommendation: Adopt the May Revision.

3. State Hearings – Issues A and B

Issue A - Medi-Cal Reimbursement – Conlan Lawsuit

Background: In *Conlan v. Bonta* the Appellate Court held that California must establish a reasonable procedure to reimburse Medi-Cal beneficiaries for covered services for which they paid during the three months prior to applying for Medi-Cal. The Department of Health Services plans to contract with the Department of Social Services to establish a *Conlan* claim adjudication process.

May Revision: The May Revision establishes 6.7 positions and provides $841,000 in increased reimbursements to address the *Conlan v. Bonta* state hearing workload.

Staff recommendation: Subcommittee action on this item will conform to its action regarding the Conlan lawsuit within the DHS budget.

Issue B – Child Support Hearings

Background: California's child support reform legislation required the establishment of a state hearing process to consider specified issues brought forth by custodial and non-custodial parents. The Department of Child Support Services contracts with the Department of Social Services to conduct these state hearings.

Finance Letter: A Finance Letter requests that the Legislature establish 16.4 positions and provide $1.8 million in increased reimbursements to support increase workload.

Staff recommendation: Approve 9 two-year limited term positions and adjust funding.

4. Suspension of State Mandate

Background: California law requires that child abuse defendants successfully complete no less than one year of treatment and counseling as approved by the county probation department. The Commission on State Mandates ruled that the recent law, which requires county probation departments to approve treatment and perform activities associated with the defendant's progress reports, constitutes a state mandate.

May Revision: The May Revision recommends that this mandate be suspended.

Staff recommendation: Adopt the May Revision.

5. Tyler v. Anderson

Background: *Tyler v. Anderson* was a class action lawsuit to overturn the Department of Social Services' policy of denying payment under certain circumstances to In-Home Supportive Services providers who provided range of motion exercises to IHSS recipients between June 1990 and May 1994. DSS settled this case and a Judgment was issued in January 1999 which required the department to inform potential claimants, receive and process claims and make payments to eligible claimants.

The department established a special unit to perform the required *Tyler* work on a limited term basis with positions expiring on June 2003. DSS has notified the majority of potential claimants and resolved 3,536 claims. However, due to a high volume of mailings returned as undeliverable, DSS has agreed to re-notice 170,000 potential claimants and resolve claims that may result from these contacts.

Finance Letter: A Finance Letter requests an increase of $270,000 general fund to extend 4 limited term positions for two years to complete additional activities under the Tyler v. Anderson settlement.

Staff recommendation: Establish 2 positions and adjust funding accordingly.

6. Adoptions Services

Background: The Adoptions program provides a range of services to encourage and facilitate the adoption of children who have been relinquished by their parents or who have become wards of the state due to the termination of parental rights as a result of abuse or neglect. The program is overseen by the state and administered locally by county welfare departments.

Governor's Budget: The budget provides $78.7 million ($41.3 GF) to fund the program.

May Revision: The May Revision proposes a net reduction of $1.1 million ($343,000 general fund) to Adoption Services funding. The proposed reduction reflects a reduced caseload estimate for Private Adoption Agency Reimbursement Payment offset by an increase in basic costs stemming from delayed implementation of the proposal to eliminate the Independent Adoptions Program.

Staff recommendation: Adopt the May Revision.

7. Adoption Assistance Program

Background: 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. 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.

Governor's Budget: The budget provides $503.8 million in combined federal and county funds for AAP grant payments. The budget assumes that the estimated caseload will be 60,811 in the budget year, a 12% increase over current year.

May Revision: The May Revision proposes to increase AAP funding by $18.9 million ($6.8 million general fund) to reflect an estimated decrease in caseload growth offset by an increase in the average grant costs.

Staff Recommendation: Adopt the May Revision.

8. Kinship Guardianship Assistance Program (KinGAP)

Background: The KinGAP program provides stable guardian placement for children in foster care, who are placed with relatives and for whom the placement is their permanent plan. Similar to the Adoption Assistance Program, KinGAP provides guardians a monthly payment at the basic foster care rate for which the child would otherwise be eligible. The budget estimates an average monthly caseload of 16,140 children. This constitutes a caseload growth rate of 24.1% from the current year to the budget year.

Governor's Budget: The budget for the KinGAP program is estimated to grow by a total of $19.5 million, reflecting an increase of 24%. The budget provides a total of $100.8 million in federal and county funds to support the program.

May Revision: The May Revision reduces KinGAP funding by $3.3 million general fund due to a decrease in caseload growth. The May Revision also adjusts funding to reflect an increase in expenditures eligible for federal reimbursement.

Staff Recommendation: Adopt the May Revision.

9. California Food Assistance Program

Background: The California Food Assistance Program (CFAP) is a state-only food stamp program for legal non-citizens that serves individuals who became ineligible for the federal Food Stamps program following the 1996 enactment of the federal welfare reform law. The estimated caseload at the end of the budget year is approximately 5,000.

Governor's budget: The budget provides $11.2 million to support CFAP.

May Revision: The May Revision reduces CFAP funding by $1.8 million general fund due to a caseload decrease.

Staff Recommendation: Adopt the May Revision.

10. Refugee Cash Assistance Program

Background: The Refugee Cash Assistance Program provides cash grants to refugees during their first eight months in the United States if they are not eligible for other human services programs. The program is entirely federally funded.

May Revision: The May Revision reduces program funding by $153,000 federal funds due to a lower caseload projection. The May Revision also provides a $1.7 million non-general fund increase to support Refugee programs and Adult Protective Services.

Staff Recommendation: Adopt the May Revision.

ITEMS FOR DISCUSSION:

1. FBI Fingerprinting Fee Exemption

Background: California requires persons working or volunteering at community care licensing facilities and family day care facilities to be fingerprinted. Generally, licensees are required to pay for the fingerprinting process. Certain providers have been historically exempted, or partially exempted from the required fees. These providers include family day care providers, persons operating or managing a certified family home or a foster family home, and volunteers at child care facilities.

May Revision: The May Revision proposes legislation to eliminate existing fingerprinting fee exemptions or adjustments for general fund savings of $2.8 million.

Staff Recommendation: Adopt placeholder trailer bill language to suspend existing fingerprint fee exemptions and assume general fund savings of $2.8 million.

2. California Work Opportunity and Responsibility to Kids (CalWORKs)

Background: The California Work Opportunity and Work Responsibility to Kids (CalWORKs) program implements in California the Temporary Aid to Needy Families (TANF), the federal welfare reform law of 1996. CalWORKs provides eligible low-income families monthly cash benefits and a range of services, including employment services, childcare, and substance abuse treatment and mental health services, designed to support employment and assist families in moving to self-sufficiency within time limits imposed by federal and state law. The program operates under guidelines set at the federal and state levels. It is overseen by the California Department of Social Services and administered locally by counties.

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.

A. CalWORKs caseload

Background: CalWORKs provides cash benefits and welfare-to-work services to children and their parents or caretaker relatives who meet specified eligibility criteria including having a family income below the CalWORKs maximum aid payment, having less than $2000 in resources, and having a car valued at $4,650 or less. The average family of three must have a monthly income below $949 or 75 percent of the federal poverty level to be eligible for CalWORKs.

Governor's Budget: The budget estimates that the average monthly CalWORKs caseload will be 517,472. It makes the following major assumptions about CalWORKs caseload:

- Caseload will increase by 1.9 percent in 2002-2003 and .8 percent in 2003-2004
- 56,700 and 100,600 parents will reach their CalWORKs time limit in the current year and the budget year
- Implementation of a new prospective budgeting system effective September 2003 will increase program caseload

May Revision: The May Revision estimates that the average monthly CalWORKs caseload in the budget year will be 471,106, substantially less than the caseload estimated in January. The May Revision makes the following major assumptions:

- Caseload will decrease by 3.9 percent in 2002-03 and by 2.2 percent in 2003-04
- 23,346 and 51,161 parents will reach their CalWORKs time limits in the current year and budget year
- Assumes reduced caseload effect of the new prospective budgeting system, due to the delayed implementation. System implementation will begin November 2003. Los Angeles will transition to the new system in May 2004.

B. Grants Levels

Background: CalWORKs provides monthly cash assistance to eligible children and their parents or caretaker relatives. A family's grant depends on its size, available income and resources. Grants also depend on the cost of living of the area in which the family resides.

The current maximum grant for a family of 3 on CalWORKs is $679 per month.

Current law provides an annual cost of living adjustment of CalWORKs grants effective October 1st. The cost of living adjustment is based on the California Necessities index. Last year's budget delayed provision of the 2002 COLA until June 1st. Under current law, the maximum aid payment for a family of 3 will increase to $729 in October 2003.

Governor's Budget: The budget proposes (1) to suspend CalWORKs cost of living adjustments for the current year and the budget year and (2) to reduce CalWORKs grants by 6.2 percent, for savings of $487.6 million ($80 general fund).

May Revision: The May Revision restores the reduction to CalWORKs grants and maintains the proposed suspension of the cost of living adjustment. It requests that the Legislature reduce funding for CalWORKs assistance payments by $161.1 million as compared to the proposed Governor's Budget.

Suspension of the cost-of-living adjustment will maintain grants at their current level and will not keep pace with cost of living increases such as rising housing costs. Opponents of this suspension argue that this proposal will result in significant hardship to low-income families without resulting in general fund savings.

Staff recommendation: Adopt proposed restoration of CalWORKs grants. Reject proposed COLA suspension. Restore funding for current year and budget year COLAs.

C. CalWORKs Employment Services and Administration Funding

Background: County welfare departments are responsible for the local development and implementation of CalWORKs. They receive a block grant from the state and are given substantial flexibility to design and carry out the CalWORKs program within the state and federal program guidelines. Counties develop and implement employment preparation and family support programs. County staff members determine eligibility for the program, provide case management services, develop welfare-to-work plans, and provide referrals for services such as child care, housing assistance and transportation.

Governor's Budget: The budget suspends cost of doing business adjustments; reduces single allocation funding; and provides a one-time increase for employment services. Specifically, the budget:

- Reduces CalWORKs Services and Stage 1 childcare funding by $403.3 million as a result of parents reaching their CalWORKs time limit;
- Assumes savings of $75.2 million from implementation of prospective budgeting;

- Provides a single allocation increase of $241.5 million to fund county delivered employment services.

May Revision: The May Revision proposes significant adjustments to the proposed county compensation for employment services and CalWORKs administration. Specifically, the May Revision:

- Adjusts CalWORKs Services funding to reflect a reduction in the number of parents who will reach their CalWORKs time limit and actual county expenditures to serve parents at the time they reach their time limits;
- Reduces the administrative savings of implementing prospective budgeting due to a delay in implementation, a need for caseworker training, a gradual phase-in of administrative savings, and increased reprogramming costs;
- Reduces modestly administrative savings associated with the implementation of the Electronic Benefit Transfer system;
- Reduces the one time augmentation for employment services by $85 million
- Adjusts funding to reflect changes in the Welfare to Work Match.

The May Revision requests that the Legislature increase the proposed funding for CalWORKs services and administration by $156.9 million as compared to the proposed Governor's Budget.

Staff recommendation: Adopt May Revision proposed funding for CalWORKs services and increase the one-time augmentation for employment services by $35 million.

D. CalWORKs Childcare

May Revision: The May Revision reverses the proposed realignment of childcare and restores partial funding for the program. It transfers $549.6 million in TANF funds to support Stage 2 childcare and counts $57.7 million in general subsidized childcare expenditures toward the federally required TANF maintenance of effort. It makes $384 million in reductions to the current year level of service. Without these reductions, the Proposition 98 guarantee level would be over-appropriated by $341 million.

The Administration is proposing the following reductions and savings to childcare:

Proposal	Total Savings (millions)
Regional Market Rate regulations changes	123
Reduce the maximum reimbursement rate to the 85 percentile of the Regional Market Rate.	44
Increase Family Fees	33
Eliminate child care services for 13 year olds	4
Eliminate child care for grandfathered families	12
Stage 3 child care caseload savings	35
Reduction in Quality Improvement Initiatives	13
State Preschool savings	4
Increase in One-time federal funds	15

Increase in the TANF transfer		101
Total Savings	**$**	**384**

ALTERNATIVE PROPOSAL:

The Senate and Assembly Subcommittees on Education will likely consider an alternative proposal to save the $384 million:

Item	Total Savings (millions)	
Reductions to child care		80
TANF		137
Federal child care funding		65
Caseload Adjustments		85
One-time savings in Preschool		10
Reduced Before and Afterschool funds		7
Total Savings	$	384

The alternative proposal is contingent on the use of $137 million TANF funds for childcare:

Item	Proposed Savings ($ Millions)
TANF transfer proposed in Governor's Budget	101
TANF savings identified in other budget areas	36
Total TANF	**137**

The alternative proposal assumes that Subcommittee actions result in $36 million savings, including reduction of Data Center rates, automation projects and other reductions.

Staff recommendation: (1) Adjust Stage 1 funding to reflect adoption of the alternative proposal; (2) Increase the transfer of TANF funds to Stage 2 Childcare by $241.6 million for a total transfer of $585.6 million; (3) Adopt the proposal to count $57.7 million in general subsidized childcare expenditures toward the federally required TANF MOE.

E. County Flexibility - Issues A and B

Background: California provides counties a single allocation grant to fund CalWORKs Stage 1 childcare, employment services, and program administration. These single allocations were established during the implementation of CalWORKs and were based on each county's estimate of the level of funding necessary to fully fund their CalWORKs program. The allocations were adjusted to reflect actual costs in 1998-99 and 1999-00. California has maintained counties at their 2000-01 level in subsequent years. The state's policy to maintain county compensation at the 2000-01 level has increased pressure within county CalWORKs budgets and has limited funds for important CalWORKs activities including the provision of employment services.

Issue A - Maintain CalWORKs Services Expenditures at the Budget Appropriation

Background: Under current practice, the Department of Social Services re-distributes unspent CalWORKs Services County Compensation funds among counties. These funds compensate counties for any expenses that exceed their allocation without increasing the state's overall spending.

Governor's Budget: The budget contains bill language to eliminate the redistribution of unspent CalWORKs Single Allocation at the end of the 2003-04 fiscal year. The budget does not assume any savings associated with this proposal.

Staff recommendation: Delete budget bill language, Item # 5180-101-0001, Provision 10

Issue B - County Performance Incentives

Background: CalWORKs legislation established a county performance incentive system to reward counties for successfully transitioning CalWORKs recipients off aid and into employment, for diverting applicants from the program and for grant reductions resulting from increased earnings. Counties used incentive allocations to supplement county CalWORKs funding to serve needy families. The state last appropriated new performance incentive funds to counties in 2001-02.

Governor's Budget: The Budget assumes that remaining CalWORKs Performance Incentives will be fully expended at the end of 2002-2003. However, there is a possibility that in some counties there may be a small amount of unspent incentives remaining after June 30, 2003. Permitting counties to spend any remaining incentive funds in the budget year would assist counties in continuing to operate an effective CalWORKs program.

Staff recommendation: Adopt placeholder trailer bill language to clarify that unspent county incentive funds can be "rolled over" from 2002-03 to 2003-04.

3. In-Home Supportive Services (IHSS)

Background: The In-Home Supportive services (IHSS) program provides services to aged, blind or disabled individuals that allow them to remain safely in their own homes as an alternative to out-of-home care. Services include domestic services (meal preparation, laundry), nonmedical personal care services, assistance while traveling to medical appointments, teaching and demonstration directed at reducing the need for support, and other assistance. Services are provided through individual providers hired by the recipient, county contracts with service providers, or through welfare staff. 76.6 percent of the persons receiving IHSS are provided federally reimbursable services through the Personal Care Services Program, a Medicaid option implemented in California since 1993. The remaining are served through the State's IHSS Residual Program.

Governor's Budget: The budget provides $3.2 billion in funding for the program. **It proposes to realign the program to counties and to suspend the state's participation in IHSS wage increases for the budget year.**

May Revision: The May Revision increases funding for In-Home Supportive Services by $104.7 million ($26.5 million general fund) to reflect caseload increases, higher wages for IHSS providers and increases in the average number of services hours. The May Revision reflects reversal of the proposed realignment. It proposes an unprecedented transfer of $102.4 million in TANF funds to cover increased IHSS costs.

Staff recommendation: Adopt May Revision proposed funding level for IHSS. Reject the proposed transfer of TANF funds to support IHSS. Provide a $54.1 million general fund increase to fund IHSS in the budget year.

4. Supplemental Security Income/State Supplementary Payment (SSI/SSP)

General Background: 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 resource requirements. Individuals who receive SSI/SSP are categorically eligible for the Aged, Blind or Disabled Medi-Cal Program with no share of costs, and for the In-Home Supportive Services Program. The SSI/SSP program is administered by the Social Security Administration. More than 1.1 million Californians receive SSI/SSP. Over two-thirds of recipients are disabled, 30 percent are elderly, and two percent are blind.

SSI/SSP grant levels vary based on a recipient's living arrangement, marital status, minor status and whether she or he is aged, blind or disabled. Currently there are 19 different SSI/SSP payment standards. The current maximum grant for an aged or disabled individual living independently is $757 per month. It is $1344 for couples living independently.

SSI/SSP grants are generally adjusted every year to reflect cost of living changes. Specifically, current law provides an annual state cost of living adjustment for SSI/SSP grants, which is based on the California Necessities Index. The scheduled cost of living adjustments will increase the maximum SSI/SSP grant for an individual from $757 to $805 by January 2004.

Governor's Budget: The budget proposes (1) to suspend cost of living adjustments for SSI/SSP grants for the current and budget years and (2) to reduce SSI/SSP grants to the federal maintenance of effort level. The budget assumes $1 billion in savings as a result of these proposals.

May Revision: The May Revision restores the reduction to SSI/SSP grants and maintains the proposed suspension of the cost of living adjustment. It also adjusts estimated SSI/SSP costs to reflect minor caseload changes. The May Revision requests that the Legislature increase program funding by $672.7 million to reflect the proposed changes.

Staff recommendation: Adopt proposed restoration of SSI/SSP grants. Reject proposed COLA suspension. Restore funding for current year and budget year COLAs.

5. Child Welfare Services

Background: The Child Welfare Services (CWS) system provides a range of services to protect children from abuse, neglect and exploitation. The CWS system includes Emergency Response, Family Maintenance, Family Reunification and Permanent Placement services. The Department of Social Services is responsible for oversight of the state's CWS system. County welfare departments administer and operate CWS programs, and deliver program services to children and their families. The DSS and its county partners serve an estimated 171,000 youth each month.

Governor's budget: The budget provides $2.08 billion total federal, state and county funds ($69.3 million general fund) to support the CWS system. Funding for the Child Welfare Services system is based on 2000-2001 county costs and does not include a cost-of-doing business adjustment to local child welfare services providers.

May Revision: The May Revision proposes a net reduction of CWS expenditures by $49.3 million. **It provides a $26 million TANF fund transfer to offset general fund expenditures.** The May Revision reflects the following changes:

- Increase of $3.1 million general fund to reflect caseload growth.
- $878,000 net increase in county compensation for Relative Home Assessments
- Decrease of $52.4 million Federal Trust Fund due to a reduction in the Title XX transfer to the Department of Developmental Services offset by increases in TANF funding transfers through Title XX to DSS programs including CWS and IHSS.

The May Revision modifies the proposed county compensation for relative home assessments. Specifically, the May Revision increases the estimated number of hours for completion of assessments, reduces the percentage of cases with multiple relatives interested in adopting a child who is a relative, and reduces funding pursuant to the Governor's proposal to streamline annual licensing visits. The proposed funding remains significantly below county estimated costs of completion of the assessments.

Staff recommendation: Redirect $1,042 million proposed to fund CWS/CMS staff development to augment funding for county completion of relative home assessments and otherwise adopt the May Revision as proposed.

6. Foster Care Program

Background: The Foster Care program provides support payments for children in out-of-home care as a result of a judicial order or a voluntary placement agreement. The program provides payment to foster care service providers, including foster homes, foster family agencies, residential treatment for seriously emotionally disturbed children and group homes. The program is administered by the Department of Social Services and operated by county welfare departments. It serves an estimated average of 76,400 youth a month, reflecting a 2.2% increase in caseload.

Governor's Budget: The budget provides $1.78 billion total funds ($78,000 general fund) to support the foster care system. It does not provide a cost-of-doing business adjustment for counties and maintains provider rates at the 2001-02 level.

May Revision: The May Revision increases Foster Care program funding by $12 million general fund and $1 million federal funds due to an increase group homes grant costs, a decrease in the number of children in foster care eligible for federal funding, and caseload growth. The May Revision also proposes an $11 million increase in funding for transitional housing for foster youth to reflect caseload increases.

Staff recommendation: Adopt the May Revision. Adopt placeholder trailer bill language to extend rate flexibility granted to foster care providers in the current year into future years. Adopt TBL to require DSS to work with providers to develop alternative flexibility proposals that protect child safety and to report to the Legislature at budget hearings.

7. California Child and Family Services Review

Background: The federal Adoption and Safe Families Act of 1997 made sweeping changes to state child welfare services programs and foster care programs. Among other changes, the Act required the establishment of a new outcome based evaluation process to assure states' substantial conformity with federal foster care, child protective services and adoptions services requirements. The new review assesses state performance on seven outcomes pertaining to safety, permanency and well being, and on seven systemic factors including training of foster parents and caseworkers, data systems, and quality assurance. The review establishes fiscal penalties for non-compliance and may affect federal financial participation in the future.

The federal government completed its review of California's child and family services in January 2003. The review examined multiple state programs and services including child protective services, foster care, adoption, family preservation, family support and independent living. The federal government concluded that California is not operating in substantial conformity in all evaluated outcome areas and five of the seven evaluated factors. California is in substantial conformity only with requirements regarding agency responsiveness to the community and having a statewide information system that meets specified criteria.

Federal law requires that California negotiate a Program Improvement Plan (PIP) with the federal government to address system deficiencies and improve the state's outcomes. The state's plan will outline specific steps California will take to improve its children and family services system. California has submitted its PIP for federal approval. The federal government has submitted multiple requests for additional information and appears interested in negotiating with California to significantly change the proposed PIP.

May Revision: The May Revision proposes to use $28 million in TANF funds to implement components of the state's Program Improvement Plan and Child Welfare System Redesign. Specifically, the May Revision proposes to:

- Restore funding for Foster Parent and Relative Caregiver Training
- Fund targeted recruitment of foster and adoptive parents for children who are from ethnic and racial groups that are over-represented in the foster care population
- Reduce the Supervisor/Social Worker ratio from 7:1 to 6:1 to assure clients receive continuous services while Social Workers attend mandated training.
- Provide grants to counties to expedite the implementation of evidence-based practices such as safety assessment tools, Family-to-Family (neighborhood-based foster care) and engagement of communities and families in the intake process.

Subcommittee request and questions: The Subcommittee has requested that the Department of Social Services briefly discuss the state's proposed Program Improvement Plan, the status of negotiations with the federal government on the PIP, and the Department's May Revision proposal.

Staff recommendation: Deny the May Revision proposal.

8. Realignment

Governor's Budget: The Governor's budget proposed a major realignment package, which consists of four components in the health and human services arena (over $7.9 billion), and a court security plan for the Trial Courts ($300 million), for total expenditures of $8.2 billion. The budget proposes new dedicated realignment revenues totaling $8.3 billion, including an increase in the Sales Tax (one percent), an increase in Personal Income Tax (10-11 percent bracket) and an increase in the Tobacco Excise Tax ($1.10 increase).**The Senate has reversed the proposed realignment in its entirety.**

May Revision: The May Revision significantly reduces the scope of the Governor's proposed realignment. The May Revision proposed realignment shifts approximately $1.7 billion in program costs to counties and provides approximately $1.8 billion in new revenue to support the realigned programs. The Governor proposes to realign the following human services programs:

	Current SOC	Proposed SOC	GF savings
CalWORKs grants	2.5 %	30 %	$782 million
CalWORKS Services	0 %	30 %	$359 million
Child Welfare	30 %	50 %	$197 million
Foster Care Grants	60 %	80 %	$237 million
Foster Care Admin	30 %	50 %	$11 million
Child Abuse Prevention	0%	100%	$12 million
Adult Protective Services	0 %	100 %	$61 million
			$1.66 billion

The May Revision realignment package focuses on programs that are administered by counties and that have relatively stable caseloads. Generally, counties have modest to substantial local control of the human services programs proposed for realignment. Although counties and other stakeholders have concerns about the stability of the proposed revenue sources, there is a general agreement that the proposed realignment is programmatically feasible.

Staff recommendation: (1) Maintain the Subcommittee's prior action to reverse realignment; (2) Adopt Budget Bill Language to recognize savings from proposed realignment contingent upon enactment of legislation containing a realignment package. (3) Adopt placeholder TBL to enact the May Revise Realignment package.

Senate Budget & Fiscal Review

Senator Wesley Chesbro, Chair

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

Senator Wesley Chesbro, Chair
Senator Gilbert Cedillo
Senator Tom McClintock
Senator Bruce McPherson
Senator Deborah Ortiz

May 22nd , 2003 (Thursday)

Upon Adornment of Session

Room 4203

MAY REVISION & OPEN ISSUES

Item	*Description*
4120	**Emergency Medical Services Authority (EMSA)**
4280	**Managed Risk Medical Insurance Board (MRMIB)**
4260	**Department of Health Services—Public Health & Medi-Cal**
4440	**Department of Mental Health**

I. ITEMS RECOMMENDED FOR "VOTE ONLY" *(Shown by Department)* *(Items "A" Through "E")*

A. EMERGENCY MEDICAL SERVICES AUTHORITY
(Vote Only Calendar)

1. Restoration of the EMSA—Governor Rescinds Proposal

Subcommittee's Prior Action: In its April 28th hearing, **the Subcommittee *rejected* the Governor's January proposal to transfer the EMSA to the DHS, and instead (1) reduced the EMSA support budget by the same level of savings--$138,000 (General Fund)—as proposed through the consolidation, and (2) adopted corresponding Budget Bill Language.**

The suggested language is as follows:

Item 4120-001-0001 Provision 1.

It is the Legislature's intent for any reduction taken in this item to be obtained from state support only and not local assistance. This may include efficiencies and savings obtained from personnel expenditures, operating expenditures or equipment.

Governor's May Revision: The Governor's May Revision rescinds the proposed January consolidation and also deletes $138,000 (General Fund) from EMSA state support. **As such, the proposal is identical to the Subcommittee's prior action, *except* for the Budget Bill Language.**

Subcommittee Staff Comment: **It is suggested to retain the Subcommittee's prior action of April 28th, including the Budget Bill Language.** The Budget Bill Language clarifies the Legislature's intent that the reduction come only from state support and not any local assistance.

2. Hospital Bioterrorism Preparedness Program—*Will Conform to DHS Item*

Background—Overall Summary: The Emergency Supplemental Appropriations for Recovery & Response to Terrorist Attacks on the US Act (Public Law 107-117 of 2002), and subsequent federal legislation, among many other things, **provided states with additional federal funds to support and address both local and state concerns regarding the threat of bioterrorism.**

Under the *initial* supplemental grant award in 2002, there were two funding streams made available to California—one from the federal Centers for Disease Control (CDC) and the other from the federal HRSA for the development and implementation of regional plans to improve the capacity of hospitals, their emergency departments, outpatient centers, emergency medical systems and related matters.

California's *new* 12-month cycle (August 31, 2003 through August 30, 2004) **is $94.4 million (federal funds), of which $55.6 million is from the federal CDC and $38.8 million is from**

HRSA. However for state budgeting purposes, only ten months of the federal fiscal year is captured. Therefore, this allocation will cross over two state fiscal years.

Governor's May Revision: The May Revision proposes that the $32.8 million from HRSA for local grants to upgrade the preparedness of the State's hospitals and local health care organizations for a biological attack be appropriated to the DHS and transferred to the EMSA to be expended, as was done last year. **The EMSA will then award local grants to hospitals, local emergency medical service agencies, and other qualified health care organizations for bioterrorism planning and preparedness activities.**

Subcommittee Staff Recommendation: The entire May Revision proposal regarding expenditure of the federal Bioterriorism funds—to be appropriated to the DHS—is to be discussed below, under the DHS-public health item. **As such, it is recommended to have this EMSA item simply conform to the action taken under the DHS item.**

Budget Issue: Does the Subcommittee want to have the EMSA action conform to the DHS action—the department actually appropriating the funds?

B. MANAGED RISK MEDICAL INSURANCE BOARD *(Vote Only Calendar)*

1. Technical Trailer Bill Legislation Adjustment—AIM Merger

Background: In the Administration's trailer bill legislation that accompanied the AIM merger with Healthy Families proposal, as discussed in the March 3rd, 2003, Subcommittee hearing, there is a technical drafting error in the language (RN0301034).

Specifically, please delete Section 11, pages 18-20 (Insurance Code Section 12693.41); this will reinstate current (inoperative) law. On page 19, in subdivision (b), the Administration had added a new cross-reference to the AIM babies who will be shifting into Healthy Families starting in 2004-05. However, this cross-reference is moot, since the whole section is already inoperative (as of 4/1/03) and will be repealed on 1/1/04. There are two versions of Section 12693.41, and the one that just became operative on 4/1/03 does not contain the subdivision (b) language. Therefore, no cross-reference is needed.

Subcommittee Staff Recommendation: It is recommended to adopt this technical correction to the language.

Budget Issue: Does the Subcommittee want to **adopt this technical correction?**

<u>2. Technical Adjustment Due to Tobacco Settlement Funds—Healthy Families</u>

<u>Background-- Finance Letter and Interaction with May Revision:</u> The Governor's January budget assumed that $220 million (Tobacco Settlement Funds) would be available in 2003-04 for the Healthy Families Program (HFP). **However, when the Administration changed the structure and sizing of the anticipated Tobacco Settlement Funds securitization, it was determined by the Department of Finance that the $220 million in funds would no longer be available in the budget year for the HFP. As such, the DOF submitted a Finance Letter to the Legislature requesting $220 million in General Fund support to backfill for the loss in Tobacco Settlement Funds.**

However, since this Finance Letter was submitted (i.e., April), the DOF notes that the market conditions regarding the securitization of the bond has changed, so the Governor's May Revision proposes not to securitize the remaining Tobacco Settlement Fund revenues. This aspect of the Governor's May Revision is captured in the Healthy Families Program estimates package (regarding caseload and related adjustments).

<u>Subcommittee Staff Recommendation:</u> In order **to achieve technical budgeting clarity due to the DOF's Change Book system, it is recommended for the Subcommittee to adopt the Finance Letter, and then to adopt the May Revision estimate package regarding the Healthy Families Program *(to be discussed below under MRMIB—Discussion Items).***

The net affect of these two actions are as follows:

- Finance Letter **$220 million (increased GF)** $220 million (decrease Tobacco Settlement)
- May Revision **$173.4 million (decrease GF)** $173.4 million (increase Tobacco Settlement)
    - **Net** **$ 46.6 million (increase GF)** $46.6 million (decrease Tobacco Settlement)

<u>Budget Issue:</u> Does the **Subcommittee want to adopt the Finance Letter** and then discuss the May Revision HFP estimate below (where adjustments will be made to net the General Fund)?

<u>3. Healthy Families Program—Restore Rural Demonstration Projects</u>

<u>Background:</u> The **Rural Health Demonstration Projects, <u>enacted into law in 1997 as part of the original enabling HFP legislation for children</u>, 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.** These projects are an integral component of the Healthy Families Program.

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, and rate enhancements to increase HFP provider networks in**

remote areas. According the Rural Demonstration Project 2002 Fact Book, over 238 projects have been funded with very successful and measurable results.

The enabling legislation for Rural Health Demonstration Projects contained a sunset clause, as did the Healthy Families Program overall. Specifically, the statute is set to sunset as

Budget Act of 2002: **The Legislature restored a total of $4.8 million ($1 million General Fund, $683,000 Tobacco Settlement Funds and $3.2 million federal funds) for the Rural Demonstration Projects funded under the MRMIB, and the Governor sustained the adjustment.**

Governor's January Budget & May Revision: The January budget proposed to eliminate the Rural Demonstration Projects funds used in the HFP for savings of $4.8 million ($1.7 million General Fund and $3.1 million federal Title XXI funds). **The May Revision did not restore this proposed elimination.**

According to the MRMIB, the only reason these projects are being deleted is due to General Fund constraints.

Subcommittee Staff Recommendation: Subcommittee staff **recommends to shift $1.047 million in Propositions 99 Funds from the Office of Statewide Health Planning and Development (OSHPD) and the Rural Health Grants Program to the Managed Risk Medical Insurance Board and the HFP to assist in funding the Rural Demonstration Projects. This shift will enable the state to obtain a 65 percent federal match using Title XXI funds.**

In addition, in order to obtain a federal Title XXI match, **it is also recommended to adopt placeholder trailer bill language which would enable Proposition 99 funds to be used to obtain a federal match specifically for the Rural Demonstration Projects.** If place holder trailer bill language is not adopted, then a federal match cannot be obtained. Due to the structure of Proposition 99, a four-fifths vote of the Legislature is required for passage in order to obtain the federal funds. **Further**, it is recommended **to repeal the sunset for the projects, authorize the MRMIB to perform these activities, and require implementation of the projects upon an appropriation in the annual Budget Act or other statute.**

Budget Issue: Does the **Subcommittee want to adopt** the following actions: **(1)** delete the $1.047 million (Proposition 99 Funds) from the Rural Health Grants and shift the funds to the Rural Health Demonstration Projects in the HFP, along with a corresponding 65 percent Title XXI match, and **(2)** repeal the sunset date for the projects.

C. DEPARTMENT OF HEALTH SERVICES *(Vote Only Calendar)*

1. Childhood Lead Program Reappropriation for RASSCLE II

Governor's May Revision: The Response and Surveillance System for Childhood Lead Exposures (RASSCLE) system was initially approved in the Budget Act of 2001 from the Childhood Lead Poisoning Prevention Fee Fund. **However, funds were reappropriated in 2002-03 because new information technology requirements were introduced in 2001-02 that delayed the project.**

According to the DHS, they have made considerable progress on the project by completing project planning and requirements gathering. They state that they are ready to begin the software development and system implementation phase but have been faced with a new two-fold increase in time to release and procure the development contract Request for Proposal. **As a result, they contend that the best way to proceed is to develop the RASSCLE system utilizing in-house development staff, while augmenting required skills through a mentoring contract. Using this approach, the DHS states that the project will end by November 15, 2004.**

The approved project funds in 2002-03 were $1.217 million. Since this year's procurement delays, only $173,995 will be expended leaving $1,043,208 (special fund—Childhood Lead Poisoning Prevention Fee Fund) in unexpended project funds. As such, the May Revision is requesting to re-appropriate this amount in Item 4260-001-080.

Subcommittee Staff Recommendation: Development of the RASSCLE is important in California's efforts for mitigating childhood lead poisoning since state and local health agencies use RASSCLE for childhood lead poisoning surveillance and case management activities. As such, it is recommended to proceed with the proposed re-appropriation.

Budget Issue: Does the Subcommittee **want to adopt the May Revision?**

2. Alzheimer's Disease and Related Disorders Research Fund

Background and Governor's May Revision: In California, there are over 500,000 Alzheimer's patients. The total costs of caring for this disease are estimated at between $10 billion and $20 billion per year in California. It has a profound impact not only on the person with the disease, but also on the families, caregivers and medical care system.

The Alzheimer's Disease and Related Disorders Research (ADRDR) Fund generates funds through voluntary contributions (tax check-off) of state taxpayers for the specific purpose of funding research projects for Alzheimer's disease and related disorders.

The May Revision requests an increase of $450,000 (ADRDR Fund) to support more research projects which may develop and advance the understanding, techniques and modalities effective in the cure of Alzheimer's disease. This adjustment would increase the budget authority to a total of $742,000 (ADRDR Fund). The balance of the ADRDR Fund is nearly $1.3 million, so the funds are available for expenditure.

Subcommittee Staff Recommendation: Subcommittee staff recommends that the Subcommittee **adopt** the proposal.

Budget Issue: Does the Subcommittee **want to adopt the May Revision proposal?**

3. East End Rent Adjustments

Background: In the Spring of 2003, the California Department of Education (CDE) informed the Department of General Services (DGS) that they no longer desired newly constructed office space within the East End project (located at the east end of the State Capitol)—specifically, Building 172. As such, the DOF and DGS proposed that the DHS occupy this space (Building 172) since the DHS has moved into Buildings 171, 173 and 174.

Governor's May Revision: The DHS **is requesting an increase of $625,000 ($231,000 General Fund**, $156,000 Radiation Control Fund and $238,000 federal funds) **in order to fund the increased facility space costs of occupying Building 172**, since the CDE will not. The DHS states that programs to move into this new space include Audits and Investigations, Payment Systems Division, Radiologic Health, the Office of HIPAA, and Emergency Preparedness.

Subcommittee Staff Recommendation: The DOF, DGS and DHS decision to have the DHS utilize Building 172, in lieu of the CDE, is certainly within the purview of the Administration. **However, providing additional General Fund support for increased rent expenditures due to the move at this time is not recommended due to the present deficiency.** The special funds—Radiologic Control Fund and federal funds—could be provided since these funding sources have available reserves.

Budget Issue: Does the Subcommittee **want to modify the May Revision request by (1) providing a total of $394,000** ($156,000 Radiologic Control Fund, and $238,000 federal funds) to fund a portion of the increased rent costs, **(2) rejecting** the $231,000 in General Fund support, and **(3)** directing the DHS to absorb the General Fund amount?

4. Convert Contract Nurse Positions to Civil Service for General Fund Savings

Background and Governor's May Revision: The DHS is requesting **(1)** the conversion of 71 contract nurse positions to permanent, full-time state civil service Nurse Evaluator II positions, and **(2)** to establish two permanent, full-time positions to provide oversight and support. The DHS is requesting for the **73 positions to be effective January 1, 2004** in order to provide the DHS with time to establish and fill the positions. The positions are currently under the direction of the state's Medi-Cal Fiscal Intermediary—Electronic Data Systems (EDS). These positions pertain to the Medical Case Management Program, Treatment Authorization Request utilization reviews conducted in Medi-Cal Field Offices, and appeals/litigation functions. .

The DHS states that the Administration will provide freeze exemptions to recruit and hire the staff.

The fiscal effect of this transaction will save the state General Fund support. Specifically, the Medi-Cal estimate for the Fiscal Intermediary contract is to be reduced by $4.2 million ($1 million General Fund for the budget year, and by $8.4 million ($2.1 million General Fund) in 2004-05 (annual basis). The DHS state support item will be increased by $3.5 million ($885,000 General Fund) in the budget year, and by $6.9 million ($1.7 million General Fund) in 2004-05 (annual basis). **This will result in a net savings of $120,000 General Fund for the budget year, and about $400,000 General Fund for 2004-05 (annual basis).**

Subcommittee Staff Recommendation: It is recommended **to adopt the proposal.**

Budget Issue: Does the Subcommittee want **to adopt the May Revision?**

5. Reversion of Unexpended Tobacco Settlement Funds to General Fund for Offset

Background and Governor's May Revision: Based on updated expenditure projections for the Child Health Disability Prevention (CHDP) Program for the current year (2002-03), the DHS states that there will be $6.0 million in unexpended funds from the Tobacco Settlement Fund.

As such, the May Revision proposes to transfer this $6 million from the Tobacco Settlement Fund to the General Fund to serve as an offset in expenditures. In order to technically effectuate this transfer, it is recommended to add Item 4260-010-3020 to the Budget Bill, as follows:

> 4260-010-3020—For Transfer by the Controller, from the Tobacco Settlement Fund, to the General Fund………..$(6,000,000)

Subcommittee Staff Recommendation: It is recommended **to adopt the May Revision.**

Budget Issue: Does the Subcommittee want **to adopt the May Revision?**

6. Suspension of Local Mandates

Background: Chapter 268—SIDS Contacts by Local Health Officers—requires the State Controller to reimburse each local health officer for their mandated contact with the person who has caring for a victim of SIDS at the time of death to inform them of the nature and causes of SIDS and provide support, referral and follow services.

Chapter 453—SIDS Notices—requires coroners to notify the local health officer within 24 hours of a presumed death by SIDS. The local health officer must immediately contact the parent of the decreased to provide support, referral, information, and follow up services.

Both of these local mandates were suspended in the Budget Act of 2002.

Governor's May Revision: The May Revision proposes to decrease by $2,000 to reflect the suspension of two mandates—Sudden Infant Death Syndrome (SIDS) contracts by Local Health Officers (Chapter 268, Statutes of 1991), and SIDS notices (Chapter 453, Statutes of 1974). **In order to effectuate this proposal, the following Budget Bill Language is required:**

> Item 4260-295-0001
> Pursuant to Section 17581 of the Government Code, mandates identified in the appropriation schedule of this item with an appropriation of $0 and included in the language of this provision are specifically identified by the Legislature for suspension during the 2003-04 fiscal year:
>
> (1) SIDS Contracts by Local Health Officers (Chapter 268, Statutes of 1991)
> (2) SIDS Notices (Chapter 453, Statutes of 1974)

Budget Issue: Does the Subcommittee want **to adopt the May Revision?**

7. Proposed Reduction to the Expanded Access to Primary Care Clinics Program

Background: The purpose of the Expanded Access to Primary Care Clinic Program (EAPC) is to expand access to primary and preventative health care for the uninsured and medically underserved Californians. The program was created in 1989. Community-based clinics provide a high quality of care and are noted for being very cost-beneficial in their service delivery model.

Governor's May Revision: The May Revision **reduces by $2.350 million (General Fund) simply to reflect a reduction to the program in lieu of the Governor's Realignment proposal.**

Subcommittee Staff Recommendation: The May Revision reduction reflects an ad hoc reduction that has no policy basis. As such, it is recommended to reject the May Revision proposal.

Budget Issue: Does the Subcommittee **want to reject the May Revision proposal?**

8. Proposed Reduction to the Adolescent Family Life Program (AFLP)

Background: The AFLP was developed as a "best practice" model for reducing health, social, and economic costs related to adolescent pregnancy and parenting. AFLP originated as a federal pilot project in 1982 and was established as a Governor's initiative in 1985. Legislation passed in 1988 making it a permanent statutory program.

It provides counseling, education and support services for pregnant and parenting teens, including fathers, and their infants. The program also supports the development of projects that evaluate and refine effective models of practice in the areas of health behavior modification, prenatal care outreach, prevention, and the role of men in parenting.

Governor's May Revision: The May Revision **proposes to reduce by $1.621 million (General Fund) to reflect a reduction to the program in lieu of realignment.**

Subcommittee Staff Recommendation: The May Revision reduction reflects an ad hoc reduction that has no policy basis. As such, it is recommended to reject the May Revision proposal. Several program evaluations over the years have shown its efficacy.

Budget Issue: Does the Subcommittee **want to reject the May Revision proposal?**

9. "Medi-Cal to Healthy Families Program--Bridge" for Children Moving Between Programs *(Trailer Bill Item)*

Background: Historically, **a one-month "bridge"** has been provided **between the Medi-Cal and HFP programs for children, *and* a two-month bridge has been provided between the HFP and Medi-Cal**. As a families income rises or falls, children can continue to receive health care coverage as they transition to the other program, pending eligibility determination and plan transfer, when applicable.

In the omnibus health trailer bill (AB 430) which accompanied the Budget Act of 2001, statute was changed to provide for a **two-month bridge** between programs as part of the state's HFP Parental Expansion Waiver. However, even though the Waiver was approved by the federal government, **the two-month bridge (from Medi-Cal to the HFP) has never been implemented because funding for the Waiver expansion has not yet been appropriated.**

The two-month bridge (from HFP to Medi-Cal) has been in operation. This **bridge** takes effect when the HFP determines at annual eligibility review that the family's income qualifies the child for no-cost Medi-Cal coverage.

Governor's January Budget and May Revision: In their January trailer bill language, the Administration proposed trailer bill language to change the two-month provision to a one-month provision. **In addition, the Administration also proposed to insert an implementation date of October 1, 2006 for the one-month bridge (Medi-Cal to HFP) to change to two months.** The Administration is suggesting this subparagraph language for it would correspond with their concept of when funding may be available for the Waiver and parental expansion. **This language continues to be proposed in their May Revision package.**

<u>Prior Subcommittee Hearing:</u> In the **March 3rd hearing**, this issue was discussed and the Subcommittee expressed interest in modifying the proposed trailer bill language as shown below under the Subcommittee staff recommendation.

<u>Subcommittee Staff Recommendation:</u> It is recommended **to modify the Administration's language by modifying subparagraph j. The revised suggested language is as follows:**

> <u>(j) The one month of benefits provided in this section shall be increased to two months commencing upon implementation of the waiver as referenced in Section 12693.755.</u>

The one-month reference would be used to replace the two-month reference in the other sections as noted. This would reflect existing funding and practice as the bridge pertains to going from Medi-Cal to the HFP.

In addition, the existing practice of having a two-month bridge in going from the HFP to Medi-Cal would remain. Funds are included in the Governor's budget for this purpose.

<u>Budget Issue:</u> Does the **Subcommittee want to adopt the modification to the trailer bill language as referenced above?**

<u>10. Continuous Skilled Nursing Care Pilot Project (AB 359, Statutes of 1999)--Technical</u>

<u>Background and Governor's January Budget:</u> This legislation required the DHS to establish **a Waiver pilot program** (up to ten sites) **to explore more flexible models of health care facility licensure to provide continuous skilled nursing care to medically fragile developmentally disabled individuals in the least restrictive environment.** Current licensing categories do not provide the flexibility to allow these individuals to reside in small, non-institutional health facilities.

This ICF/DD-CN pilot program began enrolling recipients on April 3, 2002. The pilots have an expiration date of January 1, 2006. The DHS was provided positions for the implementation, monitoring and evaluation of the pilot. These positions are slated to expire. **As such, the Governor's January budget proposed to extend the four positions, and to provide for an independent assessment (as required by federal law) for expenditures of $614,000 (total funds). Of this amount, $250,000 (total funds) was for the independent assessment.**

<u>Prior Subcommittee Hearing:</u> In the April 28th hearing, **the Subcommittee approved the DHS request for the positions, but suggested that the independent assessment could be conducted by the DOF (they have done several of these for other Waivers) at a substantial cost savings.**

<u>Subcommittee Staff Recommendation:</u> Since the hearing, Subcommittee staff has been informed that the evaluation will not be needed until 2004-05. **Therefore, it is recommended**

to delete the $250,000 (total funds) that had been budgeted in the Governor's January budget for this purpose.

Budget Issue: Does the Subcommittee **want to delete the $250,000 (total funds) for the evaluation since it is not needed until 2004-05?**

11. SB 26 (X)—Actions To Reflect Legislation

Background: SB 26(X), Statutes of 2002, ***among other things*****, contained statutory changes identified to reflect the following General Fund savings in the Medi-Cal local assistance budget:**

- County Performance Standards — $194 million General Fund savings
- Semi-Annual Reporting — $42.5 million General Fund savings
- Denti-Cal Program Savings — $50 million General Fund savings

Subcommittee Staff Recommendation: For the purpose of developing the Senate version of the Budget Bill, it is recommended to reflect the above adjustments in the May Revision proposal in order to capture the identified savings levels. It is recommended to direct the DOF to make all necessary Change Book adjustments.

Budget Issue: The Subcommittee directs the **DOF to reflect the savings identified in SB 26(X) as noted above for purposes of crafting the Senate budget bill.**

12. Licensing and Certification Fee Restructuring Proposal by the Administration

Background: Licensing and Certification functions conducted by the state are either fee-supported or reimbursed by the federal government (Title XIX funds—Medi-Cal). Existing law (Section 1266 of H&S Code) provides that health care facilities (hospitals and nursing facilities), except for those owned by public entities, are to pay an annual per-bed license fee.

This per-bed fee is calculated by the DHS based on the amount of license fee revenues needed to fund *current-year* spending (not budget year) for the regulatory and licensing and certification enforcement program. The proposed fee level is then reviewed by the Legislature through the annual budget process. Since public entities are statutorily exempt from paying licensing fees and those costs are not covered by other licensees, the General Fund must pay the difference.

Governor's January Budget: The Administration proposed two changes to the existing method used to calculate the licensing and certification fees. These two proposed trailer bill language changes will result in savings of about $5.8 million (General Fund).

First, they are proposing to **change the way fees are *calculated*** for health care facilities. **Current methodology** calculates the fee for facilities by dividing the total expenditures by the total number of beds in all facilities **(both public and private)**. The proposed change would calculate the fee by dividing the total expenditures by the number of *private beds only*. As such, the non-exempt health facilities will cover the difference; thereby saving General Fund expenditures. The Administration states that savings of $4.7 million (General Fund) will be achieved by this particular change.

Second, the Administration is proposing to change from the existing process of calculating the upcoming budget year needs based on current year (i.e., 2002-03) expenditures to basing it on anticipated 2003-04 expenditures. Historically, any new funding proposals would be floated by the General Fund for one year before the fees would be adjusted the following year to include the added resources. Under the Administration's proposed change, the fees would be based on *estimated* actual needs in the budget year (2003-04) thereby eliminating any dependence on the General Fund to float resources. The Administration states that savings of just over $1 million (General Fund) will be achieved by this particular change.

<u>Prior Subcommittee Hearing:</u> In a prior hearing (April 28th), the Subcommittee heard public testimony and took the proposal under advisement.

<u>Subcommittee Staff Recommendation:</u> It is recommended to adopt the Administration's proposal.

<u>Budget Issue:</u> Does the Subcommittee want to **adopt** the Administration's proposal?

<u>13. Medi-Cal Administrative Activities Program Claiming Plans</u>

<u>Background and Governor's May Revision:</u> The objective of the Medi-Cal Administrative Activities (MAA) Program for schools and counties is to provide federal reimbursement for costs conducted to perform certain administrative activities necessary for the effective administration of the Medi-Cal Program, including:

- Outreach to individuals and families potentially eligible for Medi-Cal;
- Assisting individuals/families in the Medi-Cal application process;
- Arranging and providing non-emergency, non-medical transportation for Medi-Cal eligible individuals to and from providers of necessary Medi-Cal services;
- Contracting for Medi-Cal services; and
- Program planning and development.

The May Revision is requesting an increase of $218,000 ($108,000 Reimbursement from schools and $108,000 in federal funds) to fund three positions to do a wide variety of functions related to meeting federal oversight functions that pertain to MAA and usage at the schools and counties.

<u>Subcommittee Staff Recommendation:</u> It is recommended **to adopt the proposal.** No issues have been raised.

<u>Budget Issue:</u> Does the Subcommittee **want to adopt the May Revision?**

14. Cancer Research Program—Senate Changes & Administration's Trailer

Background and Governor's January Budget: Chapters 755 and 756, Statutes of 1997 (AB 1554, Ortiz and SB 273 Burton), created the Cancer Research Act of 1997. From 1998 to 2001, the annual Budget Act provided $25 million (General Fund) for this program.

Due to fiscal constraints, the Budget Act of 2002 and accompanying legislation (1) reduced the appropriation level to $12.5 million, **(2)** allowed for the receipt of private donations to the program, **(3)** capped the indirect costs for the grants at 25 percent, ***and*** **(4)** provided for multiple-year contracting for the grants.

The Governor's Mid-Year proposal further reduced this program by another $6.25 million (50 percent) in the current-year. **His January budget proposes elimination of the funding in its entirety.**

Governor's May Revision (See Hand Out): The May Revision **(1)** continues the elimination of funding, and **(2)** proposes to provide multi-year authority to carry forward any unexpended Cancer Research funds from the current year (2002-03).

Subcommittee Staff Recommendation: It is recommended to **(1)** provide $6.25 million in General Fund support, **(2)** assume $6.25 million from private donations and foundations, **(3)** adopt the Governor's May Revision trailer bill language to provide for carry-forward authority, and **(4)** adopt Budget Bill Language to require the DHS to actively pursue seeking private foundation funds as required by the statute.

The proposed Budget Bill Language is as follows:

Item 4260-001-0001

The Department of Health Services shall actively pursue seeking private foundation funds, as allowed for under the Cancer Research Program Act.

Budget Issue: Does the Subcommittee **want to (1)** provide $6.25 million (General Fund) support, **(2)** assume $6.25 million from private donations and foundations, and **(3)** adopt Budget Bill Language to require the DHS to actively pursue seeking private foundation funds as required by the statute.

15. Improvement for Enrolling Infants into the CHDP Gateway

Prior Subcommittee Hearing: In the April 21st hearing, the Subcommittee heard compelling public testimony that a minor "fix" was needed for the CHDP Gateway to be able to enroll eligible infants. Senator Chesbro, Chair of the Subcommittee, directed Subcommittee staff to work on the issue.

Improvement to the Gateway—Deemed Eligible Infants: The DHS and constituency groups, including providers of services, have been working diligently through regular meetings of a CHDP Advisory Group. **Through this process, constituency interests have identified a few areas in which the CHDP Gateway could be improved. One of these areas of interest pertains to the enrollment of newborns through the Gateway process.**

While the Medi-Cal Program has existing statutory authority (Section 14011.4, of W&I Code) to perform the enrollment of newborns, the statutory authority of the CHDP Gateway is strictly limited to performing eligibility determinations for either the CHDP-Only eligibility or pre-enrollment eligibility funded either through Medi-Cal or the Healthy Families Program.

Based on technical assistance obtained from the DHS, to include newborn enrollment as part of the CHDP Gateway process an increase of $785,000 ($196,000 General Fund) is needed for 2003-04-- the first year expenditure which includes some one-time-only system development costs. *The DHS states that on-going expenditures would be $128,000 ($32,000 General Fund) annually.* As noted by the DHS, the establishment of this process is not expected to significantly change the services Medi-Cal pays for newborns.

In addition, statutory change would be needed (to Section 14011.4 of W&I code) to perform the newborn enrollment. Suggested language is as follows:

> Proposed New subdivision to Section 14011.4:
>
> "(b) In addition t the implementation of a program of pre-enrollment of children into Medi-Cal or Healthy Families programs as described in subdivision (a), the department may, at its option, use the electronic application described in subdivision (c) to also serve as a means to enroll newborns into the Medi-Cal Program as is authorized under 42 United States Code section 1396a(e)(4)."

Constituency groups note that by making this small modification to the Gateway, barriers to the enrollment of newborns would be low and infants would start to receive more timely health care coverage.

Subcommittee Staff Recommendation: It is recommended to provide an increase of $785,000 ($196,000 General Fund) (of which $164,000 is one-time only General Fund) and to adopt trailer bill language as specified above to proceed with the "fix" for the deemed eligible infants.

Budget Issue: Does the Subcommittee **want to adopt the recommendation?**

16. Tobacco Settlement Fund GF Loan *(See Hand Out)*

Governor's May Revision: The May Revision proposes to modify the amount the Tobacco Settlement Fund provides to the General Fund as contained in existing code Section 104425 of the Health and Safety Code. **Currently the transfer amount is $250 million. The May Revision changes this to $100 million.** Specifically, these are the funds that are not otherwise appropriated.

Budget Issue: Does the Subcommittee want to adopt the proposed change?

17. The LEADER Project *(See Hand Out)*

Governor's May Revision: The May Revision requested Budget Bill Language to reduce the monthly Medi-Cal county administration base allocation to Los Angeles County by 15 percent until sufficient progress is made in implementing system changes in the Statewide Automated Welfare System—Los Angeles Eligibility, Automated Determination, Evaluation and Reporting (LEADER) Consortium system. These changes would automate the eligibility determination process for the Section 1931(b) and continuous eligibility for children's aid categories.

Subcommittee Staff Recommendation: The **DHS, DOF and County of Los Angeles have re-crafted the proposed Budget Bill Language contained in the May Revision and have reached consensus.**

Budget Issue: Does the Subcommittee **want to adopt the revised Budget Bill Language as agreed to by the affected parties and as contained in the Hand Out?**

18. Technical Sweep of Special Deposit Fund for General Fund Backfill

Background and Subcommittee Staff Recommendation: Subcommittee staff has become appraised that $4.7 million in Surplus Money Investment Fund interest is available to transfer to the General Fund as an offset. The $4.7 million is unencumbered and resulted from the original transfer of General Fund moneys to a special account whose purpose has now been fulfilled. This special deposit fund is pursuant to Government Code Section 16370 and is technically referred to as Special Deposit Fund number 0942-14.

Therefore, it is recommended to terminate Special Deposit Fund number 0942-14 and to transfer the full amount—approximately $4.7 million to the General Fund as an offset. This will result in General Fund savings of $4.7 million.

Budget Issue: Does the Subcommittee **want to terminate Special Deposit Fund number 0942-14 and transfer the full amount—about $4.7 million in unencumbered funds—to the General Fund as an offset?**

19. Medi-Cal Program-- Provision of Dental Services for Pregnant Women

Background and Subcommittee Staff Recommendation: The May Revision for the Medi-Cal Program—local assistance—**inadvertently over estimated the amount of funds required to provide Subgingival Curettage and Root Planning (procedure code 452) for pregnant women based on the new rate (i.e., 41 percent less than before) established in SB 26 (X).**

Therefore, the Medi-Cal local assistance budget can be reduced by $2.6 million (General Fund) to reflect the correct rate for this procedure.

Budget Issue: Does the Subcommittee **want to reduce by $2.6 million (General Fund) to reflect the correct rate for this procedure?**

D. BUDGET CONTROL SECTION 17.00--HIPPA

Governor's May Revision: The May Revision proposes to make adjustments to Budget Control Section 17.00 regarding the statewide funding for Health Insurance Portability and Accountability Act (HIPPA) compliance activities. **These proposed changes are noted below:**

> Section 17.00 The Budget Act of 2003 includes ~~$71,927,000~~ **$73,315,000** (~~$18,345,000~~ **$20,019,000 General Fund,** ~~$50,852,000~~ **$50,566,000 federal funds, and $2,730,000 special funds** for the applicant state agencies, departments, boards, commissions or other entities of state government in support of federal Health Insurance Portability and Accountability Act (HIPPA) activities. **These funds are allocated to the following entities:**

- ~~$62,143,000~~ $62,893,000 (~~$12,519,000~~ **$13, 514,000** General Fund, ~~$47,441,000~~ **$47,196,000** federal funds, and **$2,183,000** special funds) for the Department of Health Services;
- $3,572,000 ($2,971,000 General Fund, $601,000 federal funds) for the CA Health and Human Services Agency;
- $2,155,000 ($1077,000 General Fund, $1,078,000 federal funds) for the Department of Mental Health;
- $1,975,000 ($988,000 General Fund, $987,000 federal funds) for the Department of Alcohol and Drug Programs;
- $901,000 (~~$451,000~~ **$492,000** General Fund, ~~$450,000~~ **$409,000** federal funds) for the Department of Developmental Services;
- **$638,000** (General Fund) for the Department of Corrections;
- $500,000 ($205,000 General Fund, $295,000 federal funds) for the Department of Social Services;
- $225,000 (special funds) for the Department of Personnel Administration;
- $223,000 (special funds) for the Public Employees' Retirement System;

- $134,000 (General Fund) for the Department of Veteran's Affairs; and
- $99,000 (special funds) for the Office of Statewide Health Planning and Development.

Subcommittee Staff Comment: At the request of the Subcommittee, the LAO reviewed the proposed changed and raised no issues. As such, **it is recommended for the Subcommittee to adopt this proposal.**

Budget Issue: Does the **Subcommittee want to adopt the proposal?**

E. DEPARTMENT OF MENTAL HEALTH *(Vote Only Calendar)*

1. Mental Health Realignment--Technical Adjustment to Prior Subcommittee Action

Subcommittee's Prior Action: In the March 10th hearing, **the Subcommittee *reversed* the Governor's proposed Realignment of mental health programs—the Children's System of Care and the Integrated Services for Homeless Adults Program—for increased General Fund support of $74.9 million. The intent behind this action was to reiterate the importance of these programs and the desire to continue the services provided to individuals with mental illness.**

Subcommittee Staff Recommendation: As such, it is recommended to amend the Subcommittee's prior action to**(1) retain the prior Subcommittee action on March 10th regarding the reversal of realignment** (i.e., use General Fund support for the programs), **(2) reject the Administration's proposed trailer bill** language regarding realignment, ***and*** **(3) include both trailer bill language and Budget Bill Language as follows:**

Proposed Trailer Bill Language:

It is the intent of the Legislature to provide the necessary revenues to support critical mental health and social services programs. Specifically, it is the intent of the Legislature to provide $1.8 billion in new non-General Fund revenues to support program costs associated with realigning $1.7 million in program costs from the State to the counties.

Proposed Budget Bill Language (Item 4440-101-0001)

This Item shall be reduced by up to $74.9 million if legislation that realigns the Children's System of Care Program and the Integrated Services for Homeless Adults Program costs to counties and provides counties revenues to fund the programs is enacted.

Budget Issue: Does the Subcommittee **want to adopt the recommendation to include the two pieces of language, as shown above, along with retaining the prior action to fund these programs using General Fund support?**

2. Healthy Families Program Adjustments—*Supplemental Mental Health Services*

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 increase by $2 million (Reimbursements from federal Title XX funds) to reflect adjustments to the supplemental mental health services provided to children under the HFP based on paid claims data and caseload. This adjustment will provide a total of $21.9 million ($7.4 million County Realignment Funds, $13.7 million federal Title XX funds and $767,000 General Fund) for 2003-04 for these supplemental mental health services.**

Subcommittee Staff Recommendation: Subcommittee staff recommends for **the Subcommittee to adopt the proposal. No issues have been raised.**

3. Infant, Preschool, & Family Member Mental Health Initiative-Prop 10 Commission

Background: In October 2000, the California & Families **Commission awarded the DMH $3.6 million for a two-year period to develop a pilot project for an infant mental health** service delivery system for children from birth to five years of age. The overall goal of this initiative was to expand and enhance the availability and quality for early mental health and relationship-based services for this population. Funding was provided in 2000-01, 2001-02 and 2002-03 due to the late start in allocating funds

The initiative is a collaborative effort involving eight pilot counties (Alameda, Fresno, Humboldt, Los Angeles, Riverside, Sacramento, San Francisco and Stanislaus), DMH and WestED/CEITAN—Center for Prevention and Early Intervention. **Funding is provided to each of the counties to develop their own plans for training, technical assistance and enhanced service delivery based on local resources, existing services and prioritized interests and needs.**

The California Children and Families Commission has notified the DMH to provide an additional $3.5 million to continue the Initiative. These funds would be allocated over a four-year period.

Governor's Proposed May Revision: The May Revision **proposes to provide an increase of $1.250 million (Reimbursements from the California Children and Families Commission) to reflect the additional funding provided by the Commission.** The remaining amounts will be utilized in the subsequent fiscal years ($1 million for 2004-05, and $625,000 in each of the remaining two years).

Subcommittee Staff Recommendation: It is **recommended to adopt the May Revision.** No issues have been raised .

4. Adjustments for San Mateo Field Test Model—Technical for Accrual to Cash

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.

Governor's May Revision: The May Revision **proposes a decrease of $2.4 million (Reimbursements from the DHS, of which 50 percent is state General Fund) to reflect technical adjustments to San Mateo's pharmacy and laboratory services as a result of the change in the Medi-Cal Program going from accrual to cash budgeting.**

Subcommittee Staff Recommendation: It is **recommended to adopt the May Revision.** No issues have been raised.

5. Delay Activation of Salinas Valley Psychiatric Program

Governor's May Revision: The May Revision proposes to decrease by $1 million in Reimbursements to reflect a delay in the activation of the Salinas Valley Psychiatric Program.

Subcommittee Staff Recommendation: It is recommended to approve the May Revision. No issues have been raised.

Budget Issue: Does the Subcommittee **want to adopt the May Revision?**

6. Delay Activation of Coalinga State Hospital

Governor's May Revision: The May Revision proposes to decrease by $5 million ($1.250 million General Fund) to reflect a delay in the implementation of federal regulations requiring External Quality Reviews of County Mental Health Plans.

Subcommittee Staff Recommendation: It is recommended to approve the May Revision. No issues have been raised.

Budget Issue: Does the Subcommittee **want to adopt the May Revision?**

7. Reversion Item

Governor's May Revision: The May Revision proposes to revert $478,000 (General Fund) in previously appropriated, but unexpended funds, contained in the Budget Act of 2001.

Subcommittee Staff Recommendation: It is recommended **to adopt the May Revision**. No issues have been raised. **This action would conform with the Assembly.**

Budget Issue: Does the Subcommittee **want to adopt the May Revision?**

5. Early Periodic Screening Diagnostic & Treatment –Proposed Change in Fiscal Methodology

Background—Overall: **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.**

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, **counties are responsible for providing, arranging and managing Medi-Cal mental health services under the supervision of the DMH and DHS. However, eligibility and the scope of services to which eligible children are entitled, are *not* established at the local level.**

Types of Services: 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.**

Prior Subcommittee Hearing: In the March 10th hearing, the Subcommittee discussed the proposed changes in the methodology for the EPSDT at length.

Governor's May Revision: The May Revision reflects a decrease of almost $11.6 million in Reimbursements to reflect a technical correction to expenditures included in the Governor's January budget based on statistical validation of this estimating methodology. There is no reduction in services as a result of this change.

Budget Issue: Does the Subcommittee **want to adopt the May Revision?**

6. Sexually Violent Predator Evaluations

Governor's May Revision: The May Revision proposes to increase this item by $2.051 million (General Fund) to reflect an increase in the number of SVP evaluations to be performed by private contractors, as well as additional costs for evaluator testimony.

Subcommittee Staff Recommendation: It is recommended to adopt the May Revision.

Budget Issue: Does the Subcommittee **want to adopt the May Revision?**

II. ITEMS FOR DISCUSSION

A. Managed Risk Medical Insurance Board (*Discussion Items*)

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).**

1. Healthy Families Program Estimate—*Children's Program Adjustments*

Background—Overall on the HFP: The Healthy Families Program provides health, dental and vision coverage through managed care arrangements to uninsured children in families with incomes up to 250 percent of the federal poverty level. Families pay a monthly premium and copayments as applicable. The benefit package is modeled after that offered to state employees. Eligibility is conducted on an annual basis.

Parent Expansion with Waiver: **The Governor is proposing to continue the delay of implementation of the HFP Parents expansion.** However, the Legislature does not need to take action regarding this proposal since the HFP Parent expansion can only occur if an appropriation is made for that purpose *(Reference Section 12693.755 of Insurance Code).* As such, the existing statute regarding the HFP Parent expansion can remain as presently crafted.

Governor's Proposed May Revision: **A total of $794.5 million ($120.9 million General Fund, $173.4 million Tobacco Settlement Fund, $492.5 million Federal Title XXI Funds and $7.7 million Reimbursements) is for local assistance. This level of funding assumes a total enrollment of 726,625 children as of June 30, 2004.**

The May Revision reflects *a net reduction of $15.2 million* (decrease of $182.6 million General Fund, $2.7 million in federal Title XXI funds and $3.3 million in Reimbursements, and an **increase of $173.4 million Tobacco Settlement Funds**). **The key factors included in this adjustment are as follows:**

- Assumes a **reduction in the estimated caseload enrollment of 41,607 children**, as compared to the Governor's January budget. The MRMIB states that this reduced enrollment is anticipated due to the elimination of outreach funding.
- A new Administrative Vendor contract was awarded to MAXIMUS and takes effect as of January 1, 2004. Under the terms of this new contract, the per member per month payment will be $4.10.
- $91.46 *(average cost)* for health, dental and vision plan payments per child per month (eligible children aged 1 to 19 years). This reflects a 2.8 percent increase over the January budget amounts. **The actual monthly rate paid is based on MRMIB negotiating with the participating plans through a model contract process.**

- $214.99 (average cost) for health, dental and vision plan payments per infant per month (o to 1 years). This is the same amount as proposed in January. **The actual monthly rate paid is based on MRMIB negotiating with the participating plans through a model contract process.**

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

- **1.** Please **provide a brief summary of the *key adjustments* to the HFP May Revision** enrollment of children.
- **2.** Please **briefly explain the transition of the Administrative Vendor to MAXIMUS**.

Budget Issue: Does the Subcommittee **want to adopt the May Revision for the HFP enrollment of children?**

2. Access for Infants and Mothers (AIM) Program

Background—Existing Program: The Access for Infants and Mothers (AIM) Program **provides health insurance coverage to uninsured 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, including the application of Medi-Cal income deductions. (Generally, women below 200 percent of poverty are eligible for Medi-Cal.) **Subscribers must be no more than 30 weeks pregnant and pay a subscriber contribution equal to 2 percent of the family's annual income (average of $790) plus $100 for the infant's second year of coverage, or only $50 if the infant's vaccinations are current.** AIM is not an entitlement program. The level of available funding determines the enrollment capacity.

Currently, AIM offers coverage through **9 contracted health plans.**

Governor's Proposed Budget—Shift Eligible Infants to the Healthy Families Program: In order to address funding and caseload issues in AIM, the Administration proposed **to consolidate AIM and enroll *eligible* infants into the Healthy Families Program (HFP) at birth while continuing to provide women with prenatal and postpartum care through AIM. This proposal applies to infants born to women who enroll in AIM on or after July 1, 2004.**

The MRMIB states that by merging AIM in this manner, the state should be able to obtain lower health plan rates for infants via the Healthy Families Program (larger risk pool), as well as achieve other economies of scale through consolidating certain program administration. **Specifically, infants in families *between 200 and 250 percent of poverty* would be funded through the Healthy Families Program using General Fund and federal Title XXI funds (35 percent General Fund to draw a 65 percent federal match).**

AIM infants in families *between 250 and 300 percent of poverty* (above the Healthy Families Program income threshold) would be funded with 100 percent state funds (Proposition 99 Funds).

Although there is no budget year fiscal effect due to the July 1, 2004 implementation date, the Administration assumes net annual savings of $10 million at full implementation. The fiscal affect of this is based on a comparison of the cost of pregnant women and their infants under the current AIM Program versus the infants' cost under the HFP.

Prior Subcommittee Hearing: In the March 3rd hearing, **the Subcommittee discussed both the policy and fiscal aspects of this merger and concurred that it was a reasonable approach.**

Governor's May Revision: The average monthly enrollment is expected to reach 13,119 women and infants, compared to 12,314 as originally estimated in **the January Budget which represents an increase of 6.5 percent Budget year expenditures are reflecting an increase of $1.5 million ($647,000 General Fund) due to greater than anticipated enrollment of infants in the program and an increase in the average monthly capitation rates.**

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

- Please **briefly** discuss the **key changes** from the January budget release. **Is the MRMIB still anticipating the merger to occur as of July 1, 2004?**

B. DEPARTMENT OF HEALTH SERVICES—Public Health *(Discussion Items)*

OVERALL SUMMARY CHART OF THE DHS *(Informational)*

Dollars in Thousands	Governor's Proposed Budget (January)	Spring Finance Letters	May Revision Proposals	Governor's Final Proposed 2003-04
State Positions	**5,992.3**	**17.5**	**552.7**	**6,562.5**
State Support $				
General Fund	$224.2 million	$425,000	$18 million	$262.6 million
Federal Fund	372.6 million	-332,000	83.5 million	455.8 million
Other Funds	220.6 million	1.7 million	-2 million	220.3 million
Total Support	**$837.3 million**	**$1.8 million**	**$99.6 million**	**$938.7 million**
Local Assistance $				
General Fund	$7.311 billion	$6.9 million	$2.856 billion	$10.174 billion
Federal Fund	17.291 billion	0	-185.5 million	17.105 billion
Other Funds	2.222 billion	-3.1 million	60.5 million	2.280 billion
Total Local Asst	**26.824 billion**	**$3.8 million**	**$2.731 billion**	**$29.558 billion**
TOTAL ALL	**$27.661 billion**	**$5.6 million**	**$2.831 billion**	**$30.497 billion**

PUBLIC HEALTH ISSUES—*(Discussion Items)*

1. AIDS Drug Assistance Program—*Several Issues (Copay, Rebates and Other)*

Background--ADAP: The AIDS Drug Assistance Program (ADAP), established in 1987, is a subsidy program for low and moderate income persons (individual income cannot exceed $50,000) with HIV/AIDS who have **no health insurance coverage for prescription drugs** and are ***not* eligible** for the Medi-Cal Program. **There are about 26,000 clients currently 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.

Governor's January Budget: **The January budget proposed total ADAP funding** of **$186.4 million ($60.5 million General Fund, $92.6 million federal Ryan White CARE Act Title II funds, $33.2 million in mandatory drug rebates from the manufacturers) for the budget year.** The January budget assumed a net increase of $2.3 million over the 2002-03 current-year for ADAP.

The January budget made the following key assumptions:

- A reduction of $7.2 million (General Fund) to reflect implementation of a new Copay requirement of $30, $45 and $50 per prescription for ADAP participants;
- Increase of **$1.240 million in drug manufacturer rebates which would be on-going;** **(This assumed that the DHS will be able to obtain an *average* rebate about 13 percent.)**
- Increase of $8.3 million (General Fund) to make adjustments to the ADAP base; **and**
- Increase of **$8 million *(one-time only)*** in drug manufacturer rebates, which have recently been collected, to offset General Fund support.

Governor's May Revision—Changes Copay and Makes Other Changes: The **May Revisions proposes total ADAP expenditures of $195 million** ($58.1 million General Fund, $95.4 federal funds, $41.4 million drug rebate funds, and $ 1.4 million in revenues for the revised Copay). **The May Revision reflects a net increase of $2.8 million** (increase of $2.8 million federal funds and $8.2 million in additional drug rebates, and a decrease of $8.2 million in General Fund support) **over the proposed January budget.**

The May Revision makes the following key assumptions:

- A net increase of **$2.8 million federal funds**;
- Increase of **$8.2 million in drug rebates which is being used to *offset* General Fund** support (this reflects an increase of $5.8 million used to offset the Copay proposal change from January); ***and***
- Imposition of a **new Copay proposal** which is to obtain about **$1.4 million in revenues** which will be used to offset General Fund support (this amount reflects the revised proposal of $5, $10 and $15 for Copays);

Under the Administration's revised Copay proposal, the amount paid by ADAP to pharmacies would be reduced by the copay amount, thus decreasing the overall costs to ADAP. The May Revision proposes to reduce the Copay proposal from $30, $45 and $50 dollars per prescription to $5, $10 and $15 dollars respectively based on a sliding income scale tied to federal poverty levels.

Prior Subcommittee Action: In the April 21st hearing, **considerable testimony was taken which expressed severe concerns regarding any Copay proposal.**

<u>Subcommittee Staff Comment and Recommendation :</u> **First,** negotiations between state AIDS drug programs and pharmaceutical manufacturers has been occurring. To-date, at least three companies have reached agreements with the states to provide additional rebates of $25 million. In addition, there are three other companies which represent a significant market share of the industry that have yet to reach agreement. **Based on historical calculations, California should receive about 13 percent, or about <u>$3.3 million</u>, of this new rebate amount.**

Second, based on more recent rebate collection information that has occurred since the May Revision was produced**, there is an <u>additional $3.8 million</u> available from more drug rebates.**

Third, after discussions with some interest groups regarding the allocation of scarce resources in these difficult fiscal times, it is recommended **to provide the DHS authority to transfer up to $7 million from funds presently appropriated to conduct viral load testing and HIV drug resistance testing, and related activities.**

Fourth, based on historical calculations of drug rebate funds, **the state receives about 13 percent in additional rebates based on new drug expenditures.** As such, **the additional $14.1 million in additional funds identified above, will produce another $1.833 million in rebate funds, <u>for a total of about $16 million in additional funding resources.</u>**

In order to capture these additional resources, the following technical actions are recommended:

- **Adopt Budget Bill Language for transfer of funds** as follows:

  Item 4260-111-0001
  Of the amount appropriated in this Item for the HIV Therapeutic Monitoring Program, up to $7,000,000 may be transferred by the department to the AIDS Drug Assistance Program (ADAP) for expenditure.

- **Adopt trailer bill language to make the HIV Therapeutic Monitoring Program contingent upon appropriation** in the Budget Act or other statute and clarify the purpose of the program, including priority for funding Early Intervention Program sites. (This is really more of a technical issue so as to make it clear what the HIV viral load testing program is and to enable the DHS to transfer funds from it to the ADAP.) ***(Hand Out).***

- **<u>In lieu of the DHS language</u>** regarding waiting lists, **adopt trailer bill language crafted with constituency groups to allow for waiting lists and other administrative remedies *(See Hand Out). and***

- **Reject the Administration's Copay proposal and trailer bill language and backfill with General Fund ($1.448 million)**

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

- **1.** Please **briefly explain the *key* aspects** of the Administration's proposal.
- **2.** How have the **negotiations between state AIDS drug programs and pharmaceutical manufacturers at the national level been going?**

Budget Issue: Does the **Subcommittee want to provide $16 million in additional resources to the AIDS Drug Assistance Program (ADAP) by** **(1)** adopting Budget Bill Language to allow for the transfer of up to $7 million from the HIV Therapeutic Monitoring Program, **(2)** recognizing increased rebates in the amount of $9 million, as noted above, **(3)** adopting the alternative waiting list language as contained in the Hand Out, and **(5)** rejecting the Copayment proposal and backfilling with $1.448 million (General Fund)?

2. Continuation of Bioterriorism Efforts—Increased Federal Funds

Background—Overall Summary: The Emergency Supplemental Appropriations for Recovery & Response to Terrorist Attacks on the US Act (Public Law 107-117 of 2002), and subsequent federal legislation, among many other things, **provided states with additional federal funds to support and address both local and state concerns regarding the threat of bioterrorism.**

Under the *initial* supplemental grant award in 2002, there were two funding streams made available to California: (1) $60.8 million from the federal Centers for Disease Control (CDC) in support of state and local public health measures to strengthen the state against bioterrorism via a "cooperative agreement" to the DHS; and **(2)** about $10 million from the federal HRSA for the development and implementation of regional plans to improve the capacity of hospitals, their emergency departments, outpatient centers, emergency medical systems and related matters.

California's *new* 12-month cycle (August 31, 2003 through August 30, 2004) **is $94.4 million (federal funds), of which $55.6 million is from the federal CDC and $38.8 million is from HRSA. However for state budgeting purposes, only ten months of the federal fiscal year is captured. Therefore, this allocation will cross over two state fiscal years.**

As such, the DHS is requesting budget authority of $82.8 million for 2003-04 as shown in the table below.

DHS May Revision Revenue & Expenditures By State Fiscal Year	**Federal CDC**	**Federal HRSA**	**Total (Federal Funds)**
2003-04 (*Prior grant* 2 months available)	$7.283 million	488,000	$7.771 million
2003-04 (*New grant* 10 months available)	$42.767 million	$32.311 million	$75.078 million
Total Revenues	**$50.050 million**	**$32.799 million**	**$82.849 million**
State Operations--identified	$5.962 million	0	$5.962 million
State Operations--***unidentified***	**$19.063 million**	**$32.799 million**	**$51.862 million**
***Subtotal*—State Operations**	***($25.025 million)***	***($32.799 million)***	***($57.824 million)***
Local Assistance	$25.025 million	0	$25.025 million
Total Expenditures	**$25.025 million**	**$32.799 million****	**$57.824 million**

******It should be noted that **of the $32.8 million in federal HRSA funds, 80 percent must go to hospitals, clinics and other health care provides per the federal HRSA guidance.**

According to the DHS, the **recently released federal guidance documents include the addition of numerous critical benchmarks and requirements to both grants. As such, the DHS notes that they are *just beginning* the process of re-application for next year's federal monies in cooperation with state and local partners.**

It should be noted that the federal government had been requiring state's to use seven key areas of focus, including: Preparedness Planning and Readiness Assessment, Surveillance and Epidemiology Capacity, Biologic Laboratory Capacity and Biologic Agents, Laboratory Capacity –

Chemical Agents, Health Alert Network, Risk Communication and Health Information, and Education and Training.

Governor's May Revision (See Above Chart for Fiscal Detail): The May Revision **requests an increase of $82.8 million (federal funds from the CDC and HRSA) to support state and local activities to continue bioterrorism preparedness and response activities. Of the total amount, (1) $57.8 million is for state support activities,** ***and*** **(2) $25 million is for local assistance** ***(See above chart for fiscal detail).***

In addition, the **DHS is requesting two pieces of Budget Bill Language** that provides for transfer authority between state support and local assistance (both ways), as discussed below.

The DHS is proposing to expend the requested $57.8 million (federal funds) on *state support* as follows:

- **$3.6 million is for the Infant Botulism proposal** ***(discussed as separate item in the agenda, below.)***
- About **$7.5 million is to be used to support 76 positions**, including operating expenses, data communication and facility operations. **The DHS is proposing to allocate these positions based on the seven federal areas of focus as follows:**
    - **15 positions** for Preparedness Planning and Readiness Assessment
    - **26 positions** for Surveillance and Epidemiology Capacity
    - **17 positions** for Biologic Laboratory Capacity and Biologic Agents
    - **5 positions** for Laboratory Capacity –Chemical Agents
    - **4 positions** for Health Alert Network
    - **3 positions** for Risk Communication and Health Information
    - **6 positions** for Education and Training
- **About $50.5 million is to be spent by the DHS on other items of expense; however, no detail is available for this item.**

The DHS is **requesting flexibility** in the appropriation **by requesting the following Budget Bill Language transfer authority between items (state support and local assistance):**

- **Item 4260-001-0890 (DHS state support, federal funds appropriation)**
  The Department of Finance may authorize the transfer of amounts **between this Item and Item 4260-111-0890** to reflect modifications in the use of federal bioterrorism grants. The funds shall not be approved sooner than 30 days after notification in writing of the necessity therefor to the Chairperson of the Committee of each house of the Legislature that considers appropriations and the Chairperson of the Joint Legislative Budget Committee, or his or her designee, may in each instance determine.

- **Item 4260-111-0890 (DHS local assistance, federal funds appropriation)**
  The Department of Finance may authorize the transfer of amounts **between this Item and Item 4260-001-0890** to reflect modifications in the use of federal bioterrorism grants. The funds shall not be approved sooner than 30 days after notification in writing of the necessity therefor to the Chairperson of the Committee of each house of the Legislature that considers appropriations and the

Chairperson of the Joint Legislative Budget Committee, or his or her designee, may in each instance determine.

Subcommittee Staff Comment and Options Available: As noted above, **the DHS is just beginning their process** and the federal government was late in releasing the guidelines this year. **Local Health Jurisdictions, Public Health Officers, as well as others, have had very little opportunity to discuss key aspects of the federal guidelines and funding mechanisms.**

As such, the **May Revision has inadvertently created a situation whereby the DHS is requesting the Legislature to appropriate a significant level of funding without providing appropriate and necessary detail. Local public health infrastruture and funding is of critical importance to the state, yet the May Revision identifies only $25 million of the $82.8 million for this purpose at this time. Though the DHS intends to have a cooperative effort with interested parties and will likely be commencing** with "focus groups" on key topics, it is unclear as to how the ultimate plan will take shape.

Therefore, it is recommended to **(1)** appropriate the $25 million (federal funds) for local assistance, **(2)** reject the Budget Bill Language that would enable the state to transfer funds from the local appropriation (Item 4260-111-0001) to state support (Item 4260-0001-0001), and **(3)** reduce the $57.8 million (federal funds) for state support by half (i.e., $28.9 million) in order to send the proposal to Budget Conference Committee for further discussion. **In addition, this will provide the DHS with more time to work with local constituency groups to craft a workable solution.**

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

- **1.** Please briefly describe what allocation process was used last year and how this one differs.
- **2. What are the time frames for providing the plan to the federal government?**
- **3.** Please describe how the **"focus groups"** are to operate. **Anything else regarding how the state is going to proceed with determining funding priorities?**
- **4.** Please **briefly describe the need to continue the 76 positions.**
- **5.** How will the **$25 million in local assistance funds be allocated?**

Budget Issue: Does the Subcommittee want **to modify the May Revision as suggested by Subcommittee staff?**

3. Infant Botulism—Continue the Program, But Use Federal Funds

Background: Botulism is the paralyzing disease caused by botulinum toxin, the most poisonous substance known. It is produced under special conditions by spore-forming bacteria that are commonly found worldwide in soils and dust. Infant botulism occurs when the botulism bacteria temporarily colonize and produce toxin in the baby's intestine and is the most common form of human botulism in the U.S.

Botulism Immune Globulin (BIG) is the DHS-sponsored orphan drug that treats infant botulism by neutralizing botulinum toxin, thus preventing further paralysis. BIG is the only antidote available for infant botulism. It is made by harvesting and bottling special antibodies from the blood plasma of volunteer donors. Most of these plasma donors are current or former employees of the DHS who have been immunized with botulinum toxoid for occupational safety.

The license application for BIG is in its final stages (to be issued by the end of 2003). The federal FDA has made the completion and execution of the BIG (Lot 3) production, distribution and management contracts a condition of licensure for BIG. **Achieving licensure for BIG is fundamental because it will allow the state to recoup all its costs ($2.8 million in loans from the General Fund) for developing BIG and running the program.**

The original program was adopted by the Legislature and funded in 1996 (a total of 9 positions were allocated over time for this purpose).

Governor's May Revision: The May Revision **is requesting an increase of $3.558 million (federal grant funds from the CDC for bioterrorism) to fund four positions and to contract ($3 million total) for certain specified functions.**

The four positions include: two Public Health Medical Officers III, one Health Program Specialist, and one Public Health Microbiologist II. A total of $25,000 is also needed for certain laboratory supplies.

The DHS states that a key role of BIG production is obtaining the human plasma that contains the antibodies that neutralize botulinum toxin. Once the plasma is obtained, all subsequent operations and FDA compliance expertise are obtained through qualified and FDA-approved contractors. These contractors have been specified in the license application for BIG. **The $3 million in contracts would address the following key items:**

- Plasma collection, testing and shipment
- Conducting FDA-approved validated assay, pre-licensure inspection, records review, reporting, potency and stability reviews
- Vialing of fractionated plasma
- BIG production validations, other regulatory affairs
- Distribution

Subcommittee Staff Recommendation: It is recommended **to adopt the May Revision along with the following Legislative Intent Language in order to make clear that the federal**

bioterrorism funds to be used for this purpose need to recognized as being a portion of the state's share of the available federal funds, not Local Health Jurisdictions share of the funds.

> **Item 4260-001-890 (DHS, state support, federal funds)**
>
> **Provision x.** It is the intent of the Legislature that all federal funds utilized to continue the Infant Botulism Program be count solely towards the state's share of the available federal funds received from the federal government to mitigate bioterrorism.

Subcommittee Request and Questions: The Subcommittee **is requesting the DHS to respond to the following questions:**

- **1.** Please **briefly summarize** the DHS request.
- **2.** When can the $2.8 million in General Fund loans be paid back?
- **3.** When will **this program be self-supporting** so the federal funds could be used for other/additional bioterrorism purposes?

Budget Issue: Does the Subcommittee want **to adopt the May Revision along with the proposed Legislative Intent Language as shown above?**

4. Proposition 99 Funded Programs for the DHS *(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—Revenues: Proposition 99 **revenues are projected to increase slightly from $307.7 million in January to $308.2 million in May. Along with other technical adjustments, there is a total of $349.8 million available for expenditure (for all accounts, including the Public Resources Account).**

It should also be noted that, as required by Proposition 10, the State Board of Equalization transferred $10.4 million as necessary to offset the loss in revenue to the Health Education and Research accounts.

<u>Governor's May Revision—Expenditures (See Hand Out):</u> The May Revision makes a series of adjustments. **First,** the Governor rescinded his Realignment proposal contained in his January budget. (In a prior hearing, the Subcommittee rejected his Realignment proposal.) **Second, there are a series of key programmatic adjustments; these are discussed below.**

<u>Health Education Account Programs:</u>

- Provides **$19 million for the Media Campaign** (increase of $2.4 million)
- Provides **$18.8 million for Competitive Grants** (increase of $1.5 million)
- Provides **$19.5 million for Local Lead Agencies** (increase of $4.5 million)

<u>Health Care Programs (Hospital Services, Physicians', & Unallocated Accts):</u>

- Provides $392,000 for Childrens Hospitals (no change)
- Provides $6.8 million for EAPC Clinics (reversal of Realignment proposal)
- Provides $48.3 million for the **CA Healthcare for Indigents Program** (reversal of Realignment proposal). (It should be noted that this program was funded at $77 million in 2002-03.) This program took the single largest reduction, primarily due to lower Proposition 99 revenues.
- Provides $24.8 million in funds to continue funding for Emergency Medical Physicians (uncompensated hospital emergency services). This proposal includes trailer bill language to provide for this adjustment. This is the same language, with appropriate technical adjustments that has been approved for several years.)
- Provides $4.6 million for Rural Health Services (reversal of Realignment proposal)
- Provides $15.6 million for the Breast Cancer Early Detection Program (same as January)
- Provides $7.4 million for DHS administration of various programs

<u>Governor's May Revision—Trailer Bill Language:</u> The May Revision is proposing two changes to existing statute that pertain to **<u>(1)</u>** the Tobacco Competitive Grants, and **<u>(2)</u>** multi-year funding of the Tobacco Control Program. The DHS will briefly discuss each of these.

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

- **1. Please briefly describe the proposed *key* reductions** for your programs as referenced above.
- **2. Please briefly describe** the proposed **trailer bill legislation.**

<u>Budget Issue:</u> Does the Subcommittee **want to adopt the May Revision?**

5. Genetically Handicapped Persons Program—May Revision Local Assistance *(See Hand Out)*

Background—Services Provided and Reimbursement: 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. **The services covered by the GHPP include all the medically necessary medical and dental services needed by the client, not just the services related to the GHPP-eligible condition. (GHPP differs from the California Children's Services (CCS) Program in that CCS covers only services related to the CCS eligible condition.)**

GHPP is suppose to be the "payer of last resort" (as a 100 percent General Fund program) meaning that third-party health insurance and Medi-Cal coverage are to be used first. GHPP authorized services are **reimbursed according to the following guidelines** established by the DHS:

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.

DHS Notes Substantial Cost Increases: **Expenditures for the GHPP have been rapidly increasing over several years.** In fact, the program **increased well over 320 percent from 1996 to 2001** ($12 million General Fund to $38.8 million General Fund).

According to the DHS, a primary reason for the rapidly rising costs are increases in blood factor expenditures for the hemophilia population.

Prior Subcommittee Action: In the **April 21st hearing, the Subcommittee took the following actions in response to the Governor's January budget:**

- **Approved all three of the requested state positions** to conduct a variety of functions related to blood factor product monitoring and rebate design, and to revise certain GHPP regulations.
- **Deleted $100,000** ($61,000 General Fund) for consultant outreach services.
- **Directed DHS and interested parties to continue working on the draft trailer bill** language regarding blood factor rebates and related items.
- **Deleted trailer bill language** regarding broad authority to contract out ***any*** **service** (i.e., Administration's proposed language in Section 125190 (a)—from April 21 Hand Out package.)

<u>In addition, the Subcommittee</u> **<u>(1)</u>** directed the DHS and interested parties to continue work on the blood rebate language, and **<u>(2)</u>** kept **open** the Governor's proposed 15 percent rate reduction.

<u>Governor's May Revision:</u> The May Revision proposes **total expenditures of $42.4 million (General Fund) for an increase of $6.2 million (General Fund)** over the Governor's proposed January budget. **Of the increase expenditures, $2.5 million is attributed to Novo 7 blood factor increases and $3.6 million is due to increases in utilization and caseload adjustments.**

The caseload is estimated to be 1,781 individuals (873 GHPP-only and 908 GHPP/Medi-Cal eligible). This reflects an increase of 3 percent for GHPP-only and a decrease of 5.8 percent for GHPP/Medi-Cal eligible.

Key May Revision proposals are as follows:

- **Increase of $2.5 million (General Fund) for Novo 7 blood factor product** which is a new product for hemophilia patients with resistance to standard factor products.
- ***Revised*** Trailer Bill Language ***(See Hand Out)*** **which pertains to (1)** implementing utilization controls on blood factor products, **(2)** assuring that other health coverage is used before GHPP General Fund expenditures occur, and **(3)** implementing a more efficient system for assessment and collection of client fees. It is assumed that $1 million (General Fund) is saved from these actions in the budget year.
- **A 15 percent provider rate reduction, effective October 1, 2003 (was July 1, 2003) for savings of $3.9 million (General Fund). The DHS states that 85 percent of the GHPP treatment base would be subject to the rate reduction. The Administration proposes to continue this rate reduction to June 30, 2006.** (As noted previously, this proposed rate reduction exempts hospital inpatient and hospital outpatient services, as well as supplemental reimbursements, local assistance interagency agreements, services where the non-federal share is provided by means of a certified public expenditure or contract services designated by the Director of Health Services. In addition, FQHC and Rural Health Centers are also exempted.)
- **Savings of $7.5 million (General Fund) from increased drug rebates** (as provided in the Omnibus Health trailer bill for the Budget Act of 2002).

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

- **1.** Please **briefly summarize** the **<u>key</u> elements** of the May Revision **local assistance proposal.**
- **2. How would the Administration's proposed change to the payment methodology for blood factor under the Medi-Cal Program (addressed later in this agenda under Medi-Cal) affect the GHPP?**

<u>Budget Issue:</u> In **addition to the actions already taken by the Subcommittee in its April 21st** hearing, **does the Subcommittee want to** **<u>(1)</u>** adopt the Administration's revised language regarding blood factor utilization and related cost containment, ***and*** **<u>(2)</u>** modify the **proposed 15 percent rate reduction?**

If the Subcommittee rejects the proposed 15% rate reduction, a General Fund backfill of $3.9 million is required.

6. California Children's Services Program—*Governor's May Revision (See Hand Out)*

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**. **The CCS services must be deemed to be *"medically necessary"* in order for them to be provided.**

CCS depends on a network of specialty physicians, therapists and hospitals to provide medical care to financially eligible, enrolled children.

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). Children enrolled in the Medi-Cal and Healthy Families programs are deemed to automatically meet income eligibility requirements for CCS.**

CCS is jointly 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.

Prior Subcommittee Action: In the **April 21st hearing, the Subcommittee took the following actions in response to the Governor's January budget:**

- **Approved three of the requested five state positions** to complete work regarding contracting programs for drugs, medical supplies and durable medical equipment for the program.
- **Redirected a position within CCS to analyze product utilization and related functions**.
- **Deleted trailer bill language** regarding broad authority to contract out ***any*** **service** (i.e., Administration's proposed language in Section 125190 (a)—from April 21 Hand Out package.)
- **Directed DHS and interested parties to continue working on the draft trailer bill** language regarding blood factor rebates and related items.

In addition, the Subcommittee **(1)** directed the DHS and interested parties to continue work on the blood rebate language (same as contained under the GHPP issue above), and **(2)** kept open the Governor's proposed 15 percent rate reduction.

Governor's May Revision (See Hand Out): **The May Revision proposes total expenditures of $198.7 million** ($81.5 million General Fund, $71.3 million County Realignment Funds, $35.7 million federal Title XXI funds, $4.7 million federal Title V funds, $5.5 million contract rebate funds, and $250,000 enrollment fees). **This reflects an increase of $3 million General Fund.**

Key May Revision proposals are as follows:

- ***Revised*** Trailer Bill Language ***(See Hand Out)***
- **15 percent provider rate reduction, effective October 1, 2003 (was July 1, 2003) for savings of $4.2 million ($2.1 million General Fund). According to the DHS, about 60 percent of the CCS treatment base would be subject to the rate reduction. The Administration proposes to continue this rate reduction to June 30, 2006.** (As noted previously, this proposed rate reduction exempts hospital inpatient and hospital outpatient services, as well as supplemental reimbursements, local assistance interagency agreements, services where the non-federal share is provided by means of a certified public expenditure or contract services designated by the Director of Health Services. In addition, FQHC and Rural Health Centers are also exempted.)
- **Implementation of cost containment measures** as proposed trailer bill language, including medical supplies, durable medical equipment, and **drug rebates for blood factor products.**

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

- Please **briefly summarize** the **key elements** of the May Revision **local assistance proposal.**

Budget Issue: In **addition to the actions already taken by the Subcommittee in its April 21st** hearing, **does the Subcommittee want to (1)** adopt the Administration's revised language regarding drug rebates, ***and*** **(2)** modify the **proposed 15 percent rate reduction?**

If the Subcommittee rejects the proposed 15% rate reduction, a General Fund backfill of $2.1 million is required.

7. Child Health Disability Prevention (CHDP) Program—Public Health Component

Background: Overall Background: The Child Health Disability Prevention (CHDP) Program **provides pediatric prevention 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 (Early Periodic Screening Diagnosis and Treatment—EPSDT).

CHDP services play a key role in children's readiness for school. All children entering first grade must have a CHDP health examination certificate or an equivalent examination to enroll in school.

The benefit package provided under the *CHDP-only* program is limited to providing a physical examination, nutritional assessment, vision and dental assessments, hearing assessment, laboratory tests and immunizations. 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 Healthy Families are primarily funded with General Fund support.

CHDP Gateway—Budget Act of 2002: Through the Budget Act of 2002 the Administration, working closely with constituency groups and the Legislature, **crafted a Gateway proposal whereby children eligible for the CHDP Program can be pre-enrolled in either Medi-Cal or the Healthy Families Program.**

The purpose of this Gateway was generally two-fold. First it was intended to transition eligible children into the Medi-Cal or Healthy Families Program so comprehensive health care coverage could be provided. Second, it was intended to reduce CHDP expenditures (100 percent General Fund support) and to have children correspond their health care visits with a specified periodicity schedule.

Summary of Development of CHDP Gateway and Implementation: The DHS states that the Gateway **will be up and operational as of July 1, 2003. Many key components have been completed or are on schedule for completion.** System changes to add CHDP Gateway eligibles to the Medi-Cal Eligibility Data System (MEDS) have been proceeding well. CHDP local program training, provider training, and EDS internal system's training are being done or are scheduled. It should be noted that the last date for using the old CHDP paper forms will be September 30, 2003. After this point, everything will operate through the Gateway.

Governor's May Revision (See Hand Out): The Governor's May Revision proposes total expenditures of **$60.5 million** ($50.6 million General Fund, $6.3 million federal Title V funds, and $3.5 million Childhood Lead Poisoning Prevention funds) **which reflects a net increase of $44.5 million (General Fund). Key components of this May Revision include the following:**

- **A 15 percent provider rate reduction for savings of $1.3 million (General Fund), effective October 1, 2003 (versus July 1, 2003 as before).**
- **Continuation of the CHDP hard copy application process for another 6 months (instead of solely using the electronic CHDP Gateway process as of October, 2003) for increased expenditures of over $46 million (General Fund).** (It should be noted that the Medi-Cal Program reflects a corresponding **decrease of about $84 million (General Fund) due to this action.)**

Subcommittee Staff Comment: **The May Revision amount is reflecting a *temporary shift* between the CHDP and Medi-Cal due to the need to continue use of the CHDP hard copy application versus solely using the electronic CHDP Gateway.** The DHS is proposing to continue to use the hard copy application process due to the need for providers to make adjustments. **Originally, hard copy CHDP forms were going to be completely discontinued as of October 1, 2003. Now the DHS wants to continue using them for another 6 months to assist providers. As such, program expenditures are shifting between programs—CHDP and Medi-Cal. The Medi-Cal estimate package reflects a corresponding reduction.**

Budget Issue: Does the Subcommittee **want to adopt the May Revision but make an adjustment for the rate reduction proposal?**

If the Subcommittee rejects the proposed 15% rate reduction, a General Fund backfill of $1.3 million is required.

10. Federal Funds Available for Male Involvement, TeenSMART, and Information & Education Projects via the Family PACT Waiver

Background--Overall: The latest report from the DHS shows birth rates among teens aged 15 to 19 years dropping to their lowest level since 1991. In addition for the first time, birth rates have dropped across all ethnic groups. Further, the abortion rate is on the decline in California, indicating that the efficacy of teen pregnancy prevention programs plays a role in reducing both teen births and abortion. **However, California has the nation's second-highest rate of teen pregnancies.**

California has several, small programs that address various issues and populations regarding abstinence, reproductive education, counseling and outreach that actively promotes behaviors that reduce the risk of pregnancy, as well as addressing additional methodologies for improved access to family planning clinical services by targeting specific populations with unmet needs. **These programs include the Male Involvement Program, TeenSMART, Information and Education Projects, and Media outreach.**

Governor's Proposed Budget: The Governor's January **budget proposes to reduce by a total of $10.3 million General Fund as follows:**

> **(1) Eliminate the TeenSMART Program which is currently funded at $1.7 million ($848,000 General Fund and $848,000 federal Title XIX funds).** This program provides counseling and outreach that actively promotes behaviors that reduce the risk of pregnancy. Based on recent data, about 40,700 total clients were served in 2002 through 25 local projects.
>
> **(2)** Eliminate the **Teen Pregnancy Prevention Media Campaign for savings of $7.8 million (General Fund);** and
>
> **(3) Reduces by $1.7 million (General Fund) the Information and Education Project** component designed to decrease teen and unintended pregnancy through proactive prevention education.

These two proposals, coupled with the proposed elimination of the TeenSMART Program significantly impacts the state's efforts to mitigate teen pregnancy, reduce sexual abuse and facilitate responsible parenting. These are core components to the state's overall efforts to mitigate teen pregnancy and to provide assistance to teens who are high risk for abuse.

Subcommittee's Prior Action: In the April 28th hearing, the Subcommittee **(1)** agreed to eliminate the Teen Pregnancy Prevention Media Campaign for savings of $7.8 million (General Fund), **(2)** agreed to reduce by $1.7 million (General Fund) the Information and Education Projects, and **(3)** directed Subcommittee staff to identify resources to restore the Teen SMART Program.

Subcommittee Staff Recommendation: Through technical assistance discussions with the Administration, **it has been determined that the General Fund moneys which would be remaining in these programs, even after the Governor's reduction is taken, could be matched with federal funds through the Family PACT Waiver.**

Specifically, the dollar calculation would be as follows:

- $2.5 million (General Fund) in the Male Involvement Program (existing funding);
- $1.7 million (General Fund) remaining from the Information and Education Projects;
- **Revised Funds available = $8.4 million** ($4.2 million General Fund & $4.2 million federal)
- The **General Fund reduction of $10.3 million**, as contained in the Governor's budget and as already adopted by the Subcommittee, **would remain the same.**

The $8.4 million (total funds) would be appropriated as follows: **(1)** provide $2.6 million (total funds) for the Male Involvement (same level of funding as current year, plus some funds for contract adjustments)**; (2)** provide $1.7 million (total funds) for the TeenSMART (same level of funding as current year); **(3)** increase the Information and Education Projects by $3.4 million (total funds) (restores their budget year reduction and provides the federal fund match aspect), and **(4)** provide about $700,000 (total funds) for activities associated with collateral materials, education and public awareness that promotes reproductive health, information about the prevention of unintended pregnancies, abstinence, and disease prevention practices to reduce sexually transmitted disease.

Both the Administration and Legislative Analyst's Office agree that these programs can be incorporated within the Family PACT Wavier with minor operational changes.

In order to create the linkage, it is recommended to adopt trailer bill legislation directing the DHS to have the Male Involvement Program and Information and Education Projects contractors modify the scope of work requirements to formally link with the Family PACT Waiver.

Budget Issue: **Does the Subcommittee want to (1)** adopt trailer bill language to direct the DHS to modify the scope of work requirements of the Male Involvement Program and Information and Education Projects to formally link with the Family PACT Waiver, and **(2)** appropriate $8.4 million (**total funds**) **as follows:**

- $2.8 million (total funds) for Male Involvement;
- $1.7 million (total funds) for TeenSMART;
- $2.4 million (total funds) for the Information and Education Projects; and
- $1.5 million (total funds) for activities associated with collateral materials, education and public awareness that promotes reproductive health, information about the prevention of unintended pregnancies, abstinence, and disease prevention practices to reduce sexually transmitted disease.

B. DEPARTMENT OF HEALTH SERVICES- Medi-Cal Program
(Discussion Items)

1. Medi-Cal Baseline Estimate Package

Background on Governor's May Revision: The **Medi-Cal Program local assistance** expenditures for 2003-04 **are estimated to be $22.6 billion ($9.8 billion General Fund),** including the accounting shift. This reflects a net decrease of $633 million (increase of $2.7 billion General Fund), based on the Governor's May Revision proposed policy changes.

Of the proposed **$22.6 billion** amount, **(1)** $20.7 billion is for Medical Care Services, **(2)** $1.571 billion is for County Administration, and **(3)** about $280 million is for the Fiscal Intermediary.

In addition to these expenditures, a total of $4.6 billion (all special funds and federal funds) is provided to fund payments for Disproportionate Share Hospitals, voluntary governmental transfers for supplemental hospital funding and capital debt projects for hospitals.

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. Deletes the Realignment Proposal: The Governor's January budget proposed to shift about $3 billion in Medi-Cal expenditures, including expenditures for long-term care, to the counties as part of his Realignment package. The May Revision deletes this proposal.

B. Deletes Proposal to Rescind 1931 (b) Medi-Cal Eligibility: The Governor's January budget proposed to **rescind the 1931 (b) Medi-Cal eligibility extension (currently at 100 percent of federal poverty) *and* to reinstate the "100-hour a month work limit".** This proposal would have limited eligibility to families with incomes up to about 61 percent of poverty (annual income of $11,041 for a family of four). With respect to employment, two-parent families would become *ineligible* for Medi-Cal if the principle wage earner works *more* than 100 hours a month (about 23 hours a week), no matter their low-income level. In his May Revision, the Governor deleted this proposal. **As such, the 1931 (b) category of eligibility remains as presently crafted.**

C. Accrual to Cash (with Trailer Bill Language): The May Revision proposes to move the Medi-Cal Program from accrual to a cash budgeting system, the system used by the federal government in funding the state Medicaid programs. Technical trailer bill language is needed for this transaction. This shift is estimated **to produce savings of $930 million (General Fund)** in 2003-04 in the Medi-Cal program. This savings is due to the fact that the payments made to providers after the end of the fiscal year will be budgeted in the year that they are paid versus the year in which the service was provided. **It should noted that the Subcommittee has been advised by the DOF that trailer bill language is needed in order to effectuate this accounting change. It is contained in the Hand Out package.**

D. 3.8 Percent Adjustment to Nursing Home Rates Do To Cost Updates: The May Revision reflects an increase of $51.2 million ($25 million General Fund) to reflect the annual updating of nursing facility and Intermediate Care Facility rates due to cost reports. It should be noted that this rate adjustment is provision and that the annual DHS rate study will be completed in July. At that time, rates will be updated and regulations implementing this rate increase will be promulgated (effective August 1, 2003). **In addition, the DHS notes that further adjustments for increased Worker's Compensation costs may be made if appropriate.**

E. Limitation on Serostim Prescribers: The DHS has revised its policies to specify that Medi-Cal coverage for Serostim (human growth hormone) will be allowed only through prior authorization for savings of $8.9 million (Genera Fund). No trailer bill is required.

F. Emergency Services and Supplemental Payment Funds for Hospitals ("SB 1255"): A total of almost $1.316 billion (special funds) is available to reimburse select hospitals having contracts with the California Medical Assistance Commission (CMAC) to provide enhanced inpatient services. The budget reflects a reduction in payments due to new federal Upper Payment limit restrictions.

G. 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.

H. Disproportionate Share Hospital Payments: Based on recent federal changes, the revised DSH payment for 2003-04 is anticipated to be $1.8 billion ($903.5 million federal and $903.5 million special fund). The state's allocation remains at $85 million which is used to offset General Fund expenditures in Medi-Cal local assistance.

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

- Please provide ***brief overview*** of the **key baseline items** for the Medi-Cal May Revision.

Budget Issue: Does the Subcommittee **want to adopt the base estimate? 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. Roll Back the Aged, Blind and Disabled Eligibility

Background: The Budget Act of 2000 **extended "no cost" Medi-Cal eligibility to Aged, Blind and Disabled individuals with incomes up to 133 percent of federal poverty. These individuals have low-incomes but either do *not* qualify for, or choose not to participate in, the SSI/SSP Program.** Currently, individuals can have income of up to $969 per month and couples can have income of up to $1,332 per month and qualify for "no cost" Medi-Cal.

Governor's May Revision: The **Administration proposes to continue their January proposal to roll this expansion back to cover only those eligibles with income up to the SSI/SSP income level or $757 per month for an individual and $1,344 per month for a couple. The budget assumes savings of $99.9 million ($49.9 million General Fund) by eliminating 38,076 aged individuals and 16,190 disabled individuals from "no cost" Medi-Cal.**

Many of these individuals could still obtain coverage under Medi-Cal but they all would need to pay a share-of-cost each month to receive services. This share-of-cost payment would of course be significant for people on fixed, low-incomes. **(The share-of-cost is the amount by which that individual's income or assets exceeds the applicable Medi-Cal limits.)**

Prior Subcommittee Hearing: In two prior hearings, the Subcommittee heard considerable testimony expressing concerns with this loss in eligibility.

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

- **1.** Please describe what would be a typical share-of-cost for individuals to spend down to become eligible for Medi-Cal if this reduction is effectuated.

Budget Issue: Does the Subcommittee **want to reject this proposed reduction in Medi-Cal eligibility?**

3. Rollback Second Year of Transitional Medi-Cal Coverage

Background and Governor's May Revision: Effective October 1, 1998, California implemented a second year of Transitional Medi-Cal pursuant to trailer bill that accompanied the Budget Act of 1998. Federal Welfare Reform law requires a one-year minimum for coverage.

The second-year of coverage is a state-only program to encourage parents to seek employment and continue their Medi-Cal benefits until they can secure employer paid benefits.

The May Revision continues the Governor's proposal to eliminate the state-only program, leaving the retention of one-year of transitional Medi-Cal coverage. On average 1,834 monthly eligibles are expected to be discontinued. The budget assumes savings of almost $2 million (General Fund) for this purpose.

Subcommittee Request and Questions: The Subcommittee has requested the DHS to briefly explain their proposal.

Budget Issue: Does the Subcommittee **want to adopt the proposal to delete the second year of Transitional Medi-Cal?**

4. Proposed Elimination of "Optional" Benefits

Background Overall—What are Optional Benefits: The term **"Optional Benefits" is in reference to how federal law and regulation defines the service.** Under federal law, **certain medical services are required to be provided by states while others are provided at the state's "option". The federal government mandates 13 services including:** inpatient hospital (excluding mental disease), outpatient hospital including certain clinics, physicians' services, pregnancy related services, X-Ray, laboratory testing, nursing home and home health care, family planning, and a few others.

As noted in *Health Affairs* (volume 22, number 1, 2003), the comprehensive nature of Medicaid benefits is often misunderstood. The breadth of covered services reflects the complex needs of the disabled, aged, blind, mentally ill, medically needy children and pregnant women populations. Medi-Cal only reimburses for those "optional" services that are provided to individuals as a service.

Governor's May Revision: The **May Revision assumes revised savings of $419.4 million ($209.7 million General Fund) from the elimination of specified Medi-Cal Optional Benefits, effective as of October 1, 2003 (was July 1, 2003)**.

Children, services to ensure the health of pregnant women, individuals residing in nursing homes, and family planning services and dental services that could be provided by a physician, whether provided by a physician or a dentist, are all protected from this proposed elimination.

However, individuals with developmental disabilities would not be exempt from the Administration's proposal. As such, Regional Centers would need to purchase these benefits for individuals with developmental disabilities at 100 percent General Fund expenditure, in lieu of obtaining partial matching federal funds. **The Department of Developmental Services budget for May Revision reflects an increase of $47.2 million General Fund for this purpose.** (The DDS budget will be discussed in the May 23rd Subcommittee hearing on Friday.)

As noted in the *table below*, Van Transportation and Hospice care cannot be eliminated based upon further discussion with the federal Centers for Medicare and Medicaid (CMS). The elimination of Prosthetics and Orthotics benefits were also deleted from the May Revision. The Independent Rehabilitation item was removed for it pertains to a provider-type, not a benefit per say.

Optional Benefit Category (Proposed to Eliminate)	**Governor's January Proposal (General Fund Savings) (July 1 deletion)**	**Governor's May Revision (General Fund Savings) (Oct 1 deletion)**
Adult Dental Services	$211.8 million	$129.2 million
Medical Supplies (diabetic supplies, IV supplies, wound care, asthma supplies, contraceptive supplies)	54.3 million	20.1 million
Van Transportation	31.5 million	Can't eliminate per fed gov
Hospice	13.7 million	Can't eliminate per fed gov
Durable Medical Equipment	12.5 million	19.1 million
Optician and Laboratory Services	14.5 million	6.5 million
Optometry	9.2 million	2 million
Podiatrist	4.3 million	2 million
Acupuncture	2.9 million	3.8 million
Prosthetics	2.1 million	Deleted from proposal
Hearing Aids	**2.9 million**	**5.9 million**
Psychologist	229,000	415,000
Chiropractor	399,000	286,000
Independent Rehabilitation Facility	23,000	Deleted from proposal
Occupational Therapy	15,000	89,000
Physical Therapy	30,000	140,000
Orthotics	640,000	Deleted from proposal
Speech and Audiology	728	2.3 million
Managed Care Adjustment		17.5 million
TOTAL GF SAVINGS	**$361.8 million**	**$209.7**

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

- **1.** Please **explain the key differences** from January.

Budget Issue: Does the Subcommittee want to propose any adjustments to the May Revision regarding the elimination of Optional Benefits as shown above?

5. Intermediate Care Facilities for the Developmentally Disabled (ICF-DD Facilities) *(A)* Proposed 15% Rate Reduction *& (B)* Quality Assurance Fee

Background—What Are ICF-DD Facilities and How are They Paid: Intermediate Care Facilities for the Developmentally Disabled (ICF-DD) are health facilities licensed (state requirements) and certified (federal requirements) by the Department of Health Services to **provide 24-hour per day care**. **Generally, ICF-DD facilities provide assistance to individuals with significant medical needs.**

Based on information provided by the DHS, there are a total of **964 ICF-DD facilities in California of which 957 are "privately-operated" facilities and seven are state-operated (i.e., the Developmental Centers).**

ICF-DD facilities are unique from other long-term care nursing facilities in that the clients who receive services are almost always enrolled in Medi-Cal. As such, there is no other third-party reimbursement available—the facility is reliant on Medi-Cal reimbursement.

According to the DHS, the average daily rate reimbursed by Medi-Cal is $166 per patient per day for privately-operated facilities and $524 per patient per day for the state-operated Developmental Centers.

Governor's May Revision--Continues 15 Percent Rate Reduction: The May Revision continues the Governor's January proposal to reduce ICF-DD Facility rates **by 15 percent**, but the effective date has moved back to **October 1, 2003** due to state requirements regarding provider notification of rate changes (versus July 1, 2003 as previously proposed). **The May Revision assumes savings of $50.9 million ($25.7 million General Fund) from the rate reduction. State-operated Developmental Centers would not have their rates reduced at all.**

Governor's May Revision—Quality Assurance Fee: The May Revision continues the Governor's January proposal to require ICF-DD facilities and state Developmental Centers **to pay the state a Quality Assessment Fee of 6 percent on the total rate per patient day. This assessment amount would then be used by the state to obtain a portion of federal matching funds. A portion of these new federal funds would be used to offset General Fund expenditures and to provide for a rate adjustment to ICF-DD facilities. It should be noted that several other states have implemented similar programs for their ICF-DD populations.**

The Quality Assessment Fee would be a per diem "add-on" to the regular reimbursement rate and would be added for each patient day during the quarter. **This add-on would be computed to return at least 100 percent of the fee paid by the facility at the end of the particular quarter.**

Under the Administration's proposal, the following would occur:

• **15% Rate Reduction** Taken from ICF-DD Facilities	$25.7 million General Fund
• ICF-DD Facilities Pay Fee (Fees placed into General Fund)	$52.5 million Fee Amount
• Fee used to obtain a federal match	20.5 million federal funds
• ICF-DD Facilities Paid Rate Increase (above the fee amount)	$5.9 million (above fee)
• Total Savings to the **General Fund from Quality Assurance**	$14.6 million
• **Total General Fund Savings**	**$40.3 million General Fund**

Subcommittee Staff Recommendation: It is **recommended to (1) enact the Quality Assurance Fee, *and* (2) reject the 15 percent rate reduction.**

If the Subcommittee rejects the 15 percent rate reduction, **then (1)** the General Fund savings for the Quality Assurance Fee proposal increases by about $940,000 for total General Fund savings of $15.5 million, and **(2)** the **increased cost to the General Fund to backfill for the rate reduction is $25.7 million.**

Several other states use this federally approved mechanism to draw additional federal funds and the ICF-DD facilities could use the rate increase since they are nearly 100 percent reliant on Medi-Cal for payment.

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

- **1.** Please **briefly explain *any key* differences** between the May Revision proposal—rate reduction and Quality Assurance Fee—and the January budget.

Budget Issue: Does the **Subcommittee want to (1)** adopt the Quality Assurance Fee proposal, and **(2)** reject the rate reduction proposal?

6. Medi-Cal Managed Care Program— *(A)* Proposed 15% Rate Reduction & *(B)* Proposed Quality Assessment Fee, *(C)* State Staff *(All to be discussed jointly)*

Background—Managed Care Plans and Rates: California utilizes several Medi-Cal Managed Care models for the delivery of health care services, including County Organized Health Care Systems (COHS), the Two Plan model (local initiatives and commercial HMOs), and Geographic Managed Care. The DHS **presently contracts with 31 health plans, many of which are considered *non-public* agencies.**

Under both state and federal requirements, the capitation rates paid under a managed care model must be below the fee-for-service cost equivalent. **The rates paid to Medi-Cal Managed Care plans have been frozen for the past two years.**

Generally, managed care rates must be based on an actuarial basis and are to be no more than 99 percent of the fee-for-services base. For the County Organized Health Care Systems (COHS), the California Medical Assistance Commission (CMAC) negotiates rates based upon confidential expenditure and cost information.

Background—Federal Law Regarding Quality Assessment Fees: **Under the authority of the Social Security Act, Title 19, Section 1903(w)(7)(A), the state may impose a "Quality Assessment Fee"** on managed care contracts providing services under the Medicaid Program (Medi-Cal in California). **This mechanism can be used to then draw down additional federal funds.**

Governor's May Revision—15 Percent Rate Reduction: The May Revision continues the Governor's January proposal to reduce Medi-Cal Managed Care rates **by 15 percent**, but the effective date has moved back to **October 1, 2003** due to state requirements regarding provider notification of rate changes (versus July 1, 2003 as previously proposed). **The May Revision assumes savings of $ 380 million ($190 million General Fund) from the rate reduction.**

Governor's May Revision—Implements a Quality Assessment Fee: The **May Revision proposes to implement by *January 1, 2004*, a quality assessment fee for Medi-Cal Managed Care plans as allowed for in federal law. Under this proposal, the DHS would assess a Quality Assessment Fee of 6 percent on all Medi-Cal Managed Care plans. The amount actual paid by each plan would vary, depending on their gross Medi-Cal revenue.**

The Quality Assessment fee would then be used to (1) obtain increased federal funds to provide a rate adjustment for Medical Managed Care plans, and (2) obtain increased funds to offset about $37.5 million in General Fund support.

Based upon information provided by the DHS, the fiscal arrangement would be as follows:

- **6 percent fee paid by the plans** =$150 million in revenues
- **State uses 25 percent of $150 million to backfill for GF** **=$37.5 million (GF savings)**
- **State obtains federal match on remaining $112.5 million** =$225 million available for use
- **State provides plans with rate adjustment** =$225 million
- ***Net* amount** (6% fee paid versus rate adjustment) **to the plans** =$75 million (net gained--plans)
- **The DHS will need to modify the state's existing Medi-Cal "Upper Payment Level" in order to make these funds available to the plans.** The DHS would then distribute the "Upper Payment Level" amount to the various Two-Plan Model entities based on the existing DHS rate model that recognizes the cost of providing services in the county, and the plans acuity mix. For Geographic Managed Care Organizations and County Organized Health Care Systems (COHS), the California Medical Assistance Commission (CMAC) would allocate the funds through their existing contract process. In addition, the AIDS Health Care Foundation (as a primary care case management entity) would also be included in the quality assessment fee process.

As noted in the Hand Out, trailer bill language is needed to effectuate the Quality Assurance proposal.

Governor's May Revision—Request for State Staff: Through a Finance Letter, the DHS is requesting **an increase of $196,000 ($97,000 General Fund) to fund three DHS positions to implement the proposal.** Specifically, the DHS is requesting two Account I Specialists and one Account Officer to conduct activities associated with Quality Assessment Fee implementation.

The LAO recommends making one of the Account I Specialists a two-year limited-term appointment.

Subcommittee Staff Recommendation: This proposed Quality Assessment Fee for Medi-Cal Managed Care plans parallels the Administration's proposal for implementing a Quality Assurance Fee for Intermediate Care Facilities--Developmentally Disabled (ICF-DD) which the Subcommittee has already reviewed. **Several states have been using Quality Assessment fees to assist in making Medicaid program improvements for several years.**

It is recommended to (1) adopt the Quality Assessment Fee proposal, including the proposed language (as placeholder language to enable technical adjustments to be incorporated, if needed, after working with the industry), ***and*** **(2)** approve the DHS positions but designate the Account I Specialist as a two-year limited-term appointment.

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

- **1.** Please **briefly describe the 15 % rate reduction. Will all of the 31 contracted health plans receive an across-the-board reduction or what?**
- **2.** Please **briefly describe** the proposal to implement a **Quality Assessment Fee** for Medi-Cal Managed Care plans.
- **3.** How would the **Quality Assessment Fee impact with the proposed rate reduction? (In essence, what level of net rate adjustment is there with the Quality Assurance Fee?)**
- **4. Generally, how would the Quality Assessment Fees be collected from, and then allocated back, to the plans?**
- **5. Are the three requested positions to be funded from the revenues obtained from the Medi-Cal Managed Care plans (along with the federal match) or are they funded using the portion of revenues the state receives as a General Fund backfill?**

Budget Issues: **Does the Subcommittee want to take action on the following items:**

- Modify the Governor's proposed 15% rate reduction?
- Adopt the Quality Assurance Fee?
- Make any modifications to the proposed trailer bill language regarding the Quality Assurance Fee?
- Approve the three requested state positions, but make one a two-year limited-term appointment?

7. Proposal to Reduce Medi-Cal Fee-For-Services Rates by 15 Percent

Governor's May Revision: The May Revision continues the Governor's January proposal to reduce Medi-Cal rates **by 15 percent**, but the effective date has moved back to **October 1, 2003** due to state requirements regarding provider notification of rate changes (versus July 1, 2003 as previously proposed). **As noted in the table below, the May Revision assumes savings of $814.1 million ($404.3 million General Fund).** This reflects a reduced savings level of about $316 million (General Fund) when compared to the Governor's January budget. This is primarily attributable to the later implementation date.

Trailer bill **legislation would continue the reduction for three years through 2005-06 (ending as of July 1, 2006). The proposed trailer bill legislation would also provide the Director of the DHS authority to identify in regulations *other* programs in which providers shall be paid rates of payment that are identical to the rates paid under Medi-Cal.**

The following table summarizes the May Revision rate reduction for 2003-04. ***(Reductions are also proposed for ICF-DD Facilities, Family PACT and Managed Care plans. These are discussed later in the agenda.)***

Medi-Cal Service Category	Governor's May Revision 2003-04 (October 1, 2003) (15 percent) (General Fund Savings)
Nursing Home Facilities	$189.7 million
Physicians Services	54.6 million
Other Services (adult day health, hospice, hearing aids, AIDS waiver, and others)	27.2 million
Other Medical Services (podiatry, occupational therapy, acupuncture and others)	38.9 million
Pharmacy Services	24 million
Dental Services	26.7 million
Home Health	8.9 million
Early Periodic Screening Diagnostic and Treatment (EPSDT) Services	1.6 million
Medical Transportation	7 million
TOTAL SAVINGS	**$378.6 million**

Sub committee Staff Comment: There is evidence that the rates paid to providers could affect access to health care and the quality of care to patients. A recent national analysis of Medicaid physician rates by The Urban Institute concluded that physician fee levels affect both access and outcomes for Medicaid patients.

A Pricewaterhouse study completed last year found that, even after accounting for the rate increase provided in 2000, Medi-Cal rates continue to lag behind those of other purchasers of health care coverage in California. Another study released last year found that while the 2000 Medi-Cal rate increases were substantial, they collectively only brought the Medi-Cal provider rates from 58 percent to 65 percent of California's average Medicare payment rates.

This is the first time that nursing home facilities have been included in a rate reduction. Inclusion of nursing homes is particularly problematic due to staffing standards and wage requirements, federal regulations, and the industry's dependence on Medi-Cal payments (two-thirds of the over 1,500 nursing homes depend on Medi-Cal reimbursement). In addition, a State Plan Amendment would be required since the federal government requires these rates to be developed on an annual basis through a methodology contained in the state's Medicaid State Plan.

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

- **1.** Please **briefly** describe the changes in the proposal.

Budget Issue: Does the Subcommittee **want to modify the proposal?**

8. Family PACT Proposed 15 Percent Provider Rate Reduction

Background Current Family PACT Program: **One of the state's most cost-beneficial programs** is the Family PACT Program. Through the Budget Act of 1996, a state-only family planning program— Family PACT—was enacted to expand access to family planning services.

California operates this program under a federal Medicaid Waiver. As such, the state can draw an enhanced 90 percent federal match for many services, as well as a 50 percent federal match for most other services.

Generally, women and males with incomes at or below 200 percent of poverty who have no other source of health care coverage have access to comprehensive family planning services (abortions and services ancillary to abortions are ***not*** funded under Family PACT). Program participants are screened and enrolled by approved Medi-Cal providers, including both public and private entities, on site.

As currently structured, the Family PACT among other things provides reimbursement for patients who are seeking (1) contraceptive services, (2) pregnancy testing, and (3) reproductive health education and counseling services.

The **services currently covered** under the Family PACT **include**:

- Reproductive health information, education and counseling services;
- General reproductive health care and preventive services limited to cancer screening and sexually transmitted infections (including HIV);

- Medical family planning services;
- Preconception counseling; and
- Sterilization services.

<u>Governor's May Revision:</u> The May Revision **proposes savings of $49.6 million ($13 million General Fund) by reducing Family PACT by 15 percent as of October 1, 2003 (versus July 1, 2003 as previously proposed). Due to the availability of enhance federal funds (up to a 90 percent federal match for many services), this proposed reduction only achieves a 26 percent General Fund savings level.**

The following chart shows the reduction by service category:

Category	Total Fund Savings	General Fund Savings
Physicians	$10.4 million	$2.7 million
Other Medical	$28.6 million	$7.5 million
Drugs	$10.6 million	$2.8 million
Totals	**$49.6 million**	**$13 million**

<u>Budget Issue:</u> Does the Subcommittee want to modify the proposal?

<u>9. Adult Day Health Care Centers—(A) Moratorium, (B) Unbundled Rate, (C) Request for State Staff, *and* (D) Alternative Proposal (Discussed Together)</u>

<u>Background—What is Adult Day Health Care:</u> Adult Day Health Care (ADHC) is **a community-based day program which provides nursing, physical therapy, occupational therapy, speech therapy, meals transportation, social services, personal care, activities and supervision designed for <u>low-income elders and younger disabled adults who are *at risk*</u> for <u>being placed in a nursing home</u>.**

ADHC has been a successful model for elderly individuals for they can obtain many services in one location. For these individuals, particularly those with mobility challenges, going to one place for health care results in better compliance with therapy, medication, nutrition, and exercise regimens. **Under Medi-Cal, individuals can participate in ADHC from one to five days per week, but usually average about three days a week.**

The general concept behind providing ADHC services is that they delay or defer individuals from going into nursing homes or other more costly forms of care and therefore, it saves Medi-Cal money. Compared to the monthly Medi-Cal cost of a nursing home at about $3,400 per month, ADHC can cost as much as three to four times less.

Background—How is ADHC Eligibility Determined: There **is a formal intake and assessment process** to initially determine whether an individual would benefit from the ADHC services. If an individual is accepted for enrollment into the ADHC, a team meeting is convened and **an Individual Plan of Care is crafted.**

All individuals attending ADHC must be approved by a Medi-Cal field office using a "treatment authorization process (TAR) in order for the ADHC facility to receive Medi-Cal reimbursement for the individual.

Background—ADHC Facility Application Process: In order to become an ADHC provider, there are many steps that are required to be met, including the following:

- Complete a prospective **Provider Application** and submit to the state in order to obtain licensing and certification approval (DHS and CDA reviews).
- **Obtain a facility site and secure qualified staff** in preparation of obtaining approval.
- Undergo a local planning council review to ensure if there is a need in the service area.
- **Field work is completed by the state and licensing and certification is approved.** The applicant is now a certified Medi-Cal provider.

Background—How is the ADHC Funded: The ADHC Program (about 300 ADHC Centers) **is funded through Medi-Cal.** Based on the Governor's May Revision, **California is slated to expend $305.3 million ($152.6 million General Fund) in 2003-04. This DHS fiscal project assumes the following:**

- Average cost per participant is about $777 per month **(about $68.57 per day per recipient)**.
- Total actual participants as of June 2002 is 22,411 participants.
- Total projected participants as of June 2003 (beginning of the 2003-04 budget year) is about 29,000.
- Total projected participants as of June 2004 (end of the 2003-04 budget year) is about 36,000.

Recent Concerns with ADHC Growth: **Both the DHS and the California Association for Adult Day Services (Association) have noted that the ADHC Program began to grow** in 1999 after many years of exceedingly slow growth. ***Generally*, some of the reasons for this growth included: (1)** changes in the state's aging and immigrant demographics, and **(2)** the lifting of statutory restrictions against "for profit" ADHC providers. The area of most rapid growth has been in Los Angeles County where there are larger concentrations of Medi-Cal recipients (about 28 percent or so statewide).

Prior Subcommittee Hearing: In the May 12th hearing, the Subcommittee discussed the concept of placing a moratorium on Adult Day Health Care, and the California Association for Adult Day Services presented their proposal for managed growth**. Information from this hearing was taken under consideration, and the LAO was asked to conduct a fiscal analysis of the CA Association for Adult Day Services option.**

Summary of Governor's May Revision: The DHS **is proposing to implement significant changes to Adult Day Health Care through the May Revision for proposed savings of $19.8 million ($9.9 million General Fund) in local assistance, *and* increased costs of $904,000 ($247,000 General Fund) in state support to fund nine new state positions.**

The key aspects to the Administration's proposal are (1) impose a moratorium for one-calendar year, **(2)** un-bundle therapies and transportation from the per diem rate, ***and* (3)** a rate reduction of 15 percent as of October 1, 2003. ***(The rate reduction for ADHCs equates to $34.3 million ($17.2 million General Fund) and was addressed under issue 7 of the agenda, above.)***

Specifically, the proposed DHS changes to ADHC Centers are as follows:

- Trailer bill legislation to **"de-link" the licensing and certification** of ADHC Centers.
- Place a **moratorium on certification** (related to Medi-Cal reimbursement) ***and* enrollment of new ADHC Centers, and certification for increased capacity in existing ADHC Centers** for at **least one calendar** (not fiscal) **year**, **with extension of the moratorium as determined by the DHS Director.**
- **Un-bundle the current bundled per diem Medi-Cal rate** to ADHC Centers.
- **Remove therapies** (physical, occupational and speech), **and recipient transportation** (to and from centers) from the Medi-Cal reimbursement rate.
- "Re-bundle the remaining required ADHC Center services into a lower bundled per diem reimbursement rate.
- Allow the ADHC Centers to bill separately for the therapies and transportation on those days such services are authorized and provided to recipients.

The May Revision savings are assumed to be as follows:

• Moratorium for one-calendar year (***without*** 15% rate reduction-Oct 1, 2003)	$3.7 million GF
• Moratorium for one-calendar year (**with** 15% rate reduction-Oct 1, 2003)	$3.2 million GF
• Un-bundling of rate (***without*** 15% rate reduction)	$8.1 million GF
• Un-bundling of rate (**with** 15% rate reduction)	$6.9 million GF
• **Total Savings—moratorium & un-bundling** (***without*** 15% rate reduction)	$11.6 million GF
• **Total Savings—moratorium & un-bundling** (**with** 15% rate reduction)	$9.8 million GF

California Association for Adult Day Services—Option for Managed Growth: The Association has crafted a proposal **which is intended to (1)** strengthen ADHC services as a community-based alternative to institutional placement (such as nursing homes) **(2)** modernize the licensing and certification process, and **(3)** strengthen authority for planning and prioritizing new ADHC sites. Through this proposal, the Association intends to manage and control the growth of new sites..

Key aspects of the Association's proposal includes the following:

- **Creates a "Pre-Certification" Process:** This process would **(1)** require the Applicant to attend a **mandatory orientation course** offered by the state (CDA) or a contractor prior to obtaining and submitting an application; **(2)** require the Applicant to submit their application **along with a letter detailing the need for the services** in the geographic area; **(3)** require the CDA to conduct a face-to-face interview with the Applicant. Under this process, the CDA will have authority to prioritize applicants based on need factors and the department's estimation of the providers readiness. The CDA would notify the applicant of the potential timeframe for application processing.
- **Then Proceed with Facility Licensing:** After the Pre-Certification is complete, the Applicant would comply with the remaining requirements for the licensing process, including the identification of the facility site, submission of fingerprint cards and all health and safety rules. The Applicant would then proceed through the regular DHS licensing field office inspection.
- **Provides for an Updated Fee Schedule:** Generally, this component of the proposal would increase fees for initial applications and licensing renewals. **According to calculations provide by the Association, increased revenues of about $800,000 would be generated.** It is assumed that some of these funds would be used by the California Department of Aging (CDA) to offset any additional expenditures due to the above outlined changes.
- **Provides for a Six-Month Moratorium:** Under this moratorium, applicants "in-the-pipeline" who are currently proceeding with licensure and certification can continue, but a moratorium would then be put into place for the new "managed growth" process to then be implemented.

The Association maintains that by placing requirements up-front, it will improve the application process, slow the growth of demand in areas that may not have a fully identified need for the services, and is an overall better use of state resources.

Legislative Analyst's Office—Summary of Cost Review: The LAO states that they believe the Association's proposal would not result in savings to the state in 2003-04, **but would result in total savings of $10.8 million ($5.4 million General Fund) in 2004-05 *(assumes no rate cut)*. These savings would grow in the subsequent year to about $20.2 million ($11.1 million General Fund).**

Overall, they note that the Association's proposal is a reasonable alternative.

Subcommittee Staff Recommendation: It is recommended **to reject the Administration's moratorium and un-bundling proposals.** (The 15 % rate reduction was already addressed under agenda item 7, above) The problem that the Administration is trying to address remains unclear. Expansion of service providers is not in and of itself, a reason for a moratorium. If the Administration is concerned about unscrupulous providers then changes to licensing and certification, similar to what the Association is proposing, could mitigate concerns and be a more efficient use of staff resources (i.e., screening providers up-front).

It is further recommended to adopt *in concept*, the Association's proposal to **(1)** adopt placeholder trailer bill language to provide authority for the new "managed growth" application process (including its various component parts), **(2)** adopt uncodified trailer bill language for the DHS to give notice of a 6-month moratorium on accepting new applications, and a 30-day notice to end the moratorium and announce the new process, and **(3)** adopt new licensing fee schedule, including an initial application fee of $5,000 and a renewal fee based on licensed capacity at $20 per person.

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

- **1.** DHS, Please briefly present the Administration's proposal.
- **2.** Association, Please briefly present your alternative proposal.
- **3.** LAO, Please comment on your cost analysis.

Budget Issue: Does the Subcommittee want **to adopt the Subcommittee staff recommendation as referenced above to (1) reject the Administration's proposal regarding the moratorium and unbundled rate, and (2) the component parts of the Association's proposal as noted above under the staff recommendation?**

10. Disease Management

Background: **Existing state statute defines "disease management programs and services"** as services administered **to patients in order to improve their overall health and to prevent clinical exacerbations and complications utilizing cost-effective, evidence-based, or consensus-based practice guidelines and patient self-management strategies.**

Existing statute defines a "disease management organization" as an entity that provides disease management programs and services, which contracts with any of the following: a health care service plan; a contractor of a health care service plan; an employer; a publicly financed health care program, or a government agency.

Disease management can improve the quality of life of patients by catching health-related problems early, enabling patients to subsequently avoid high cost medical treatments and procedures—especially those associated with hospitalizations. **Evidence of the efficacy of these programs has been shown for a variety of chronic conditions including diabetes, coronary artery disease, chronic obstructive pulmonary disease, asthma, renal disease and other chronic illnesses. The expansion of disease management programs is a nationwide trend.** eligible populations with chronic disease. **In addition, CalPERS is moving to implement a disease management program as well this upcoming year.**

It should also be noted that SB 323 (Soto) has been introduced to require the DHS to develop a strategy for providing Medi-Cal recipients with population-based disease management programs and services, and to seek all necessary federal CMS Waivers that would be needed to implement such a program.

Finally, it should be noted that Medi-Cal will expend about $13.7 million (total funds) on about 1.5 million Aged, Blind and Disabled Medi-Cal eligibles in the current-year. Many of these eligibles could be enrolled in a disease management program, if available.

Governor's May Revision: The May Revision requests **an increase of $756,000 ($279,000 General Fund) to support 7 new state positions. No local assistance savings are anticipated from this proposal until 2005-06 due to the need to design a program, identify Medi-Cal patients, enter into contracts with one or more providers and other related factors.**

The DHS states that many key issues will need to be addressed via the Request for Application and contracting process in order to implement a Disease Management Program.

The 7 new positions include the following: Medical Consultant I; two Nurse Consultant II; two Associate Governmental Program Analysts; one Staff Services Manager I; one two-year limited-term Associate Governmental Program Analyst.

The Administration is also proposing trailer bill language to (1) apply for a federal Waiver (which is required for this program to operate), **(2)** limit the number of participants in the program during the initial three-years of operation, **(3)** obtain contract authority, **(4)** implement the program contingent upon appropriation for this purpose, **(5)** conduct an evaluation of the program, and **(6)** provide the evaluation to the Legislature by January 1, 2008

Subcommittee Staff Recommendation: Implementation of Disease Management in Medi-Cal makes sense from a recipient health care perspective, as well as from a restructuring perspective to control hospital inpatient expenditures and overall expenditures due to chronic, yet often manageable conditions. **However the number of the positions are not justified given the state's fiscal condition, as well as the need to more thoroughly define what the state is going to be doing versus what may be completed by expert consultant staff.**

In addition, after reading the DHS workload analysis justification for each of the requested classifications, it is evident that more analysis needs to be done to better discern how the unit is going to operate and how the program is going to be designed. **Further, additional positions can always be added next year, if more thoroughly justified.**

As such, it is recommended to provide funding for a total of three positions and corresponding operating expenditures. Two of the positions would be for the Medi-Cal Policy Division (i.e., the Medical Consultant I and one Nurse Consultant II), and one position would be for the Office of Medi-Cal Procurement.

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

- Please **briefly describe the Disease Management proposal**.

Budget Issue: Does the Subcommittee want to modify the request for the positions?

11. Proposed Changes to Medi-Cal Drugs--ISSUES "A" to "B"

Overall Background On Medi-Cal Drug Program: Nationwide pharmaceutical costs **are one of the fastest growing components 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 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 about 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. The Governor's May Revision estimates that **the baseline *state supplemental rebates* will save $366.2 million ($183.1 million General**

Fund). With respect to the *federal rebates*, the budget assumes savings of $986.8 million ($491.8 million General Fund).

In total, the Governor's May Revision assumes expenditures of $2.815 billion ($1.4 billion General Fund) for drug expenditures in Medi-Cal.

The Budget Act of 2002 made substantial changes to the program. Some of these changes are still being implemented.

Bureau of State Audits Report and Subcommittee Request: The Bureau of State Audits (BSA) just released (April 30, 2003) a comprehensive audit regarding the Medi-Cal Drug Program. It contains considerable recommendations regarding program improvements, including all of the items to be discussed below.

Prior Subcommittee Hearing: In the May 12th hearing, the BSA and DHS discussed several issues regarding potential improvements which the state could undertake. The Administration's May Revision proposes several of these.

ISSUE "A"—Collection of Aged Rebates Owed

Background: Collection of manufacturer rebate moneys owed to the state has been a long standing issue with the DHS. In a 1996 report, the Bureau of State Audits (BSA) identified about $40 million in past, owed rebates to the state. **As note in the BSA April 2003 report, the "aged rebates" owed to the state has escalated to be $216 million.**

The Budget Act of 2002: The Budget Act **(1)** provided four new staff to assist in processing aged rebates, and **(2) enacted 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.** This was done because California was losing rebate dollars due to manufacturers retroactively making changes, and therefore, reducing rebates.

The DHS also was provided with resources to implement the Rebate Accounting and Information System (RAIS) through its contract with the Fiscal Intermediary (EDS). **Using the RAIS, the DHS can now automatically bill and track the collection of state and federal rebates due from manufacturers.**

Governor's May Revision: The May Revision **is requesting an increase of 11 staff** –ten Associate Governmental Program Analyst's and one Staff Manager I-- to conduct numerous activities associated with collecting aged rebates. The DHS is requesting for all of these positions to be made permanent.

The DHS states that $29.5 million ($14.7 million General Fund) can be achieved in 2003-04 from this activity.

Subcommittee Staff Recommendation: The **BSA audit noted three key items**. **First,** the DHS was letting some **state supplemental rebates inadvertently expire** and thereby, costing the state some rebate savings. Providing these positions and using the fully implemented RAIS should help mitigate this from happening in the future. **Second,** the BSA had identified very real problems with hiring Pharmacy staff (due to severe shortages). Since these are Associate Governmental Program Analyst's that will be doing the aged rebate work (versus Pharmacists), they should be easier to hire and therefore, quicker to bring-on-board.

Third, the DHS is responding to the BSA issue of working with the federal government to fully implement the trailer bill legislation implementing the Budget Act of 2002 safeguards regarding the potential for changing rebate amounts.

The DHS has informed the Subcommittee that the local assistance savings level assumes that only 20 percent of the aged rebates will be collected. **However, the BSA has identified $216 million (as of April 1, 2003) and growing. In addition, as referenced above, the DHS will be obtaining not only increased staff resources, but better tools (such as a fully implemented RAIS and federal assistance on protecting rebates) to attack this problem in the budget year. The expectation of success should be raised. <u>Therefore, it is recommended to increase the May Revision savings level by an additional $20 million General Fund assuming the BSA figure of aged rebates owned and a success factor of closer to a 35 percent collection rate.</u>**

Budget Issue: Does the Subcommittee want to adopt the recommendation to <u>(1)</u> approve the positions on a **three-year limited-term basis**, and <u>(2)</u> assume **increased savings of $40 million ($20 million General Fund) above the Governor's May Revision amount?**

ISSUE "B"—Therapeutic Category Reviews (TCRs)

Background: Drugs **are organized into therapeutic categories, such as antibiotics**, or drugs that treat hypertension for example. According to the DHS, there are as many as 114 of these therapeutic categories, depending on one's categorization.

The DHS has conducted several TCRs over the years which have resulted in considerable savings. In essence, a TCR assesses the cost-effectiveness of all drugs in a therapeutic or chemical drug classification. **The BSA Audit noted that the DHS needs to conduct more reviews and that considerable savings could be achieved through this process.**

Under the TCR process, the Medi-Cal 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 these recommendations, obtains input from the manufacturer's of the drugs, reviews cost data, considers other sources of information 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. This review compares each drug in that category against every other drug at the same time.

The DHS notes that because of new drugs coming onto the market, changing market share and changing market costs, **a TCR should be conducted about every three years** in order to help stay current and maintain good prices/rebates for drugs on the List of Contract Drugs.

Governor's May Revision: The May Revision is requesting **an increase in state support to hire three Pharmacy positions to conduct four additional TCRs *annually*.**

The May Revision assumes budget year savings of $32 million ($15.5 million General Fund). It should be noted that most of these savings--$14.8 million GF—are attributable to increased rebates.

The DHS believes there are 12 TCRs that would yield the largest savings. The one-time savings taken over the first 12-months following TCR completion for each of the four TCRs to be performed is estimated to be 10 percent of the 2002 expenditures. **These are listed below:**

- TCR #1 "Statin" drugs for hypercholesterolemia — $8.1 million GF savings
- TCR #2 "ACE" inhibitors (cardiac drugs) **and** Angiotensin converting — $6.2 million GF savings
- TCR #3 Non-sedating antihistamines — $2.9 million GF savings
- TCR #4 Quniolone antibiotics — $1.7 million GF savings
- Additional TCR will be selected for review during the fist year **(DHS notes that this is a placeholder and *is conservative*)** — $1.5 million GF (per)

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

- **1.** Please **briefly describe** the proposal and the savings levels.
- **2.** What would be the next category. or categories, that would make sense to under go a TCR?

Budget Issue: Does the Subcommittee **want to modify the proposal in any manner?**

12. Pharmacy Cost Savings--(1) Step-Care Therapy Program, (2) Direct Prescriber Communications, (3) Enhanced Educational Programs, (4) Face-to-Face Interventions

Background—(1) Step-Care Drug Therapy Program: A step-care drug therapy program encourages the use of effective, less expensive drugs before more expensive drugs.

Background—(2) Direct Prescriber Communications: This is a program to provide feedback directly to doctors and other prescribers on the appropriate use of expensive drug therapy.

Background—(3) Enhanced Education Programs: The DHS would provide educational information to doctors (such s the Atypical Antipsychotic Program) to influence doctors' to consider the cost of drug therapy in their prescribing habits.

As part of the May Revision proposal, the DHS is proposing trailer bill language which enables them to implement utilization controls through the establishment of guidelines, protocols, algorithms, or criteria for drugs, medical supplies, durable medical equipment and enteral formulae. The department shall publish the guidelines, protocols, algorithms, or criteria in the pharmacy and medical provider manuals. In addition, the DHS will issue pharmacy providers written notice of changes. **Further, the DHS intends to make these actions exempt from requirements of the Administrative Procedures Act.**

Background—(4) Face-to-Face Interventions: This would be a pilot project on face-to-face discussions between a pharmacist expert and prescribers on rational drug therapy as required by federal law.

Governor's May Revision: The May Revision **is requesting $496,000 ($169,000 General Fund) for four positions**—one Medical Consultant I, one Pharmaceutical Consultant, and two Research Analyst IIs to craft and implement these proposals. **The DHS assumes savings from the Step-Care Drug Therapy Program of $1.8 million ($900,000 General Fund) in the budget year,** and $16 million ($8 million General Fund) annualized.

With respect to the other three items combined (no separate estimate for each)—Direct Prescriber Communications, Enhanced Education and the Face-to-Face interventions,--total budget year savings are assumed to be $500,000 ($250,000 General Fund) in the budget year. Out year savings increase to as high as $16 million ($8 million General Fund) for 2005-06. **They contend that savings for these items rely on the specific reaction of prescribers to the various educational interventions, so savings will vary. However, the DHS does believe that educational programs could save as much as one-half to one percent of total expenditures annually, upon full implementation (savings would phase in over time.)**

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

- **1.** Please **explain the DHS' proposal by each component piece, as well as the need for the positions.**
- 2. Please **explain the trailer bill language** and how it would be implemented.

Budget Issue: Does the Subcommittee **want to modify the proposal?**

13. Capitate Health Plans to Treat HIV/AIDS to Medi-Cal Managed Care Plans

Governor's May Revision: Medi-Cal Managed Care currently operates in 22 counties in California, and the contracts vary in coverage requirements for certain drugs. **The May Revision is proposing to capitate health plans for services that are currently excluded—drugs to treat HIV/AIDS which have been approved by the Federal Drug Administration before March 1, 2003 (i.e., this proposal excludes Fuzeon intentionally from the capitation proposal).**

The DHS assumes savings of just over $100,000 (General Fund) in the budget year, assuming a January 1, 2004 implementation date. Savings would be based on the total expenditures for these drugs which is estimated to be $8.7 million (based on paid claims for calendar year 2001). If capitation were paid at 95 percent of the fee-for-service level, savings would be $218,000 (General Fund) annually.

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

- **1.** Please briefly explain the proposal.
- **2.** Will access to drugs for individuals with HIV/AIDS be affected at all by this proposal?

Budget Issue: Does the Subcommittee **want to adopt or modify the May Revision?**

14. Change Reimbursement Methodology for Durable Medical Equipment (DME) *(See Hand Out)*

Background: For the most part, DME providers are reimbursed at levels below the Medicare rate. ***Currently, prices are set for Durable Medical Equipment (DME) through a listing specified in regulation*. According to the DHS, this is a rigid and overly bureaucratic method that denies the DHS flexibility to reduce prices quickly as products on the market change.**

Bureau of State Audits (BSA): The Bureau of State Audits conducted an audit of the DHS purchasing and contracting practices for DME, medical supplies, and hearing aids under Medi-Cal. Among other things, the BSA concluded that the DHS:

- Has ineffective cost control procedures for "unlisted" items;
- Lacks written policy or other requirements defining how often it should update maximum reimbursement rates for DME, or hearing aid tools; and
- Lacks authority and procedures to be used for ensuring the lowest possible price for items that meet the medical needs of the Medi-Cal recipient.

Among other things, the BSA recommended that the DHS seek legislation to remove prices for DME and hearing aids from regulations so that the DHS can become more responsive to changes in prices.

Governor's May Revision (See Hand Out): As an ***alternative* to the 15 percent rate reduction**, **the DHS is proposing to make targeted reductions and changes to the reimbursement methodology for DME. As a result, the DHS would have the authority to utilize and/or change this methodology for the DME rates. This requires trailer bill language to implement.**

Generally, these changes include establishing a:

- List of covered DME services and maximum allowable reimbursement rates.
- Methodology and reimbursement rate for DME, except wheelchairs, as the lesser of an amount that does not exceed 80 percent of the Medicare or "acquisition cost" negotiated via the contracting process plus a 40% markup.
- Methodology and reimbursement rate for wheelchairs as the lesser of an amount that does not exceed 100 percent of Medicare or acquisition cost negotiated via the contracting process, plus a 40% markup.
- Methodology and reimbursement rate for codes with **no maximum allowable rate** as the "acquisition cost" negotiated via the contracting process plus a 40 %markup or the lesser of the actual acquisition cost plus a 40 percent markup or 80 percent of the manufacturer's suggested retail purchase price.
- Methodology and reimbursement rate for supplies and accessories as the actual acquisition cost plus a 23 percent markup.

The DHS is requesting an increase of $89,000 ($44,000 General Fund) to support one position—Research Specialist II—for this purpose.

The DHS states that savings of $3.2 million ($1.6 million General Fund) in local assistance can be achieved in the budget year through this change, and that annual savings are $13.4 million ($6.7 million General Fund). **The DHS notes that it will take them one month or more to process the new payment rates after the rates have been determined.**

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

- **1.** Please **briefly describe the proposal *and* use examples** to illustrate the proposed changes from what presently occurs.
- **2.** It is likely that Medi-Cal recipients would experience decreased access to services because of this change?

Budget Issue: Does the Subcommittee **want to modify the May Revision?**

15. Change Reimbursement Methodology for Blood Factor Products *(See Hand Out)*

Background: The ***current methodology*** of payment **is for a manual claim submission with an invoice attachment for the blood factor product being supplied to the patient. This invoice amount is then compared to the billed amount and a 1% markup is allowed to cover the cost of services.**

Currently, **the State Controller's Office (SCO) reviews each claim for blood factors and calculates the allowed payment amount.** This function started several years ago after an investigation of a large provider and has been going on ever since. **This activity is time consuming and the accuracy and/or appropriateness of the invoiced amount is not documented.**

Governor's May Revision (See Hand Out): The DHS **is proposing to (1) adopt a new methodology for provider payments of Blood Factor products, and (2) automate the claims processing and rebate activities. This proposal requires trailer bill legislation.**

Among other things, the department will be using the Average Selling Price (ASP) in lieu of the Average Wholesale Price (AWP). The DHS contends that the utilization of the ASP as provided by the manufacturer pursuant to contract would allow the DHS to better control costs.

The DHS states that local assistance savings of $2.450 million ($1.225 million General Fund) can be achieved from these changes. The DHS states that under their proposal, the following benefits would accrue:

- Provides for more accurate provider reimbursement.
- Uses a real market acquisition cost in reimbursement methodology.
- The Average Selling Price (ASP) is not as easily manipulated in comparison to the Average Wholesale Price (AWP).
- Automates claims processing and rebate activities.
- Provides the DHS with comparative data for use in rebate contracting.
- Provides for enhanced rebate collection.
- Provides for accurate tracking of patient utilization.

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

- **1.** Please **briefly explain the concerns there are with the existing payment method**, as well as the manual claims processing.
- **2.** Please briefly describe the Administration's proposal using examples to illustrate how reimbursements would be changed.
- **3.** Would Medi-Cal recipient access to Blood Factor products be placed in jeopardy due to these proposed changes? If not, why not?
- **4.** Please briefly walk through the proposed trailer bill language.

Budget Issue: Does the Subcommittee **want to adopt the proposal?**

<u>16. Medi-Cal Program Limits on Certain Laboratory Services</u>

<u>Background:</u> The DHS states that there have numerous instances of the fraudulent provision of laboratory services in both the Medi-Cal and Medicare programs. **The DHS sites several laboratories by name where there have been fraudulent billings for medically *unnecessary* laboratory tests, including cholesterol and blood serum iron tests.** Other laboratories are submitting claims for drug screening tests that were done by the use of a single procedure with a single result statement and billing Medicare 25 to 30 times per patient.

<u>Governor's May Revision:</u> In order to mitigate over-utilization and the potential for abusive billing, the DHS proposes **to place limits on the number of laboratory tests that could be claimed without prior authorization under the Medi-Cal Program.** The DHS states that they do ***not*** need any trailer bill legislation to implement this proposal.

Specifically, selected laboratory services would be subject to a frequency limitation for services occurring within a set period of time. Once that frequency of service has been reached, additional laboratory services would be subject to prior authorization for the determination of medical necessity. A September, 2003 implementation date is assumed.

The DHS assumes that *savings of about $10.6 million ($5.3 million General Fund)* in local assistance can be achieved by implementing these controls.

In addition, the DHS *is requesting an increase of <u>(1)</u> $82,000 ($41,000 General Fund) to fund one position* to perform very detailed work at the laboratory procedure code level, and *<u>(2)</u>* $2.4 million ($805,000 General Fund) to fund changes to be done by the Fiscal Intermediary (EDS).

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

- **1.** Please **briefly describe** how the limits would work.
- **2.** Specifically, how would Medi-Cal recipients be affected by this change?
- **3.** How long would it take to turn-around a treatment authorization request for services?

<u>Budget Issue:</u> Does the Subcommittee **want to adopt the proposal?**

17. Reduction and Monitoring of Excessive Administrative Cost of Contractors *(See Hand Out)*

Background: California **HMOs are required to control the administrative cost of their operations to reasonable levels.** Under Knox-Keene regulations (Title 22) enforced by the Department of Managed Health Care, **HMO plans that have been operational in excess of five years and incur administrative costs at or below fifteen percent of their total revenue are presumed to be in compliance with the DMHC's requirements.** Plans that incur administrative costs in excess of this amount may be called upon to demonstrate that their costs are not excessive or be required to take corrective actions to reduce their administrative costs to an acceptable level. The majority of DHS' Medi-Cal Managed Care contractors are Knox-Keene health care plans.

The DHS Two-Plan Model currently has a regulation that requires contracting health care plans to include as part of their administrative cost the pro-rata amount of administrative costs under their capitated sub-contracting providers. **This part of the regulation while initially based on Knox-Keene regulations, provides that contracting health plans should include in their administrative cost, the cost of delegated administration to sub-contracting entities. The DHS states that up to this point it has not been necessary to vigorously pursue excessive administrative costs because the use of sub-contracting entities was not a widely-used model. However, the DHS wants to change this approach.**

Governor's May Revision (See Hand Out): The May Revision proposes to enhance its on-going monitoring efforts by redirecting some existing staff to force HMO plans to either justify administrative costs in excess of 15 percent or be subject to potential recovery of funds and/or subject to rate adjustments. **The DHS anticipates that savings of about $39 million (19.5 million General Fund) are achievable in 2004-05, but no savings for 2003-04.**

The DHS is proposing trailer bill language in order to achieve more direct statutory authority for this effort, including obtaining recoveries if excessive administrative costs are found.

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

- **1.** Please **briefly explain your proposal**, including the trailer bill language.
- **2.** Why can't some modicum of savings be achieved in 2003-04?

Budget Issue: Does the **Subcommittee want to adopt the proposal?**

18. DHS Staff for Personal Injury Recovery Program

Background: **The Personal Injury Recovery Program identifies and recovers health care services expended on behalf of Medi-Cal beneficiaries when a third party is liable,** ensuring that Medi-Cal is the payer of last resort. As required by law, attorneys, county welfare agencies, and insurance companies must notify the department of tort actions involving a Medi-Cal beneficiary. **DHS staff review Medi-Cal expenditures paid for injury-related services, then file liens for recovery against any settlement, judgement or award.**

Governor's May Revision: The May Revision requests **an increase of $358,000 ($90,000** General Fund) to fund three positions—two Tax Compliance Representatives and one Program Technician II. **Of this amount, $160,000 is for contract services related to information technology services. Further, the DHS is proposing trailer bill language to make changes to the Medi-Cal recovery process.**

The positions are to be used to augment the recovery of revenue due the state under a new state mandate requiring auto insurance carriers to make their records available to the Medi-Cal Program. According to the DHS, this mandate will increase the number of Personal Injury cases the DHS will initiate recovery against. **The DHS estimates that $1.4 million (total funds) can be achieved annually from these positions.**

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.** Please describe the purpose of the trailer bill language.

Budget Issue: Does the Subcommittee **want to adopt or modify the May Revision?**

19. Lawsuit—Conlan vs Director Bonta' *(See Hand Out—language)*

Background—Conlan Decision: Medi-Cal recipients who incur out-of-pocket expenses for services that are rendered by a Medi-Cal enrolled provide, and that are reimbursable services under the Medi-Cal Program, are required to seek reimbursement for their out-of-pocket expenses from the provider who rendered the services (Section 140019.3 of W&I Code). **Under existing Medi-Cal authority, a provider may wait until a claim for reimbursement submitted to Medi-Cal is adjudicated and paid before reimbursing the recipient.**

According to the DHS, in the **Conlan v. Bonta' decision (Conlan Decision), the Appellate Court held that the state must establish a *reasonable* procedure by which recipients may obtain prompt reimbursement for covered services for which they paid during the three months prior to applying for Medi-Cal coverage. The court further found that the recipient should not be required to wait until the provider submits and is reimbursed for a claim for services rendered, before being reimbursed.**

Governor's May Revision: The May Revision proposes **an increase of <u>$2.1 million ($1 million</u> General Fund) <u>to fund 17 new state positions at the DHS</u>, and to fund <u>7 positions at the Department of Social Services</u>. In addition, the DHS includes increases in the Medi-Cal local assistance budget for additional contract work to be performed by both Fiscal Intermediaries (EDS and Delta Dental). The DHS states that the purpose of these additional resource requests is to address issues in the Conlan Decision.**

<u>The state positions would be located within the following areas:</u>

- **Performance & Change Management Branch**—two Associate Governmental Program Analysts;
- **Headquarters Management Branch**—one Associate Government Program Analyst;
- **Administrative Branch**—two Accounting Technicians and 8 Accounting Trainees;
- **Medi-Cal Benefits Branch**—one Associate Governmental Program Analyst;
- **Medi-Cal Dental Services Branch**—three Associate Governmental Program Analysts; and
- **Department of Social Services—five Administrative Law Judges and two Office Technicians.**

The Administration is proposing trailer bill language to modify Section 14019.3 of Welfare and Institutions Code to, among other things, <u>(1)</u> clarify that reimbursement is due if it is within a 90-day period of application to Medi-Cal, <u>(2)</u> clarify that the service was a Medi-Cal covered service, <u>(3)</u> clarify that the provider was enrolled in Medi-Cal, and <u>(4)</u> provides the DHS with the ability to withhold provider payments or suspend a provider from participating in Medi-Cal, if they do not meet certain conditions.

Legislative Analyst Office Comment: The LAO states that the **DHS request includes full and immediate staffing to address a workload that will actually phase in more gradually over the budget year.** They note that the DHS has not even yet submitted their plan to the court for approval. **Therefore, the LAO is recommending to budget the requested DHS and DSS positions at 75 percent of the requested funding level for savings of $518,000 ($257,000 General Fund) in the budget year. Full funding for the Fiscal Intermediary is recommended to continue.**

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

- **1.** Please **describe the Conlan Decision and workload of the positions.**
- **2.** What is now being done up-front with providers and recipients to mitigate the problem brought to the Court in the first place?
- **3.** Please **step through the proposed trailer bill language.**

Budget Issue: Does the **Subcommittee want to adopt the LAO recommendation for both the DHS and DSS (conforming action)?**

20. Federal Fiscal Relief for States—Placeholder

Background and Senate 1054: On May 15th, 2003, the Senate overwhelmingly approved its fiscal relief amendment by a vote of 95 to 3. **The $20 billion package would provide $10 billion to temporarily increase the federal match for the Medicaid Program and a $10 billion grant to state and local governments**. States would receive $6 billion in grant funds and local governments $4 billion to be used for general purposes, including education and job training, **health and social services**, transportation and infrastructure, law enforcement and public safety, or other essential governmental services.

California would receive an estimated $2.4 billion from this aid package. **This would include $1.3 billion in additional Medicaid dollars,** $690 million in grant funds to the state, and $470 million in grants to local government.

Budget Issue: Does the Subcommittee want **to assume receipt of some portion of federal fiscal relief?**

C. DEPARTMENT OF MENTAL HEALTH *(Discussion Items)*

COMMUNITY-BASED MENTAL HEALTH ISSUES

1. Eliminate Community Services Activities

Governor's May Revision: The May Revision proposes a reduction of **over $2 million (General Fund) from a variety of community services activities, including areas that significantly affect consumer and family involvement in participating in mental health policy, as well as the provision of some direct services. The activities include the following:**

- $416,000 Sacramento County pursuant to SB 840, Statutes of 1991
- $307,575 13 counties which use these funds to draw down federal rehabilitation funds
- $250,000 CA Institute of Mental Health for training of local mental health staff
- $227,518 CA Network of Mental Health Clinics
- $334,650 National Alliance for the Mentally Ill-California
- $30,800 CA Association of Local Mental Health Boards and Commissions
- $47,036 NA Association of Mental Health Program Directors dues payment
- $15,000 WICHE dues (data analysis and collection)
- $80,000 San Joaquin County for training for the CA Association of Mental Health Boards and commissions and county Olmstead training
- $15,000 San Joaquin to provide training and technical assistance on Therapeutic Behavioral Services
- $45,000 CA Mental Health Directors Association
- $40,000 San Mateo County for development of quality indicator data
- $190,000 Santa Cruz County to facilitate automation of the annual county cost reports
- $5,000 Older Adult Mental Health System of Care Conference
- $24,381 Sacramento County to partially fund a psychiatric consultant on children's mental health issues
- $2,040 Governor's Homeless Conference

Subcommittee Staff Recommendation: The Subcommittee has received numerous letters regarding these reductions which have expressed considerable concern with these reductions. These funds are being utilized for a wide variety of functions but primarily to (1) provide support and education, (2) increase community awareness and understanding of mental health issues, (3) facilitate family-involvement, (4) encourage public participation in the development of mental health policy, and (5) data analysis to improve the quality of services offered.

It is recommended to reject this proposal, except for the elimination of the $2,040 for the Governor's Homeless Conference. This action would conform with the Assembly.

Budget Issue: Does the Subcommittee **want to restore funding to all of the projects, except for the $2,040** slated for the Governor's Homeless Conference?

2. Mental Health Managed Care—ISSUES "A" through "C"

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 government (i.e., HCFA, now the Centers on Medicare and Medicaid—CMS).**

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.**

The Waiver promotes plan improvement in three significant areas—access, quality and cost-effectiveness/neutrality.

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 also provided to the MHP's.**

Based on the most recent estimate of expenditure data for 2001-02, of California's state share of cost for Mental Health Managed Care, County MHPs provided a 46 percent match while the state provided a 54 percent match. (Adding these two funding sources together equates to 100 percent of the state's match in order to draw down the federal Medicaid funds.)

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.

Federal Approval of Waiver Granted: According to the DMH, **California received federal CMS approval of the revised Waiver as of late April.**

ISSUE "A"—Clarification of Trailer Bill Language (Hand Out) for Emergency Regulation Authority

Background—Emergency Regulation Authority Is Never Ending: Effective **November 1, 1997,** the DMH adopted emergency regulations for Medi-Cal Mental Health Managed Care as provided for in Section 5775 of Welfare and Institutions Code. **However, this authority was never intended to be on-going.**

Since this time, the DMH has obtained authority to continue the emergency regulations through annual Budget Act Language, including language adopted in 1998, 1999, 2000, 2001 and 2002. This authority will expire as of June 30, 2003, unless action is taken to extend this authority. The Governor's January 2003 budget proposed to continue this practice by proposing the same Budget Bill Language to continue the emergency regulations.

The DMH has **had two public comment periods on the emergency regulations—November 1997 to January 1998, and November-December 1999.** According to the DMH, extensive public comment was received.

Subcommittee's Prior Action: In the March 10th hearing, **the Subcommittee (1) deleted the proposed Budget Bill Language and (2) adopted "placeholder" trailer bill language which would grant the DMH only one more year of emergency regulation authority.**

Subcommittee Staff Comment: Proposed **trailer bill language has been drafted and is contained in the Hand Out package.** ***It is recommended to adopt this language in lieu of the placeholder language.*** **(The prior action of deleting the Budget Bill Language would stand.)**

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

ISSUE "B"—Implementation of New Federal Regulations for Waiver

Background—New Federal Regulations for Waiver: As discussed above, California's Medi-Cal Mental Health Managed Care Program operates under a federal Waiver. Our Waiver enables a County Mental Health Plan (MHPs) to limit client access to a specific pool of services and practitioners. The Waiver promotes MHP improvement in three significant areas—access, quality, and cost containment/neutrality.

New federal managed care regulations were issued in June 2002 and must be implemented by the state and MHPs by August 13, 2003. According to the DMH, the new regulations require significant changes in the operation of the program.

Among other things, the regulations would require:

- The DMH must arrange for **annual "External Quality Reviews" (EQRs)** of the quality outcomes and timeliness of access to services covered by **each MHP** (56 MHPs—there are two MHPs that cover two counties);

- The methodology used to **reimburse the MHPs must be validated annually by a qualified actuary**. <u>The DMH notes that **the actuarial studies may result in the need to revise current methods since the method currently used for distributing state General Fund support to the MHPs is *not* actuarially determined.**</u>
- **The County MHPs will be required to (a)** establish advance directive systems, **(b)** establish formal compliance plans and systems, **(c)** finalize and distribute informational materials, **(d)** comply with new administrative requirements related to provider contracts, **(e)** maintain additional documentation of the adequacy of the MHP's provider networks, **(f)**adopt formal practice guidelines, and **(g)** establish a more complex grievance and appeal system.

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.

<u>Governor's January Budget:</u> The Governor's January budget proposed **an increase of $6.2 million ($1.7 million General Fund** and $4.5 million in reimbursements from the DHS—federal Medicaid funds) **and a two-year limited-term Associate Mental Health Specialist position to support federally required External Quality Reviews (EQRs)** of the County Mental Health Plans (MPHs) **and related activities** to ensure that the program is brought into compliance with new federal regulations.

<u>Governor's May Revision:</u> The May Revision **proposes a <u>net reduction</u> of $5 million** ($1.250 million General Fund and $3.750 million in Reimbursements) **due to changes in the federal regulations that came forth in late January.** Generally, these revised federal regulations provide the DMH with flexibility in performing compliance reviews as well as other components. It also means that the External Quality Reviews (EQRs) can be conducted on a more gradual basis—six a year.

Therefore, the DMH is requesting **a *net* increase of $1.225 million** ($463,000 General Fund and $762,000 in Reimbursements) for the budget year. **Of this net amount <u>(1)</u>**$600,000 is for the EQRs, **<u>(2)</u>** $500,000 is for client information and materials, **<u>(3)</u>** $50,000 is for a contract to conduct an actuarial analysis, and **<u>(4)</u>** $75,000 is for a two-year limited-term Associate Mental Health position and related operating expenses.

The DMH states that the requested two-year limited-term position is needed to review and revise existing state and MHP systems to comply with the new regulations. Specifically, it would be used to review current state regulations, MHP contracts, DMH Letters to Counties and Information Notices, Waiver documents and other materials for compliance with the new federal regulations.

<u>Subcommittee Staff Recommendation:</u> Subcommittee staff **recommends <u>(1)</u>** approval of the Governor's May Revision to reduce by $5 million ($1.250 million General Fund and $3.750 million in Reimbursements), and **<u>(2)</u>** in lieu of the new position, re-direct a position from within the DMH for this purpose for additional savings of $75,000 ($37,500 General Fund).

It is recognized that this is an important function that needs to be completed; however due to implementation timeframes it is unlikely that the DMH would be able to hire someone and have the activities accomplished. Further, DMH staff is working on this issue now and therefore, have been redirecting resources already for this purpose.

Budget Issue: Does the **Subcommittee want to (1) adopt the Governor's May Revision to reduce by $5 million ($1.250 million General Fund), and (2) delete the requested position for additional savings of $75,000 ($37,500 General Fund)?**

ISSUE "C"—Governor's Proposed Reduction in Funding of Waiver

Background—State & County Realignment Funds Used to Draw Federal Match: As discussed above, the state's Mental Health Managed Care Program operates under a federal Waiver whereby County Mental Health Plans (MHPs) are responsible for the provision of public mental health services, including those for Medi-Cal recipients.

An annual state General Fund allocation is provided to County MHPs, though counties also use a substantial amount of County Realignment funds—Mental Health Subaccount--to draw down federal matching dollars.

Based on the most recent estimate of expenditure data for 2001-02, of California's state share of cost for Mental Health Managed Care, County MHPs provided a 46 percent match while the state provided a 54 percent match. (Adding these two funding sources together equates to 100 percent of the state's match in order to draw down the federal Medicaid funds.)

State General Fund Allocation: **The state General Fund allocation is usually updated each fiscal year to reflect adjustments as contained in Chapter 633, Statutes of 1994 (AB 757, Polanco). These adjustments have typically included, changes in the number of eligibles served, factors pertaining to changes to the consumer price index (CPI)for medical services, and other relevant cost items.**

***However*, the state's allocation is contingent upon appropriation through the annual Budget Act. As such in more difficult fiscal years, state General Fund support has *not* been provided for the medical CPI, or the base level of funding has been proposed for reduction (such as this year).**

Governor's May Revision: The May Revision proposes a total state General Fund appropriation of $212 million (General Fund) for allocation to the County MHPs to assist in funding the Waiver Program. **This reflects a *net* increase of $4.9 million (General Fund)** in the amount the state provides to the counties for Mental Health Managed Care**. It should also be noted that the medical CPI is *not* being funded and has not been funded since the Budget Act of 2000**. **This equates to a loss of $13.4 million ($6.7 million General Fund) to the County MHPs.**

This net decrease consists of the following proposed *key* adjustments:

- **Assumes a 10 percent reduction to the base County allocation amount, effective October 1, 2003. (The Administration is referring to this as a ten percent Medi-Cal provider rate reduction; however, it is a reduction to counties.)**

- **No adjustment for the medical Consumer Price Index (CPI) was provided. According to the DMH, it would be about 3.4 percent in the budget year for an expenditure of $13.4 million ($6.7 million General Fund). It should be noted that the medical CPI has not been funded for Mental Health Managed Care since the Budget Act of 2000.**

- **Makes a series of technical adjustments related to caseload.**

Subcommittee Staff Comment and Recommendation: The proposed reduction will likely result in County MHPs serving fewer individuals and having difficulty in meeting statutory and contractual responsibilities related to the provision of Medi-Cal Mental Health Managed Care services. Both the short-term and long-term effect of this action is to cost shift mental health services more to the counties.

It is recommended **to reject the 10 percent reduction to the base County allocation amount, and to adopt all other technical adjustments regarding caseload and deferral of the medical CPI.**

Budget Issue: Does the Subcommittee **want to reject the 10 percent rate reduction and adopt all other technical adjustments regarding caseload and deferral of the medical CPI?**

3. Second Level Treatment Authorization Request Appeals.

Background: Existing state regulation (Title 9, Section 1850.305) provides that **a psychiatric hospital may file a second level TAR appeal when payment issues have not been resolved at the first level appeal (between the hospital and a County Mental Health Plan).**

Typically, a second level TAR appeal involves disagreements between a hospital (non-county owned or operated facility) and a County Mental Health Plan regarding the number of bed days the county will reimburse. For example, a hospital claims 15 days of inpatient services for a particular client and the County Mental Health Plan will only approve 10 days. As such, the hospital appeals the additional 5 days to the state. The state can either agree or disagree with the hospital. According to DMH statistics, the DMH agrees with County

Mental Health Plans about 88 percent of the time.

It should also be noted, that the DMH's role in the second level TAR appeals process has inserted the department into judicial disputes between hospitals and County Mental Health Plans. According to the DMH, 29 lawsuits have been filed in this area.

Governor's Mid-Year Reduction and Proposed January Budget: The Administration proposed to eliminate the second level Treatment Authorization Request (TAR) appeals process for savings of $64,000 General Fund in 2002-03 and savings of $126,000 (General Fund) in 2003-04. The savings comes from the elimination of two state positions. **The Legislature denied the request for the Mid-Year Reduction.**

No trailer bill language has been proposed for this action.

Constituency Concerns: County MHPs are concerned about this proposal because hospitals who want to appeal a County MHP denial of payment can go directly to the courts, and the DMH would no longer be involved in the case.

Subcommittee Staff Comment and Recommendation: The Administration's proposal continues the Administration's direction to further reduce the state's role in providing oversight of mental health services. In this case, oversight of inpatient hospital psychiatric services. **This is really a policy area that needs to be clarified more, rather than a fiscal, budgetary issue. Broader policy issues exist that affect the provision of inpatient psychiatric services and the payment for them.**

It is therefore recommended to (1) reject the Administration's proposal to eliminate the existing second level TAR appeals process, and (2) adopt placeholder trailer bill language to require any hospital losing its second level appeal be required to reimburse the DMH for its cost (less the federal match portion).

Budget Issue: Does the Subcommittee want to **(1)** reject the Administration's proposal and retain the existing process and position, and **(2)** adopt placeholder trailer bill language to require any hospital losing its second level appeal be required to reimburse the DMH for its total cost of processing the appeal, less the federal match portion.

STATE HOSPITAL ISSUES

1. State Hospital Patient Population & Operating Expenses Adjustments, and Proposed Trailer Bill Language (See Hand Out)

Subcommittee's Prior Action: In a prior hearing, the Subcommittee heard from the Legislative Analyst's Office that the **Governor's January budget request** for the State Hospital population and corresponding operating expenses **was significantly over budgeted**. As such, the Subcommittee deferred action pending further discussions between the LAO and DMH regarding potential expenditures and pending May Revision caseload adjustments.

Governor's May Revision: The **May Revision proposes a population of 4,457 patients** for 2003-04 (as of June 30, 2004) at the four State Hospitals -- Napa, Metropolitan, Patton, and Atascadero. **Of this population**, **almost 85 percent of the beds are designated for penal code-related patients. This caseload adjustment reflects a *reduction* in the estimated caseload of 183 patients as compared to the Governor's January budget.**

The May Revision reflects a ***net decrease*** **of $17.1 million ($11.5 million General Fund,** $6.8 million in County Realignment Funds, $119,000 in Reimbursements from the CA Department of Corrections, and an increase of $1.3 million in reimbursements from the CA Department of Youth Authority) due to the following adjustments:

- Decrease of 90 county-purchased beds;
- Increase of 34 penal code beds;

- Decrease of 213 positions, including level-of-care and non-level-of-care positions; and
- Reduction of $1.5 million from operating expenses and equipment.

It should also be noted that a net decrease of $6 million (decrease of $8.2 million General Fund and an increase of $2.2 million in County Realignment Funds) is being done for the current-year (2002-03) due to a decrease of 100 penal code beds (assumes a population of 4,425 patients as of June 30, 2003).

<u>Governor's May Revision—Proposed Trailer Bill Legislation:</u> The DMH **is proposing to add a new Section 1026.2(m) to the Penal Code related to Not Guilty by Reason of Insanity (NGI) acquittees as follows**:

> <u>(m) This subdivision shall only apply to persons who, at the time of the petition or recommendation for restoration of sanity, are subject to a term of imprisonment with prison time remaining to serve or are subject to imposition of a previously stayed sentence to a term of imprisonment. When a person described in this subdivision petitions or is recommended for restoration of sanity, the person shall not be placed in a forensic conditional release program for one year, and a finding of restoration of sanity may be made without the person being in a forensic conditional release program for one year. If a finding of restoration of sanity is made, the person shall be transferred to the custody of the California Department of Corrections to serve the term of imprisonment remaining or shall be transferred to the appropriate court for imposition of the sentence which is pending, whichever is applicable.</u>

According to the DMH, this proposed change would provide that NGIs with "dual-hold" status in a State Hospital or being transferred to a State Hospital from court or prison would be treated in the State Hospital <u>until restored to sanity</u>. Once stabilized, the individual would be **transferred to prison to serve their terms for the crimes** for which they were convicted or returned to court for the imposition of any pending sentence that had been stayed during treatment.

Currently, individuals convicted of violent felonies who have a simultaneous or subsequent NGI acquittal for another felony may be sent to State Hospitals instead of prison at the discretion of the court. **The mental health system is rarely consulted prior to such decisions.**

As such, the DMH contends that some individuals may spend many years in a State Hospital and will not serve prison time for their felony convictions even though their mental health has been restored and their condition is stabilized. Further they note that these indefinite State Hospital terms represent an inappropriate and costly misuse of State Hospital beds and treatment resources and precludes punishment for crimes for which they were convicted.

<u>Subcommittee Staff Recommendation:</u> Both the Subcommittee staff and LAO concur with the May Revision caseload and operating expenditure adjustments.

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

- **1. DMH**, Please briefly explain the **budget year adjustments** regarding patient population and operating expenses.
- **2. DMH,** Please **briefly explain the need for the proposed trailer bill language.**
- **3. LAO, Does there need to be technical adjustment to the Reimbursements paid to the DMH by the CA Department of Corrections (CDC) to reflect adjustments made in the CDC budget?**

Budget Issue: Does the **Subcommittee want to adopt both the Governor's May Revision** for revised patient caseload and OE&E expenditures, **and** the proposed trailer bill language which amends Section 1026.2(m) of the Penal Code?

2. Conditional Release Program Adjustments & the Sexually Violent Predator Community Services Proposal

Background—What is CONREP: Existing statute provides for the **Conditional Release Program (CONREP)** and mandates that the **DMH be responsible for the community treatment and supervision of judicially committed patents, including Mentally Disordered Offenders (MDOs) and Sexually Violent Predators (SVPs).**

CONREP, in operation since 1986, provides outpatient services to patients in the community and hospital liaison visits to patients continuing their inpatient treatment at State Hospitals who may eventually be admitted into CONREP. **CONREP service are provided throughout the state and are either county-operated *or* private/non-profit operated under contract to the DMH. The goal of CONREP is to ensure greater public protection in California communities via a system of mental health assessment, treatment, and supervision to persons placed on outpatient status.**

Funding for CONREP services is based on the number of outpatient cases and applicable State Hospital patients, and an average cost per patient for services.

The DMH states that existing CONREP providers, except for four, have opted out of providing community treatment services to SVPs.

Background—Imminent Sexually Violent Predator Release: In an April 15, 2003 letter to the Joint Legislative Budget Committee (Senator Chesbro, Chair), the Administration requested to transfer $76,000 in additional appropriation authority for CONREP for contract expenditures related to the first release of an SVP from a State Hospital to the community. **This current year transfer was approved by the Joint Legislative Budget Committee with noted reservations (to be discussed below).**

This $76,000 transfer, along with the availability of some unexpended funds, provided about $264,000 for the DMH to contract with Liberty Healthcare Corporation to provide supervision and treatment services in the current year (2002-03) for an SVP to be released into the community.

Specifically, the DMH notes that Santa Clara County granted a conditional release which will result in the release of an SVP into the community, and that Contra Costa County may soon be compelled to release an SVP as well. The DMH states that both of these patients are to be returned to their committing counties to live. **As such, the DMH contends that these court actions necessitate the funding of CONREP service plans for supervision and treatment, including living costs.**

<u>Governor's May Revision:</u> As previously noted, all of the DMH's current CONREP providers, **except for four**, have opted out of providing community treatment services to SVPs. As such, the DMH wants to continue to **contract with Liberty Healthcare for the 54 counties that will not serve SVPs.**

The May Revision is requesting an <u>increase of $2 million</u> (General Fund) for increased CONREP expenditures due to:

- An increase of **8 *non-SVP* patients for a full year cost of $163,000 (General Fund)**;
- An increase of **8 *non-SVP* patients for a half-year cost of $82,000 (General Fund)**; and
- An increase in costs **associated with establishing a community treatment program for Sexually Violent Predators (SVPs) expected to be released from the State Hospitals and court-ordered into CONREP. <u>Specifically, the estimated cost for CONREP services for five SVP patients receiving community services for the budget year is almost $1.9 million.</u> This is discussed below:**

The proposed May Revision adjustment for the <u>Liberty Healthcare contract</u> assumes the following:

• Central office operation		$495,000
• Outpatient case managers	(3 clients at $170,000 each)	$510,000
• Treatment costs for clients	(3 clients at $24,000 each)	$72,000
• Living costs for clients	(3 clients at $30,000 each)	$90,000
• Miscellaneous contract costs	(3 clients at $14,000 each)	<u>$42,000</u>
• **Subtotal**		**$1.2 million**
• DMH proposed **off-set** due to less funding in CONREP		($117,000)

The proposed **<u>San Diego County costs</u>** include the following:

• Personnel and operating expenditures (1 client)	$302,000
• Treatment costs (1 client)	$17,000
• Living costs (1 client)	<u>$35,000</u>
• **Subtotal**	**$354,000**

The proposed **Los Angeles County—Gateways** costs include the following:

• Personnel and operating expenditures (1 client)	$255,000
• Treatment costs (1 client)	$35,000
• Living costs (1 client)	$36,000
• **Subtotal**	**$326,000**

The DMH states that all of the above SVP programs will use the **community containment model**, developed by the US Department of Justice. This model combines the use of supervision and monitoring tools, mental health treatment and victim advocacy.

Legislative Analyst's Office Recommendation: The LAO is recommending **to approve the $245,000 increase in the regular CONREP Program but to deny the Administration's May Revision request regarding the SVP portion and instead, craft a different approach whereby the CA Department of Corrections can supervise CONREP clients. According to the LAO, savings of $1.8 million(General Fund) can be achieved by using CDC personnel.**

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

- **1. DMH, Please present your proposal.**
- **2. LAO, Please present your recommendation.**

Subcommittee Staff Recommendation: Does the Subcommittee **want to modify the Administration's proposal?**

Senate Budget & Fiscal Review

Senator Wesley Chesbro, Chair

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

Senator Wesley Chesbro, Chair
Senator Gilbert Cedillo
Senator Tom McClintock
Senator Bruce McPherson
Senator Deborah Ortiz

Consultant, Ana Matosantos

Friday, May 23, 2003
9:00 a.m.
Room 4203

Agenda I

Pursuant to the Americans with Disabilities Act, individuals who, because of a disability, need special assistance to attend or participate in a Senate Committee hearing, or in connection with other Senate services, may request assistance at the Senate Rules Committee, 1020 N Street, Suite 255 or by calling 916-324-9335. Requests should be made one week in advance whenever possible.

1. In-Home Supportive Services (IHSS)

Background: The In-Home Supportive services (IHSS) program provides services to aged, blind or disabled individuals that allow them to remain safely in their own homes as an alternative to out-of-home care. Services include domestic services (meal preparation, laundry), nonmedical personal care services, assistance while traveling to medical appointments, teaching and demonstration directed at reducing the need for support, and other assistance. Services are provided through individual providers hired by the recipient, county contracts with service providers, or through welfare staff. 76.6 percent of the persons receiving IHSS are provided federally reimbursable services through the Personal Care Services Program, a Medicaid option implemented in California since 1993. The remaining are served through the State's IHSS Residual Program.

Current state law provides that the state share in provider rate increases above the state minimum wage in Public Authority and non-profit consortium counties. The state participates in provider wages up to $9.50 and individual health benefits up to $0.60 per hour. For subsequent years, the law requires that the state participate in total wages and individual health benefits up to $12.10 per hour, not to exceed $1.00 per hour increase in any fiscal year, when general fund revenues meet specified targets.

California would be required to participate in IHSS wage increases if general fund growth, as estimated in the May Revision, exceeds five percent of the 2002-03 general fund revenues. The state will not reach this level of general fund growth in the budget year according to the Governor's May Revision estimate.

Governor's Budget: The budget proposes to suspend the state's participation in IHSS wage increases for the budget year.

Staff recommendation: Reject the Governor's proposal.

Senate Budget & Fiscal Review

Senator Wesley Chesbro, Chair

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

Senator Wesley Chesbro, Chair
Senator Gilbert Cedillo
Senator Tom McClintock
Senator Bruce McPherson
Senator Deborah Ortiz

May 23rd , 2003 (Friday)

9:00 AM

Room 4203

MAY REVISION & OPEN ISSUES

Item	*Description*
4260	**Department of Health Services**
4300	**Department of Developmental Services**

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I. ITEMS RECOMMENDED FOR VOTE ONLY *(Shown by Department)*

A. Department of Developmental Services *(Vote Only)*

1. Extension of Service Contract

Background and Subcommittee Staff Recommendation: SB 391 (Solis), the Omnibus health trailer bill to the Budget Act of 1997 established the Client's Rights Advocacy process for individuals with developmental disabilities. Section 4433, of W & I Code says that DDS may contract for client's rights advocacy services for up to three years. Since this time, there has been two contract cycles and only one contractor has ever applied for the contract.

Discussions with the Administration and advocacy groups has indicated that extension of this contract to five years would better serve the purposes of the contract. Therefore, it is recommended to amend Section 4433 to allow for up to five years for the contract.

Budget Issue: Does the Subcommittee **want to adopt the proposed trailer bill language change (from three years to up to five years) ?**

2. The Administration's Eligibility Definition

Background: To be eligible for Regional Center 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.

Governor's January Budget: The budget **proposes savings of $2.1 million (General Fund) through legislation which would apply the federal standard for "substantial disability" to existing state eligibility criteria. The federal standard for substantial disability requires the clinical determination of significant limitations in three or more of the seven major life activities.**

These **major life activities would address clinical capacity in the areas of communication, learning, mobility, self-care, self-direction, economic self sufficiency, and independent living.** The Administration states that **the new standard would be applied prospectively so that those currently receiving services will not be affected.**

Based on existing consumer characteristics (data from the Client Developmental Evaluation Report—CDER), the DDS estimates that about 400 persons per year would *not* be eligible for Regional Center services. These estimated 400 persons would generally be school age children or young adults with mild mental retardation, or another disability, without severe medical or behavioral needs.

The DDS further states that the clinical judgement of the Regional Centers in applying the proposed new standard for substantial disability would be the key determining factor.

The Subcommittee discussed this issue in its April 7th hearing.

<u>Governor's May Revision:</u> His May Revision assumes this adoption for the same level of savings.

<u>Subcommittee Staff Recommendation:</u> The proposed trailer bill language seems reasonable. It will still be up to the **clinical judgement of the Regional Centers to apply the proposed standard and it is consist with federal law.**

<u>Budget Issue:</u> Does the Subcommittee **want to adopt the Administration's proposed savings and trailer bill language regarding eligibility?**

<u>3. Modification to Self Determination Pilot Projects</u>

<u>Background:</u> SB 1038 (Thompson), Statutes of 1998, established three self-determination pilot projects (Redwood Coast, Tri-Counties), and East L.A.). Two additional pilot projects have been added since this time (Kern, and San Diego). The pilot projects are a collaborative effort between each regional center (RC) and Area Board.

Self-determination is based on the principals of freedom (to choose services and supports), authority (to control a sum of money), responsibility (to spend money wisely), and support (to make good decisions). According to DDS, it is an approach to service delivery that has garnered national, international and bi-partisan support.

Current participants in the Self-determination pilot projects are not Home and Community-Based Waiver participants. However, the department is currently preparing to apply for a federal 1115 Demonstration Waiver which could expand federal funding participation.

Legislation authorizing the self-determination pilot projects **sunsets as of January 1, 2004.**

<u>Governor's May Revision (See Hand Out):</u> The Administration is proposing trailer bill language to modify Section 4685.5 of W&I Code to **<u>(1)</u>** allow for the continuation of five existing projects, **<u>(2)</u>** allow for the expansion of pilot projects to other Regional Centers with federal approval of a Self Determination Waiver, ***and*** **<u>(3)</u>** extend the sunset until January 1, 2005..

<u>Subcommittee Staff Recommendation:</u> It is recommended to modify the proposed trailer bill language to allow for **additional expansion of self-determination pilots when such expansion is cost effective.** For example, the department recently approved an expansion of the Redwood

Coast Regional Center pilot to include individuals who choose to participate at a reduce individual purchase-of-services budget.

The proposed amendment is as follows:

> (c) The department shall ~~allocated funds for pilot programs in three~~ allow the continuation of the existing pilot project in five regional center catchment areas and shall~~, to the extent possible, test a variety of mechanisms outlined in subdivision (b)~~ expand the pilot project to other regional center catchment areas consistent with federal approval of a self-determination waiver **or when a regional center submits, and the department approves, a plan to offer self-determination to consumers that meets criteria established by the department, including but not limited to, cost-effectiveness.**

Budget Issue: Does the Subcommittee **want to adopt the Administration's language with the proposed amendment as noted above?**

4. Delete Governor's Medi-Cal Optional Benefits Proposal--*Conforms*

Governor's May Revision: The May Revision continues the Governor's proposal to eliminate certain Medi-Cal Optional Benefits, effective October 1, 2003.

Children, services to ensure the health of pregnant women, individuals residing in nursing homes, and family planning services and dental services that could be provided by a physician, whether provided by a physician or a dentist, are all protected from this proposed elimination.

However, individuals with developmental disabilities would not be exempt from the Administration's proposal. As such, Regional Centers would need to purchase these benefits for individuals with developmental disabilities at 100 percent General Fund expenditure, in lieu of obtaining partial matching federal funds. **The Department of Developmental Services budget for May Revision reflects an increase of $47.2 million General Fund for this purpose.**

Subcommittee Recommendation: In yesterday's hearing, **the Subcommittee rejected the proposal to eliminate Medi-Cal Optional Benefits.** As such, these valuable services will continue to be provided to all Medi-Cal eligible individuals. **Therefore, the Regional Center budget can be reduced by $47.7 million (General Fund) to reflect the fact that Optional Benefits will be provided under the Department of Health Services budget.**

Budget Issue: Does the Subcommittee **want to reflect the restoration of providing Medi-Cal Optional Benefits under the Medi-Cal Program funded under the DHS, and therefore, delete the $47.7 million (General Fund) in unnecessary funding?**

5. Administration's Parental Co-Pay Proposal --*Reject*

Governor's May Revision: The May Revision continues the Governor's January proposal to implement a Parental Copay Assessment through trailer bill legislation. **The May Revision has moved the date back to assume a January 1, 2004 start (versus the previous July 1 date) and has therefore, reduced the savings level to be about $14.7 million (General Fund) (or about half).**

The May Revision generally continues the same concepts of the Governor's January proposal. Basically, the program **would require parental financial participation for certain children who live at home and receive services from Regional Centers**. Based on recent caseload data, **up to 65,000 children** (aged 3 to 17 years) could be affected by the copay proposal.

In addition, the budget also assumes an increase of almost $1.8 million to fund 24 new positions at the DDS to administer the Parental Copay Assessment.

Prior Subcommittee Hearing: In the April 7th Subcommittee hearing, the Subcommittee took extensive public comment about the proposal.

Subcommittee Staff Recommendation: The Administration's proposal has considerable flaws and is still not well developed. It did not take into consideration several key factors, including family income and size, privacy issues, access to services concerns, as well as administrative hurdles—which are considerable. **Therefore it is recommended for the Subcommittee to reject the May Revision and backfill for General Fund support accordingly.**

Budget Issue: Does the Subcommittee **want to reject the Administration's Parental Copay Assessment proposal?**

6. Health Insurance Portability and Accountability Act (HIPAA)--Technical

Governor's May Revision: The May Revision is requesting a technical adjustment to increase by $41,000 (General Fund) and decrease Reimbursements accordingly to accurately reflect the funding split associated with the Health Insurance Portability and Accountability privacy officer positions within state support.

Subcommittee Staff Recommendation: It is recommended to adopt this proposal.

Budget Issue: Does the Subcommittee **want to adopt the proposal?**

7. Delayed Habilitation Services Program Transfer

Governor's May Revision Conforming to SB 24 (X): The May Revision conforms to SB 24 (X) by delaying the Habilitation Services Program transfer until July 1, 2004. In addition, the May Revision is deleting the 18 positions associated with this transfer for savings of $671,000 (General Fund) and corresponding Reimbursements. Further, it is removing the local assistance expenditure related to this transfer (also as referenced in the baseline estimate package discussion below, under the Day Programs item). **In essence, the program remains within the purview of the Department of Rehabilitation for 2003-04.**

Subcommittee Staff Recommendation: It is recommended to adopt the May Revision.

Budget Issue: Does the Subcommittee **want to adopt the May Revision?**

8. Reappropriation Authority for Bay Area Project

Governor's May Revision: The May Revision proposes to **reappropriate up to $5 million (General Fund) for the Bay Area Project** related to the closure of Agnews Developmental Center. The funds will be used to transition the consumers living at Agnews to new surroundings.

The proposed amended language is as follows:

- 4300-490—Reappropriation, Department of Developmental Services. Notwithstanding any other provision of law, as of June 30, 2003, 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, 2004, unless otherwise stated.

- 0001-General Fund

  (1) Item 4300-101-0001 (1) 10.10.010 and (2) 10.10.020, Budget Act of 2002 (Ch. 379, Stats. 2002) for the Life Quality Assessment Interagency Agreement.

  (2) Up to $5,000,000 appropriated for the Developmental Centers Program in Item 4300-003-0001 (1) 20-Developmental Centers Program, Budget Act of 2002 (Ch. 379, Stats. 2002), shall be reappropriated for the Bay Area Project.

Subcommittee Staff Recommendation: It is recommended to adopt the May Revision.

Budget Issue: Does the Subcommittee **want to adopt the May Revision?**

## <u>9.	Additional Special Investigator Resources at the DCs</u>

<u>Governor's January Budget:</u> The DDS is requesting **an increase of $406,000 ($237,000 General Fund) to support 5 new state positions** at the Developmental Centers to complete investigations of crimes committed on the DC premises, including theft, fraud, workplace violence and employee misconduct, as well as to conduct certain investigations regarding allegations of mistreatment or abuse of consumers living at the DCs.

<u>Subcommittee Staff Recmmendation:</u> Consumer safety and protection is critical in not only supporting and improving an individual's quality of life, but also to maintain licensing and certification. However, adding additional Special Investigator staff does not necessarily equate to these outcomes.

The DCs already employ considerable public safety staff. In fact, there already are about 189 related positions, including a Sacramento Headquarters staff of 11. The 189 staff include investigators, protective services, police officers and firefighters, and office technician support. The population at the DCs is continuing to decline, with the closure of Agnews DC in 2005. Given the existing fiscal constraints, the availability of licensing and certification staff investigations from the DHS, the existing complement of public safety DC staff, it is suggested to defer the hiring of new staff.

Budget Issue: Does the Subcommittee **want to deny the five positions for savings of $406,000 ($237,000 General Fund).**

## *<u>10.	Developmental Center Adjustments—Conforming Action for Optional Benefits</u>*

<u>Governor's May Revision:</u> The May Revision continues the Governor's proposal to eliminate certain Medi-Cal Optional Benefits, effective October 1, 2003. Children, services to ensure the health of pregnant women, individuals residing in nursing homes, and family planning services and dental services that could be provided by a physician, whether provided by a physician or a dentist, are all protected from this proposed elimination.

However, individuals with developmental disabilities would <u>not be exempt</u> from the Administration's proposal. As such, Developmental Centers would need to purchase these benefits for individuals with developmental disabilities at 100 percent General Fund expenditure, in lieu of obtaining partial matching federal funds. **The Department of Developmental Services budget for May Revision reflects <u>an increase of $7.2 million General Fund</u> for this purpose.**

<u>Subcommittee Recommendation:</u> In yesterday's hearing, **the Subcommittee <u>rejected</u> the proposal to eliminate Medi-Cal Optional Benefits.** As such, these valuable services will continue to be provided to all Medi-Cal eligible individuals. **Therefore, the Developmental Center budget can be reduced by $7.2 million (General Fund) to reflect the fact that Optional Benefits will be provided under the Department of Health Services budget.**

Budget Issue: Does the Subcommittee **want to reflect the restoration of providing Medi-Cal Optional Benefits under the Medi-Cal Program funded under the DHS, and therefore, delete the $7.2 million (General Fund) in unnecessary funding?**

11. Developmental Center Adjustments—All Other Adjustments

Governor's May Revision: The May Revision reflects other adjustments at the Developmental Centers which reflect a decrease in population and adjustments for staffing including the following key items:

- Reduction of $5.7 million ($3.7 million) and 77 positions to reflect reduced staffing needs due to a decline in the DC population.
- Increase of $29.7 million ($17.4 million General Fund) to reflect the impact of the proposed Intermediate Care Facilities-Developmentally Disabled Quality Assurance Fee on DCs because they will not receive the same rate increase provided to private facilities to offset the cost of the fee.
- Reduction of $10.4 million General Fund and an increase of federal funds to reflect a Medi-Cal base funding adjustment.
- Increase of $323,000 ($206,000 General Fund) and 5 positions to reflect additional resources to complete due process hearings for residents of the DCs.

Subcommittee Staff Recommendation: It is recommended to adopt these technical and caseload related adjustments for the DCs. No issues have been raised.

Budget Issue: Does the **Subcommittee want to adopt these technical adjustments?**

<u>II. ITEMS FOR DISCUSSION (Shown by Department)</u>

A. Department of Health Services

<u>1. Medi-Cal Program—Current Year Deficiency *(2002-03)--Informational*</u>

<u>Background—Medi-Cal Serves Many Purposes:</u> Medi-Cal is a health insurance program that provides medical benefits to low-income individuals who have no medical insurance or inadequate medical insurance. **It is at least three programs in one: <u>(1)</u> A source of traditional health insurance coverage for poor children and some of their parents, <u>(2)</u> A payer for a complex set of acute and long-term care services for the frail elderly and people with developmental disabilities and mental illness; and <u>(3)</u> a wrap-around coverage for low-income Medicare recipients.**

Presently about 6.5 million people, or one in five Californians, are eligible for Medi-Cal in any given month. **According to the DOF, Medi-Cal provides health insurance coverage to 17.3 percent of all Californians.**

Generally, Medi-Cal eligibles fall into four broad categories of people: (1) aged, blind or disabled; (2) families with children; (3) children only; and (4) pregnant women. Men and women who are not elderly and do not have children or a disability *<u>cannot</u>* qualify for Medi-Cal, no matter how low-income they are.

Medi-Cal eligibility is based upon family relationship, family income level, asset limits, age, citizenship and California residency status. Other eligibility factors can include medical condition (such as pregnancy or medical emergency), share-of-cost payments (i.e., spending down to eligibility), and related factors that are germane to a particular eligibility category.

<u>Medi-Cal is a Complex Program to Estimate:</u> **There is considerable uncertainty associated with projecting Medi-Cal expenditures, which vary according to <u>(1)</u>** the number of persons eligible, **<u>(2)</u>** the number and type of services these individuals receive, and **<u>(3)</u>** the cost of providing these services. Additional uncertainty is created by monthly fluctuations in claims processing, federal audit exceptions, and uncertainties in the implementation date for policy changes which can require federal waivers and changes in regulations.

The DHS states that expenditures may vary normally by four percent from the mid-range projection. The Medi-Cal Estimate includes eight months of current year data; therefore, the DHS notes that a 1.3 percent variation is assumed for the current year and 4 percent for the budget year.

Summary of Current Year Deficiency: Pursuant to Section 13332.04 (a) of the Government Code, the Legislature has received notice through the May Revision Medi-Cal Estimate for local assistance that the 2002-03 (current-year) has a deficiency of $1,043,800,000 (General Fund). **This deficiency can be summarized into *key components* as shown in the table below.**

Component	General Fund Amount (in millions)
Legislative Adjustments	$195.2 million
Delayed Budget/Hiring	$141.7 million
Rate Increases	$117.3 million
Lawsuits and Audits	$112.9 million
Caseload	$110.1 million
Users-Cost/Units per User	$295.4 million
County Administration	$44.2 million
All Other--various	$27 million
TOTAL	**$1,043.8 million**

Legislative Adjustments: These are adjustments that were assumed by the Legislature in the Budget Act that either did not fully materialize or were not fully funded in the Budget Act . **These include the following:**

- $100 million in additional Medi-Cal anti-fraud savings which did not materialize;
- $71 million for Provider Rates which were not reduced per statutory change.
- $23 million in Medi-Cal Caseload adjustments to reflect LAO recommendation;
- $1.1 million in PACE program expansion which was intended to save long-term care costs;

Delayed Budget/Hiring: The DHS states that these two factors delayed the implementation of program savings that were identified in the budget. **These include the following:**

- $105.8 million in drug budget reduction;
- $17.4 million for medical supply reductions
- $9 million for Medical Case Management
- $6.6 million for durable medical equipment and laboratory contracting
- $1.7 million for the dental services reduction
- $1.2 million for the pharmacy dispensing fee adjustment

Rate Increases: These are provider rate increases that occur based on existing statutes, settlement agreements, or federal law. **These include the following:**

- $55 million for 2001-02 Inpatient Rate increases
- $50.2 million for 2002-03 Inpatient Rate increases
- $5.3 million annual federal Medicare Economic Index for Federally Qualified Healthcare Centers
- $3.1 million 2002-03 long-term care increase
- $3.7 million Medicare HMO Premiums

Lawsuits and Audit Exceptions: No explanation needed here. **These are as follows**.

- $92.7 million Craig v. Director Bonta'
- $8.5 million Audit Settlements
- $7.5 million for Child Health Disability Prevention adjustments
- $4.2 million Children's Hospital, et al v. Director Bonta'

Caseload: These are caseload adjustments to programmatic areas as noted.

- $79.6 million for unanticipated caseload growth
- $15.7 million Buy-In
- $14.8 million for the Family PACT Program

Utilization Costs (Users-Costs and/or Units per User): This area pertains to the use of services, as well as increased costs per user. **These are as follows:**

- $76 million for users not related to eligible growth
- $75 million for mental health services, primarily services to children
- $55 million enrollment of children in Managed Care on an annual basis
- $45.5 million for the increase in units per User
- $23 million increased costs per unit
- $10.9 million for prenatal care for specified women
- $8.9 million for Adult Day Health Care

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

- **1.** Please briefly **describe the accuracy of the estimating model** used for Medi-Cal.
- **2.** Please **briefly step through the key components** of the Medi-Cal Program deficiency.
- **3. Will the state be able to reimburse providers for services rendered if an increase in the current year appropriation is not made? Are there any timing considerations**?
- **4. How cost-beneficial is California's Medi-Cal Program overall** (cost per recipient)?
- **5.** Are there any other relevant factors regarding the current-year deficiency that the DHS would like to note?

Budget Issue: No Subcommittee action is required.

2. Medi-Cal Fraud Proposal—*Governor's May Revision (See Hand Outs)*

Background—How much Fraud is There?: In testimony recently presented to the Senate Select Committee on Governmental Oversight, chaired by Senator Speier, **the DHS noted that there are no accurate estimates using California specific data to calculate the level of fraud. However, the DHS contends that various Medi-Cal anti-fraud efforts have earned the state over $1 billion in savings and cost avoidance over the past four years.**

Summary of Key Anti-Fraud Legislative Initiatives: Considerable policy changes have occurred over the past several years in order to mitigate fraud. **In fact the DHS has noted in recent public testimony that California now has some of the strongest anti-fraud laws in the nation.**

Legislation has included the following:

- **SB 708 (Senate Budget & Fiscal Review Committee)** established the Medi-Cal Fraud Prevention Bureau and appropriated funds for this purpose.
- **AB 1107, Statutes of 1999 (Cedillo)** brought two federal sanctions into state law: withhold and temporary suspension. It also enhanced Medi-Cal Program integrity by expanding the definition of provider in state statutes to include all entities directly or indirectly involved in providing Medi-Cal services. It clarified the definition of fraud and abuse, and specified new requirements to tighten the provider enrollment process, including new application procedures, signed provider agreements, and provider disclosure statements.
- **AB 784, Statutes of 1999 (Romero)**, among other things, gave authority for auditors to look at records of suppliers, and allowed for the assessment of financial penalties in certain circumstances.
- **AB 1098, Statutes of 2000 (Romero)** expanded the definition of a crime from any person who knowingly intends to commit fraud to any person who engages in activities related to defrauding or submitting false information to the Medi-Cal Program. **It also (1)** increases the licensure requirements for laboratories, and specifies certain activities as crimes if they endanger public safety; **(2)** defines a list of crimes that could potentially be committed by Medi-Cal providers, such as criminal profiteering activity; **(3)** requires providers to identify their billing agents and billing agents to register with the DHS; (4) does not allow enrollments of applicants that have been convicted of any felony or misdemeanor involving fraud or abuse in any government program and not allowing an applicant to reapply for three years if their application was denied.
- **SB 1699), Statutes of 2002 (Ortiz)** gave the DHS the authority to suspend providers from all programs administered by the DHS if the provider is suspended or under investigation in any DHS program and to deny enrollment if they are under investigation in any program.

<u>Background—Current Anti-Fraud Efforts with Existing Positions:</u> According to the DHS, they **presently provide $20.4 million ($8.1 million General Fund) to <u>support 264.2 positions</u> in the DHS that prevent, identify, and investigate fraud. The DHS staff is divided up between 10 offices and divisions within the department. The staff are located as follows:**

• Payment Systems Division	79 staff
• Audits & Investigations Division	75 staff
• Office of Legal Services	29 staff
• Medi-Cal Fraud Prevention Bureau	26 staff
• Managed Care Division	20 staff
• Administration Division	10.2 staff
• Laboratory Field Services	10 staff
• Medi-Cal Policy Division	9 staff
• Primary Care and Family Health	3 staff
• Information Technology Services	<u>3 staff</u>
• **TOTAL**	**264.2 staff (existing)**

These positions are estimated to result in savings of $179.9 million ($90 million General Fund) in the budget year. The May Revision **also includes $624.7 million** ($312.4 million General Fund) in budget year savings due to anti-fraud efforts carried out in 2000-01 through 2002-03.

In addition to these staff, the DHS also includes **the EDS contract funding for nine staff** in the EDS Provider Review Unit. **EDS also has an incentive clause in its contract which provides that EDS receives 10 percent of the programs savings its staff generates.**

DHS also contracts with Delta Dental, which under DHS direction, process the Medi-Cal dental claims and prior authorizations and **has a staff of 46 in their Surveillance and Utilization Review Unit.**

Lastly, DHS also contracts with the MEDSTAT Group, which has developed a database of all the Medi-Cal claims culling from the various sources that pay Medi-Cal claims such as EDS, county mental health, and Child Health Disability Prevention. The MEDSTAT Group is also contracted to use this database to conduct checks on the existing claims systems and to look for overpayments to providers likely due to fraud and abuse.

<u>Governor's May Revision:</u> The DHS is requesting **an increase of $27,000,000 ($16,300,000 General Fund) to fund 315.0 new positions (236.3 personnel years) to expand existing Medi-Cal anti-fraud activities and implement new anti-fraud strategies.** ***(Please see table below that displays the full complement.)***

It should be noted that the state operations request **assumes <u>a salary savings rate of 25 percent and a 25 percent reduction in operating expenses</u> due to the length of time needed to hire new staff and the potential time needed to transition to the SROA hiring process in the budget year**. ***Costs for these positions in 2004-05 would need to be increased to reflect the actual salary savings rate and the standard OE&E costs.***

DHS estimates that this proposal would reduce Medi-Cal expenditures by $47,063,000 ($23,019,000 General Fund) in the budget year and $222,890,000 ($109,464,000 General Fund) in 2004-05. Fully annualized savings (yet to be determined) would be realized in 2005-06.

Summary of the DHS Positions

DHS Organizational Unit	Existing Anti-Fraud Positions	Governor's May Revision *(New)*	TOTAL Positions *(if all adopted)*
Audits and Investigations Division (A&I)	**75.0**	**227.0**	**302**
Payment Systems Division (PSD)	**79.0**	**51.0**	**130**
Office of Legal Services (OLS)	**29.0**	**15.0**	**44**
Medi-Cal Fraud Prevention Bureau (MFPB)	**26.0**	**0.0**	**26**
Medi-Cal Managed Care Division (MMCD)	**20.0**	**0.0**	**20**
Administration Division (Admin)	**10.2**	**13.0**	**23.2**
Laboratory Field Services (LFS)	**10.0**	**0.0**	**10**
Medi-Cal Policy Division (MCPD)	**9.0**	**8.0**	**17**
Primary Care and Family Health (PCFH)	**3.0**	**1.0**	**4**
Information Technology Services Division (ITSD)	**3.0**	**0.0**	**3**
TOTALS	**264.2**	**315.0**	**579.2**

I. Error Rate Study/Random Sampling of Claims: **43.5 positions** (29.5 A&I, 11.0 Admin, 2.0 PSD, and 1.0 OLS) to perform an annual Medi-Cal error rate study and ongoing sampling of provider claims. Estimated savings of $**964,000 ($482,000 General Fund)** in 2003-04.

A. Medi-Cal Error Rate Study: Perform initial and follow-up error rate studies that document the amount and type of erroneous Medi-Cal payments, including those due to fraudulent provider billings. This proposal would survey 3,000 beneficiaries and their providers, to help the DHS target anti-fraud resources toward the most cost-effective strategies. The follow-up error rate studies will also be used to evaluate the effectiveness of the Anti-Fraud program.

B. Random Sampling of Prepayment Claims: Perform random audits of 100 provider claims each week before the claims are processed and paid.

C. Assess Graduated Civil Money Penalties: **Trailer bill language** to assess graduated civil money penalties against providers who have received overpayments due to provider non-compliance with billing and accounting requirements. The proposed penalties include $1,000 per occurrence for improper billing after a provider has received a warning for a previous improper billing, and $10,000 per occurrence for fraud. Penalties would be imposed based on DHS billing and accounting findings. **Any penalties collected would be deposited entirely into the General Fund.**

II. Perform Desk Audits: 24 positions in A&I to profile providers, and notify and investigate providers whose claiming patterns fall outside of the norm for their peer group. These desk audits would not reduce site visits, but would allow the DHS to look at more providers than are currently reviewed by existing pre-check write reviews. **Estimated savings of $965,000 ($483,000 General Fund) in budget year**

III. Emerging Fraud Targets Team: 66 two-year limited-term positions (59 A&I, 5 PSD, and 2 OLS) to establish an Emerging Fraud Targets Team. This team would rapidly respond to emerging fraud schemes that involve a large number of beneficiaries or providers, and would follow up quickly on an estimated 960 tips and referrals each year. Substantial savings can be achieved through prompt response to these schemes. However, the DHS indicates that it does not currently have enough positions to quickly respond to all tips, leads, and referrals. **Estimated savings of $3,234,000 ($1,617,000 General Fund) in budget year.**

IV. Expand and Strengthen the Enrollment Process: Estimated savings of $7,851,000 ($3,926,000 General Fund) in the budget year.

A. Expand Statutory Authority to Strengthen Enrollment Process

- Trailer Bill Language to limit physicians to no more than three office locations.
- Trailer Bill Language to make the unlicensed corporate practice of medicine grounds for suspending providers from the Medi-Cal program who are employed or controlled by a lay-person, rather than a physician.
- Trailer Bill Language to require new providers to be subject to a one-year provisional period, during which A&I would monitor and evaluate the provider's claiming patterns.

B. Enrollment/Re-enrollment Staff: 41 positions (40 PSD and 1. OLS) to increase anti-fraud reviews of provider enrollments and re-enrollments. The DHS indicates that 66 current PSD positions are expected to process 20,000 enrollment applications during the current year, with a backlog of 9,000 applications. In addition, re-enrollment notices have recently been mailed to certain providers, which will be evaluated by the existing staff.

C. Redesign Provider Master File: 3 two-year limited-term PSD positions and $3 million technical consulting costs to redesign the provider master file. This would allow the DHS to crosscheck provider information more effectively and expand provider re-enrollment functions in conjunction with the other provider enrollment process proposals.

D. Increase Onsite Reviews for High Risk Providers: 39 A&I positions (including 20 three-year limited term positions) to expand onsite provider pre-enrollment and re-enrollment reviews. The backlog of high-risk enrollment applications without completed site visits is approximately 600, and the number of applications identified as high-risk will increase as a result of the strengthened enrollment process discussed above.

V. Expand and Strengthen Pre-Check Write Review

A. Require Beneficiaries to Sign for Medical Services, Supplies, and Drugs—Trailer Bill Language to require beneficiaries to sign for services, supplies, and drugs received or rejected. Providers would be required to maintain signature receipts as documentation in the event of a DHS audit. Trailer bill language is also proposed to require signatures for prescriptions of drugs and medical supplies and ordering of medical tests.

B. Augment Pre-Check write Process to Increase Reviews— 28 positions in A&I to expand pre-check write reviews. The DHS estimates that this proposal, along with the statutory changes described above, would result in savings of $3,100,000 ($1,550,000 General Fund) in the budget.

VI. Strengthen Family PACT Program Integrity— 9 positions (6 A&I, 1 PCFH, 1 PSD, and 1. OLS) to increase reviews of providers and update automation systems. Estimated savings of $467,000 ($117,000 General Fund) in budget year.

A. Increase Family PACT Reviews—This proposal would increase desk reviews of providers to identify fraud and over utilization. This proposal would also increase onsite reviews of providers to ensure provider adherence to administrative practices and client care standards.

B. Tighten Audit Trail for Family PACT Eligibility—This proposal would update client eligibility and claims adjudication automation systems to increase program controls.

VII. Increase Resources For Quicker Resolution Of Administrative Sanctions

A. Augment Staff— 24 positions (18 in A&I and 6 in OLS) to expedite resolution of administrative sanctions placed on providers. The DHS estimates that these staff and the statutory changes discussed below would result in budget year savings of $694,000 ($347,000 General Fund). This proposal achieves savings by allowing the DHS to obtain reimbursement from providers in a timely manner, while the fraudulent payments are still recoverable.

This staffing request is based on the current backlog of 1,700 providers with administrative sanctions and the anticipated annual increase of 1,300 providers with administrative sanctions imposed as a result of the other anti-fraud efforts in this initiative. The DHS A&I and OLS currently have 3 positions that resolve approximately 40 administrative sanctions each per year.

***B. Statute Changes for Consistent Recovery*—Trailer bill language** to allow the State to recover funds from non-institutional providers 60 days after issuance of a demand for payment. Under existing statute, non-institutional providers are not required to repay the State for fraudulent billings until all appeals have been exhausted. This can delay provider recoveries for many years, and provides little incentive for providers to resolve appeals. The proposed changes would make non-institutional provider statutes consistent with institutional provider statutes.

VIII. Beneficiary Initiatives

A. Beneficiary Card Replacement— $4.1 million ($2.0 million General Fund) for system costs to expand its Beneficiary Identification Card (BIC) replacement project to the entire Medi-Cal population at a rate of 10,000 cards per month. Positions from other components of this anti-fraud initiative would be used for BIC replacement activities as needed. Estimated savings of $33,287,000 ($16,196,000 General Fund) in budget year.

B. Implement Beneficiary Explanation of Medi-Cal Benefits (BEOMB) Letters— 16 positions in A&I to identify beneficiary over utilization, notify beneficiaries, and confirm that medical supplies were received. The DHS estimates that this proposal would result in savings of $386,000 ($193,000 General Fund) in the budget year.

C. Focused Beneficiary Frequency Limitations— 7 positions in A&I to notify beneficiaries who seem to be over utilizing particular services. If medical records and a follow-up visit show that there is no justification for the over utilization, services may be limited for that beneficiary. Trailer bill language is proposed to amend utilization control statute to allow new controls. **Estimated savings of $215,000 ($108,000 General Fund) in budget year.**

IX. Increase Program Support to Address Organizational Changes

A. Regulations Staffing— 4 two-year limited-term positions for regulations development in the Legal Services Division, Office of Regulations. These positions would be responsible for developing regulations necessary to implement this anti-fraud initiative. These positions are necessary to implement this initiative and achieve the anticipated savings.

B. Administrative Support— 10 administrative support positions, including 1 two-year limited term position, to accommodate increased accounting, personnel, and business services workload associated with the 315 total additional positions included in this proposal. The positions include 4 business services positions, 3 accounting positions, 1 budget office position, and 2 personnel positions.

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

- **1. Please briefly step through each of the component parts.** (using the hand out charts if helpful)
- **2. Specifically,** where can the state obtain its best investment with respect to allocating staff resources and obtaining savings?
- **3.** Please step through the **DHS' hiring plan** (See Hand Out).
- **4.** Please **discuss each aspect of the proposed Trailer Bill Language.**

Budget Issue: Does the **Subcommittee want to modify the Administration's May Revision proposal in order to send it to Conference? Further, does the Subcommittee want to reject the trailer bill language for purposes of sending it all to the policy committees (likely to have multiple referrals due to its complexities and due process issues).**

B. Department of Developmental Services

COMMUNITY BASED SERVICES

1. Current Year Deficiency Request—May Revision Update

Background—the Regional Centers: 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.

Background—Deficiency in the Current Year: SB 1070 (Chesbro), Statutes of 2002, provided **an increase of $40 million ($13.7 million General Fund)** above the Budget Act of 2002 to fund the current-year deficiency as identified in the Governor's January budget documents.

As part of the May Revision process, the current year is updated to identify any adjustments (up or down) which may be necessary due to caseload, the utilization of services, and policy modifications. **As a result of this analysis, the Administration is proposing current year changes with the May Revision.**

Governor's May Revision—Additional Deficiency: The DDS is proposing a ***net*** **increase of $44.6 million (increase of $86.6 million General Fund and decrease of $15.7 million in Reimbursements) over the revised current year appropriation.**

As compared to the Budget Act of 2002, the combined revisions (i.e., as contained in SB 1070 (Chesbro), Statutes of 2002 and the May Revision) result in a *net* total increase of $84.6 million (increase of $100.3 million General Fund and a decrease of $15.7 million in Reimbursements).

The DDS states that additional proposed increase net increase of $44.6 million ($86.6 million General Fund) consists of the following key components:

- ***Increase of $46.5 million for the Purchase of Services (POS):*** These additional expenditures are primarily due to updated data which shows that consumers are utilizing more services.
- ***Reduction of $1.9 million for RC Operations:*** The DDS states that the community population estimate was reduced by 1, 440 consumers to reflect updated data. This results in a decrease in RC Operation costs of $1.6 million. In addition, there is a reduction in Health Insurance Portability Accountability Act (HIPPA) functions.

It should be noted that the **$42 million reduction in Reimbursements**, and need for General Fund backfill, is due to:

- **Decrease of $35.9 million (federal Title XX block grant funds) because these funds can only be used for services to families whose income is 200 percent below the poverty level. Since the DDS has no data on family income, this funding cannot be continued in the Regional Center budget.**
- Decrease of $4.9 million (federal Medicaid Waiver Reimbursements) due to the **inability to obtain Waiver enrollment approval (and thus reimbursement) at South Central Los Angeles Regional Center.** The DDS continues to work with them and others to rectify this situation.

<u>Subcommittee Staff Comment:</u> Pursuant to Section 13332.04(a) of the Government Code, the DDS is providing notification to the Legislature of **this additional $44.6 million (increase of $86.6 million General Fund and a decrease of $42 million in Reimbursements) deficiency.**

No action by the Subcommittee is necessary. This proposed deficiency will potentially be addressed in through the deficiency bill process.

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

- **1.** Please provide a **brief summary of the current-year deficiency request.**

2. May Revision "Base-Line" Estimate for Regional Centers-Caseload & Utilization

Background-- Purchase of Services (POS): The DDS contracts with 21 not-for-profit Regional Centers (RCs) which have designated catchment areas for service coverage throughout the state. RCs purchase services for consumers and their families from approved vendors when "generic" services are not available or appropriate, and coordinate consumer services with other public entities. 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 May Revision proposes the following for these service categories over the Governor's January budget:

• Residential Placement	$595.2 million	increase of $11.8 million (total) over January
• Day Programs	$622.5 million	*decrease* of $108 million (total) from January *(mainly due to not transferring rehabilitation services)*
• Other services (respite, support services, health care & others)	$812.9 million	increase of $118 million (total) over January
• Transportation	$176.5 million	*decrease* of $1.1 million (total) from January
Subtotal	**$2.207 billion**	**Net increase of $20.7 million (total)**

Administration's Proposed Cost Containment:

- *Proposal Statewide Standards Savings* *(-$69.3 million) (total funds)*
- *Revision of Eligibility Definitions* *(-$2.1 million) (total funds)*

Proposed Adjusted TOTAL **$2.136 billion (Rounded)**

Background on Regional Center Operations: The RC Operational budget covers the staff who provide the RCs' direct services to consumers and their families, and the organizational functions in which they operate.

Generally, the RCs Operations budget consists of four components—(1) mandated services, (2) support functions, (3) special case add-ons, and (4) non-personnel costs.

Mandated services includes the following: intake and eligibility assessment, case management, clinical support, community services (such as communications and customer service) and fiscal administration (including vendor and consumer custodial payments).

Support functions includes the following: executive and administrative personnel, human resources, internal finance, information systems support, consumer records management and communications and logistics.

Special case add-ons includes the following: items applicable to certain RCs only (such as Foster Grandparents), and items contracted via RC budgets statewide (such as Life Quality Assessments). **Non-personnel costs** includes the following: facilities (rent and/or mortgage), board governance development and facilitation, and all other administrative costs.

The May Revision proposes the following for key items for Regional Center Operations:

• Operations Staffing	$401.535 million (total)	increase of $8 million (total)
• Federal Compliance	$26.2 million (total)	increase of $512,000 (total)
• Other Direct Services	$9.8 million (total)	increase of $3.8 million (total)
• Contracts and Projects	$22.7 million (total)	increase of $766,000 (total)
• Unallocated Reduction	(-$10.6 million)	From Budget Act of 2002 (continuation)
• Intake & Assessment	(-$4.5 million)	From Budget Act of 2002 (continuation)
Subtotal	**$445.3 million**	**Net increase of $13.1 million**

Administration's Proposed Cost Containment:

- *Operations Staffing Reduction* *($10,940,000) (total funds)*

Proposed Adjusted TOTAL **$434.3 million (Rounded)**

Governor's May Revision--Summary: The **May Revision proposes total expenditures of $2.611 billion ($1.778 billion General Fund) which reflects a *net increase of $307.1 million (increase of $233 million General Fund)*, or 13.3 percent, from the revised 2002-03 budget.**

Summary Table of Totals *(with proposed adjustments)*

Community Services Category *(Dollars in Thousands)*	**Revised 2002-03 (Current Year)**	**May Revise 2003-04 (Budget Year)**	**Difference**
RC Operations	$409,687	$434,325	$24,638
Purchase of Services	1,853,346	2,135,792	282,446
Early Intervention Program	20,095	20,150	55
Habilitation Services	21,175	21,175	0
TOTAL Community	**$2,304,303**	**$2,570,117**	**$307,100**

With respect to **caseload**, the May Revision assumes **that 193,100 consumers will receive community based services which assumes an increase of 10,925 consumers over the revised current-year, or a 6 percent increase.**

- ***A. Baseline Adjustments for Population and Service Utilization:*** The May Revision assumes **$76.8 million (total funds) for increased expenditures due to (1) updating of the base using more recent utilization and cost data, and (2) increased population (10,925 estimated new consumers) projections.**

- ***B. Reduction in Title XX Social Services Block Grant Funds:*** The May Revision proposes a reduction of almost **$100 million in federal Title XX Social Services Block Grant funds and therefore, a backfill of $100 million General Fund.** This reduction in the use of federal Title XX Social Services Block Grant funds is that the state recently realized it is unable to use these funds due to federal requirements that say the funds can only be used for services provided to families whose income is 200 percent of federal poverty. Since the DDS has no data on family income, this funding cannot be continued in the Regional Center budget.

- ***C. Community Placement Plan:*** The May Revision provides **(1)** an additional $8.2 million over January based on the Regional Center's most recent survey responses for community placement, **(2)** provides funds of $11.6 million for the "unified CPP" which represents a regional effort (the 3 RCs in the Bay Area Project) in support of the closure of Agnews DC, and **(3)** $700,000 for the assessment and placement of Agnews DC residents into the community settings of non-unified plan Regional Centers.

- ***D. Continues Deferral of Intake and Assessment:*** The omnibus health trailer legislation for the Budget Act of 2002 extended the intake and assessment process for new consumers from 60 days to 120 days for two years. As such, the budget proposes to continue this deferral for another year.

- ***E Suspension of Purchase of Services for Start Up:*** The Budget Act of 2002 suspended funds for the Purchase of Services for the start-up of any new non-Community Plan programs. The budget continues this action.

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 for the Purchase of Services area.**

- **2. Please provide a brief summary of the baseline adjustment for Regional Center Operations.**

Budget Issue: Does the Subcommittee **want to adopt the baseline budget for the Regional Centers?**

<u>*3.* DDS Proposal Regarding Enhanced Federal Funds From Several Sources— (A) Governor's May Revision, (B) Transportation Vendor Changes, & (C) South Central Los Angeles Regional Center</u>

<u>Background--DDS Efforts to Obtain Increased Federal Funding:</u> Over the course of the past several years, the state has been aggressively pursing receipt of additional federal funds. **From 1999-2000 to 2003-04 the DDS has been able to increase the state's receipt of federal funds for services provided to individuals with developmental disabilities from $508.2 million (1999-2000) to an estimated $961.4 million (2003-04) for an increase of over 89 percent in four years.**

Most notably, receipt of federal funds under the <u>Home and Community-Based Waiver</u> has increased from $283.6 million (1999-2000) to $556.2 million (2003-04), or over 96 percent during this time. The Waiver has allowed the state to conserve General Fund dollars by shifting Medicaid (Medi-Cal) eligible consumers to Waiver services while granting flexibility and assisting the state in complying with the Coffelt Settlement and the Olmstead Decision**. A portion of the additional federal Waiver funds have also been used to enhance quality assurance measures, service monitoring, and several other items.**

<u>Targeted Case Management (TCM) services</u> has shown a more gradual adjustment. Under TCM, case management services are furnished to consumers in order to provide access to needed medical, educational and social services. Persons with developmental disabilities are identified as being a "targeted" group under California's State Medicaid Plan as provided for under federal law.

This TCM approach enables California to draw a federal match for these services, versus using solely General Fund support. Functions allowed to be claimed under TCM include: (1) consumer assessment, (2) development of a specific care plan, (3) referral and related activities to assist the consumer to obtain needed services, and (4) monitoring and follow-up. In general, allowable services are those that include assistance in accessing a medical or other service, but do not include the direct delivery of the underlying service.

<u>Background-- The Home & Community-Based Services Waiver:</u> Under this Waiver, **California can offer services to individuals who would otherwise require the level of care provided in an intermediate care facility for persons with 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.**

<u>Background—South Central Los Angeles Regional Center (SCLARC):</u> The federal CMS has not yet certified SCLARC to be included under the federal Home and Community Based Wavier, and as such, the state has not been able to receive federal reimbursement for consumers who would otherwise be eligible. **The issues surrounding the present lack of certification pertain to demonstrating SCLARC's compliance with fiscal operations and accountability. <u>There are absolutely *no issues* regarding the provision of consumer services or quality of services.</u>**

<u>According to the DDS, the loss of federal financial participation due to this lack of approval is (1) $9.9 million for 2002-03, and (2) $13.3 million for 2003-04. As such, the state is having to backfill with General Fund support.</u>

The DDS, DHS and SCLARC have all been diligently working with the federal CMS to demonstrate the fiscal soundness of SCLARC. The state previously provided the federal CMS with fiscal audit information, documentation from the DHS and DDS, as well as other analyses. **However, federal approval is still pending and discussions are ongoing.**

<u>Special Adjustment for Transportation Vendors:</u> Under the Governor's January budget as well as his May Revision, it was assumed that Transportation Vendors **would be receiving a special adjustment of $1.6 million (General Fund) in order to serve as an incentive for completing certain minor billing changes.** With these minor billing changes (different invoicing process), the state can obtain increased federal funds under the Home and Community Based Waiver.

<u>Subcommittee's Prior Action—Adopted Governor's January Proposal:</u> In the April 7th hearing, **the Subcommittee adopted the Governor's January budget proposal which increased the receipt of federal funds by $99.7 million over the current year obtained through a series of program changes, and to obtain an additional $500,000 in federal reimbursements for a total of $100.2 million in additional.** Of the total increased federal funds amount, **$92 million was proposed to be used to backfill for General Fund expenditures in Purchase of Services,** and the remaining amount was to be expended for various purposes as proposed by the Administration and adopted by the Subcommittee.

<u>Governor's May Revision—Targeted Case Management:</u> The May Revision proposes a **reduction of almost $2.3 million in the receipt of federal Targeted Case Management Funds.** As such, the May Revision proposes a General Fund increase of a like amount.

The DDS states that this adjustment is due to the belief that the federal CMS may not be willing to approve California's request for obtaining retroactive reimbursement.

<u>Governor's May Revision—Assumes no Federal Reimbursement for South Central Los Angeles RC:</u> The May Revision also reflects an increase of $4.9 million (General Fund) due to the assumption that South Central Lost Angeles Regional Center will continue its "non-certification" status under the Home and Community Based Wavier.

<u>Subcommittee Staff Recommendation:</u> **<u>First,</u>** with respect to the receipt of Targeted Case Management Funding, **the state should proceed with the request for receipt of retroactivity on the $2.5 million**. The request is reasonable, and the federal CMS has approved retroactive requests before. As such, the state should at least pursue the request until denied by the CMS. **Therefore, it is recommended to continue to assume the January level of *receipt* of federal funding.**

Second, the DDS and DHS need to rectify with the federal CMS any final adjustments that the CMS may require regarding SCLARC. Discussions are continuing and considerable data has been under review by the federal CMS for many months. As such, it is recommended to assume the SCLARC will obtain federal CMS approval and that retroactive federal funds can be obtained. **Therefore it is recommended to adjust the Regional Center estimate by $9.9 million for 2002-03, and $13.3 million for 2003-04 and by increasing the receipt of federal funds and decreasing General Fund support**.

Third, it is recommended **to delete the $1.6 million (General Fund)** that was designated as a special incentive for the Transportation providers. The Transportation providers should be willing to make administrative billing adjustments in order for the state to draw down additional federal funds.

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

- **1.** What would have to be done for the DDS to continue to seek the TCM retroactive funds?
- **2.** Are **constructive conversations still continuing with the CMS regarding their review of the SCLARC information that has been presented to them for their review?**

Budget Issue: **Does the Subcommittee want to (1)** maintain the higher January budget assumption of receiving federal funds, **(2)** assume SCLARC obtains federal CMS approval to obtain reimbursements under the federal Home and Community Based Waiver for General Fund savings of $23.2 million (General Fund) across the two-fiscal years, and **(3)** delete the $1.6 million in special incentive funds slated for the Transportation vendors?

4. Governor's May Revision—Reduce Regional Center Operations

Background on Regional Center Operations: The RC Operational budget covers the staff who provide the RCs' direct services to consumers and their families, and the organizational functions in which they operate. **Generally, the RCs Operations budget consists of four components—(1) mandated services, (2) support functions, (3) special case add-ons, and (4) non-personnel costs.**

Mandated services includes the following: intake and eligibility assessment, case management, clinical support, community services (such as communications and customer service) and fiscal administration (including vendor and consumer custodial payments).

Support functions includes the following: executive and administrative personnel, human resources, internal finance, information systems support, consumer records management and communications and logistics.

Special case add-ons includes the following: items applicable to certain RCs only (such as Foster Grandparents), and items contracted via RC budgets statewide (such as Life Quality Assessments). **Non-personnel costs** includes the following: facilities (rent and/or mortgage), board governance development and facilitation, and all other administrative costs.

Governor's May Revision: The May Revision proposes **to increase Regional Center Operations expenditures by a net of $2.1 million (total funds). This adjustment reflects a reduction to Operations of $8.650 million (General Fund). It should be noted that this proposal contains an "offset" of $5.3 million (General Fund) due to an unallocated reduction taken on Regional Center Operations in the mid-1990's during other difficult fiscal times**.

The DDS is proposing trailer bill language which would do the following to make various adjustments to consumer/service coordinator staffing ratios *(implemented as of January 1, 2004):*

- Modify mandated caseload ratios for service coordinators (case managers) from the existing 1 to 62 ratio (service coordinator to consumer) for *all* consumers who have not moved from a DC to the community since April 14, 2003 and in no case is a service coordinator to have an assigned caseload in excess of 79 consumers for more than 60 days. This proposal would sunset as of July 1, 2007.
- Modify mandated caseload ratios for service coordinators from the existing 1 to 45 ratio for consumers who have moved from a DC but have resided in the community for at least 12 months shall receive service coordination as stated above. This proposal would sunset as of July 1, 2007.
- Revise the core staffing allocation formula beginning January 1, 2004 to that funding for one Supervising Counselor would be allocated for every 10 Service Coordinators. This proposal would sunset as of July 1, 2007.
- Revise the ratio for secretarial support so that funding for each secretary is budgeted for every 6 specified professional positions. This proposal would sunset as of July 1, 2007.

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

- **1.** Please **describe the proposal** to reduce Regional Center Operations.
- **2.** Please **step through the proposed trailer bill language.**

Budget Issue: Does the **Subcommittee want to modify the proposal?**

5. Other Cost Containment Items for Consideration—Subcommittee Staff Options

Subcommittee Staff Recommendation: In an effort **to identify areas for cost containment which will have less affect on the lives of consumers than implementation of statewide standards, it is recommended to do the following:**

- Freeze the **RC contracted rates for the budget year at the current year levels for savings of $9.3 million (General Fund) for the following services: Transportation, "Look-A-Like Programs, and Supported Living.** (It should be noted that residential rates are already frozen for the budget year in the Governor's May Revision.)

- Freeze **Adult Day Programs average cost increase for the budget year for savings of $9.6 million ($3.1 million General Fund).**

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

- **1.** From a technical assistance perspective, what is the DDS' perspective of the above recommendations?

Budget Issue: Does the **Subcommittee want to reduce the RC Purchase of Services appropriation by $12.4 million (General Fund) by freezing contracts as referenced above?**

6. Implement Statewide Standards for the Purchase of Services

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.**

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 expenditures plus growth which may not be fully reflective of consumers needs in some areas.**

Budget Act of 2002—Unallocated Reduction: In the Budget Act of 2002, **an unallocated reduction of $52 million (General Fund) (one-time only) was enacted for POS in lieu of proceeding with the Administration's proposal to implement statewide standards for POS.**

Governor's January Budget: The Governor's January budget assumed **a savings of $100 million (General Fund) from the enactment of legislation to implement statewide purchase of services standards. The proposal did not articulate any assumptions as to how the $100 million (General Fund) in savings is derived.**

Instead, the proposed language granted very broad authority to the DDS to: (1) prohibit any consumer services or supports by type (such as Respite), **(2)** limit the type, duration, scope, location, amount, or intensity of *any* services and supports provided to consumers through the purchase of services by the Regional Centers, and **(3)** impose payment reductions and closure days on categories of vendors in order to insure that Regional Centers stay within their budgeted appropriation level.

In addition, the language explicitly stated that consumers may *not* appeal a change in their services or supports if (1) the type of service or support has been prohibited through the actions of the DDS, or **(2)** the individual service or support has been reduced at the direction of the DDS in order to ensure that Regional Centers stay within their budgeted appropriation level.

The language also expressed that it is not the Legislature's intent to endanger a consumer's health or safety, nor place a consumer in a more restrictive setting in violation of the Olmstead Decision (1999, 527 U.S. 581). However, it is unclear how the DDS and RCs are to monitor this in order to assure something inappropriate does not occur.

Prior Subcommittee Hearing: In two prior hearings, the Subcommittee discussed various concerns regarding implementation of the Governor's proposed statewide standards. This information was taken under advisement.

Governor's May Revision: The May Revision continues to assume implementation of the statewide standards **but it assumes a January 1, 2004 implementation date and therefore, an adjusted savings level. The May Revision assumes savings of $69.3 million ($50.2 million General Fund) in the budget year, with annualized savings of $138.5 million ($100 million General Fund).**

Since the last Subcommittee hearing with the DDS, the Administration has released draft regulations as to how the proposed statewide standards would in actuality, be applied in to the receipt of consumer services. **These draft regulations have raised considerable concern and clearly show that some existing services would be eliminated and Adult Day Programs and other service categories would have rates reduced, among other adjustments.**

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

- **1.** Please **describe in detail the *key aspects* contained in the Administration's draft regulations.**
- **2.** What public comment has the DDS received regarding them?

<u>Budget Issue:</u> Does the Subcommittee **want to modify the May Revision proposal?**

LAST PAGE OF AGENDA

Senate Committee
on Budget and Fiscal Review
SUBCOMMITTEE 3

MAJOR ACTION REPORT

May 28, 2003

Senate Bill 53
2003-04 Budget Bill

Members
Wesley Chesbro, Chair
Gilbert Cedillo
Tom McClintock
Bruce McPherson
Deborah Ortiz

Consultants
Kimberly Collins
Ana Matosantos
Diane Van Maren

SUBCOMMITTEE NO. 3

HEALTH, HUMAN SERVICES, LABOR, and VETERANS AFFAIRS

Health

Human Services

Labor

Veterans Affairs

HEALTH

4120 EMERGENCY MEDICAL SERVICES AUTHORITY

- Agrees not to transfer the EMSA to the Department of Health Services and instead reduced by $138,000 (General Fund) which is the equivalent amount of savings that would have occurred under the proposed transfer.
- Increases by $6.9 million (General Fund) the amount provided to the Poison Control Center to maintain program operations as proposed by the Administration.

4260 DEPARTMENT OF HEALTH SERVICES

Medi-Cal Program

- Deletes the proposed Realignment package that would have shifted all long-term care expenditures and 15 percent of the non-federal share of Medi-Cal benefit expenditures to the counties. This action shifts about $3 billion back to the Medi-Cal Program.
- Maintains Medi-Cal eligibility for the 1931 (b) category of low-income families (100 percent of poverty and below).
- Maintains Medi-Cal eligibility for the Aged, Blind and Disabled category as established in the Budget Act of 2000. Specifically, individuals making $757 per month or below, and couples making $1,344 per month or below, will be eligible to obtain Medi-Cal coverage at no share-of-cost. This action requires an increase of $49.9 million (General Fund).
- Restores the 15 percent provider rate cut for fee-for-service Medi-Cal providers for an increase of $417.3 million (General Fund).
- Assumes receipt of $250 million in additional federal funds as a placeholder in response to the federal fiscal relief package for states as addressed in pending federal legislation (Senate 1054).
- Provides an increase of $59.8 million (General Fund) to reflect an average rate increase of 3.8 percent for long-term care nursing facilities. This adjustment is based on actual cost reports and is a calculation that is done on an annual basis based upon the state's Medicaid Plan requirements.
- Approves the Senate Republican's and Administration's proposal to shift the Medi-Cal Program from an accrual to a cash budgeting system for savings of $930 million (General Fund) in the Medi-Cal local assistance item.
- Restores Medi-Cal Optional Benefits for an increase of $209.7 million (General Fund).

- Captures savings of $35.4 million (General Fund) by collecting additional aged drug rebate moneys owed to the state and conducting more Therapeutic Category Reviews of drugs which will result in lower drug expenditures in the Medi-Cal Program.
- Approves the Administration's proposal to implement a six percent "Quality Improvement Assessment" on Medi-Cal Managed Care plans (about 31 plans in total) which will provide about $37.5 million (General Fund) in savings to the state and will increase rates by an average of about 3 percent for the plans on an annual basis. The proposal also enables the state to draw down an additional $112.5 million in federal funds.
- Adopts the Administration's proposal to implement a six percent "Quality Assurance Fee" for Intermediate Care Facilities for the Developmentally Disabled (ICF-DD facilities) which results in $14.6 million (General Fund) savings for the state and will increase rates by an average of 1.9 percent for the facilities on an annual basis. The proposal also enables the state to draw down an additional $20.5 in federal funds.
- Saves $38 million (General Fund) by implementing new utilization and payment controls as proposed by the Administration. These include an adjustment to laboratory services, eliminating obsolete codes on certain products that are no longer provided in common practice (such as elastic stockings), and limiting a provider's ability to cause secondarily referred services to be billed by other providers.
- Sweeps a Special Fund Deposit (number 0942-14) for savings of $4.7 million (General Fund). This fund had Surplus Money Investment Fund interest available in it which was unencumbered and therefore, available for reversion to the General Fund.
- Eliminates the second-year of Transitional Medi-Cal coverage for savings of $2 million (General Fund).
- Adopts a managed growth proposal for Adult Day Health Care Centers in lieu of the Administration's proposed one-year moratorium and unbundling of the rate proposal. As analyzed by the Legislative Analyst's Office, the managed growth proposal will save $5.4 million (General Fund) in 2004-05 and about $11.1 million (General Fund) in subsequent years. Further, this will facilitate long-term structural reform.
- Places limits on Serostim (human growth hormone) as proposed by the Administration for savings of $8.9 million (General Fund).
- Provides for the implementation of "Step-Care Drug Therapy", "Direct Prescriber Communication", and enhanced educational programs to improve the overall prescribing of drugs in the Medi-Cal Program. These programs are estimated to save $1.2 million (General Fund) in the budget year and grow to savings of $16 million (General Fund) on an annual basis. These programs will facilitate long-term structural reform.
- Changes the reimbursement methodology for durable medical equipment for savings of $1.6 million (General Fund) as proposed by the Administration.
- Changes the reimbursement methodology for blood factor products for savings of $1.2 million (General Fund) as proposed by the Administration.

- Places limits on certain laboratory services making them subject to frequency limitations for services occurring within a set period of time for savings of $5.3 million (General Fund) as proposed by the Administration.
- Captures $23 million (General Fund) in savings from implementation of various Medi-Cal fraud activities and directs that the Administration's proposed trailer bill changes be handled through the policy committee process. A total of 100 new positions, on an existing base of 264 positions just at the DHS alone, were provided for this purpose. Subcommittee #2 provided additional funds to the Attorney General's Office for other Medi-Cal fraud prevention efforts.
- Reduced unjustified state support costs by over $8.6 million.
- Saves $5.8 million (General Fund) by adopting the Administration's proposal to restructure how licensing and certification fees are calculated by the DHS. This includes basing the fee amount on budget year expenditures (versus current year) and requiring private facilities to offset the amount of fees that would have been paid by exempt health facilities.
- Provides $196,000 General Fund ($164,000 is one-time only) to fix the newborn enrollment processing system in order to enroll eligible newborns into the Medi-Cal Program in a timely manner as required by federal law.

Public Health Programs

- Deletes the proposed Realignment package that would have transferred over $143 million in various public health programs to the counties.
- Appropriates a total of $118.3 million (Proposition 50 Water Bond Funds) to the DHS to fund $10.8 million in water security functions as contained in Chapter 3 of Proposition 50, and to fund $107.5 million in safe drinking water projects as contained in Chapter 4 of Proposition 50. Of the total amount, $1.8 million is to be used to fund 13.5 positions in state support. Also adopted trailer bill language to provide more of a framework for the program.
- Approves $25 million in additional federal bioterrorism funds for local assistance purposes as proposed by the Administration. However only 50 percent, or $28.9 million, in federal bioterrorism funds was approved for state support pending receipt of more specific detail as to what additional proportion of these funds will be provided for local assistance. Further detail will be forthcoming after meetings are held with local representatives.
- Provides $24.8 million (Proposition 99 funds) for increased reimbursement to emergency medical physicians. This is the same level of funding as provided in past years.
- Reverts $6 million in unexpended Tobacco Settlement Funds to the General Fund to serve as an offset in state expenditures overall.
- Makes adjustments to the AIDS Drug Assistance Program (ADAP) by (1) increasing drug rebates by $8.9 million, (2) rejecting the Administration's Copay proposal and backfilling with $1.4 million (General Fund), and (3) providing the DHS with authority to transfer up to $7

million (General Fund) from the HIV Therapeutic Monitoring Program to ADAP if necessary. In addition, trailer bill language was adopted which (1) enables the DHS to allow for certain administrative remedies if funding is not available for ADAP, and (2) establishes the HIV Therapeutic Monitoring Program in statute.

- Implements cost-containment measures within the Genetically Handicapped Persons Program (GHPP) and the California Children's Services Program for savings of over $2 million (General Fund).
- Reduces by a total of $10.3 million (General Fund) by eliminating the Teen Pregnancy Media Campaign ($7.8 million), reducing $848,000 from TeenSMART, and reducing $ 1.7 million from the Information and Education projects. However, additional federal funds of $4.2 million was subsequently identified to (1) provide for funding in the Male Involvement Program, (2) backfill for the Information and Education projects and TeenSMART, and (3) provide for related teen pregnancy mitigation efforts using collateral materials.
- Appropriates $12.5 million ($6.25 million General Fund and $6.25 million private funds) for the Cancer Research Program. The DHS is currently authorized to seek foundation and private grant funds for this program. Budget Bill Language was also adopted to encourage the DHS to actively seek private funding options.
- Identified $192,000 (special funds) in Nine West Settlement funds to be used for Gynecological Cancer Information Program purposes.
- Eliminates unjustified funding of $864,000 (General Fund) for information technology support for the Richmond Laboratory.
- Rejects the Governor's proposed ad hoc reduction and restores $2.350 million (General Fund) for the Expanded Access to Primary Care Clinic (EAPC) Program. This would continue funding at the current level.
- Rejects the Governor's proposed ad hoc reduction and restores $1.6 million (General Fund) for the Adolescent Family Life Program. This would continue funding at the current level.
- Reduces by $125,000 (General Fund) an unnecessary assessment for the continuous skilled nursing pilot project.
- Deletes the $231,000 (General Fund) requested by the DHS to move into the East End project but does appropriate $394,000 in federal and special funds for this purpose.
- Increases by $450,000 (Alzheimer's Disease and Related Disorders Research) to update the revenues available through the tax check-off for the specific purpose of funding research projects for Alzheimer's disease and related disorders.

4280 MANAGED RISK MEDICAL INSURANCE BOARD

- Approves as budgeted the Healthy Families Program to provide health, dental and vision insurance to an estimated 726,625 children in the budget year.

- Transfers about $1 million (Proposition 99 Funds) from the Office of Statewide Health Planning (OSHDP) to the Rural Health Demonstration Projects in the Healthy Families Program in order to draw a 65 percent federal match and to continue to operate these valuable projects under the Health Families Program.
- Approves as budgeted the Access for Infants and Mothers (AIM) Program which is slated to be consolidated beginning July 1, 2004.
- Approves as budgeted the Managed Risk Medical Insurance Program.

4300 DEPARTMENT OF DEVELOPMENTAL SERVICES

Community-Based Services

- Saves $18.9 million (General Fund) by freezing the Regional Center contract rates for the budget year at the current year levels for certain services, including Adult Day Programs, Transportation, Look-A-Like Programs and Supported Living. This action was taken in lieu of the Administration's proposal to implement so called "Statewide Standards" for the Purchase of Services which would have reduced the appropriation by $69.3 million ($50 million General Fund).
- Reduces by $10 million (General Fund) as an "unallocated" reduction the amount appropriated for the Purchase of Services for Regional Centers. This action was also taken in lieu of the Administration's proposal to implement Statewide Standards for the Purchase of Services.
- Identifies an additional savings of $5.3 million (General Fund), on top of the Administration's reduction of $8.650 million (General Fund), from the Regional Center's Operations budget for a total adjustment of about $14 million (General Fund). This action requires trailer bill language as proposed by the Administration that will (1) modify the service coordinator to consumer ratios, (2) change the core staffing ratio for secretarial support, and (3) revise the core staffing ratio for Supervising Counselors.
- Recognizes savings of $13.3 million (General Fund) by assuming the federal Centers for Medicare and Medicaid (CMS) certifies South Central Regional Center for the Home and Community Based Waiver during the budget year.
- Agrees to adopt the Administration's proposal to apply the federal standard for "substantial disability" to existing state eligibility criteria for savings of $2.1 million (General Fund). This federal definition requires the clinical determination of significant limitations in three or more of the seven major life activities. The new standard would be applied prospectively and the Regional Centers will still use their clinical judgement in applying the new standard.
- Deletes $47.2 million (General Fund) to reflect the fact that Medi-Cal Optional Benefits were funded under the Medi-Cal Program and not eliminated as proposed by the Administration. Therefore, this funding is not needed to backfill for the elimination of the Optional Benefits.

- Eliminates $1.2 million (General Fund) in incentive funds to be paid to Transportation Vendors for modifying their billing procedures.
- Rejects the Administration's proposal to require a Parental Copay for Regional Center purposes and provides $14.7 million (General Fund) as a backfill for the Purchase of Services. However, this action also saves $1.8 million (General Fund) in state support costs by not creating a state bureaucracy to administer the copay.
- Agrees to delay the transfer of the Habilitation Services Program from the Department of Rehabilitation to the DDS.
- Reappropriates $5 million for the Bay Area Project to assist in facilitating the closure of Agnews Developmental Center.
- Approves trailer bill language to expend the Client's Rights Contract for two more years.

Developmental Centers

- Deletes $7.2 million (General Fund) to reflect the fact that Medi-Cal Optional Benefits were funded under the Medi-Cal Program and not eliminated as proposed by the Administration. Therefore, this funding is not needed to backfill for the elimination of the Optional Benefits.
- Rejects the request to hire additional special investigators for savings of $237,000 (General Fund).

4440 MENTAL HEALTH

Community-Based Services

- Agrees to shift a total of $74.9 million in expenditures for the Children's System of Care Program and the Integrated Services for Homeless Adults to the counties if additional revenues are generated for this purpose. However until these revenues are available, these programs are to be funded at the state level using General Fund support.
- Rejects the Administration's proposed rate reduction of 10 percent to Mental Health Medi-Cal Managed Care as operated by County Mental Health Plans for increased costs of $23 million (General Fund).
- Continues the freeze (third year) on providing a medical consumer price index adjustment for Mental Health Medi-Cal Managed Care. This results in cost avoidance of $6.7 million (General Fund).
- Approves trailer bill language to require the DMH to implement regulations regarding Mental Health Medi-Cal Managed Care within one-year because the Administration has been operating on emergency regulation authority for over 7 years.

- Rejects the Administration's proposal to eliminate $2 million (General Fund) in local assistance expenditures which are used for a variety of purposes including to (1) provide support and education to clients, (2) facilitate family-involvement in the treatment of mental illness, (3) provide direct services under the federal Rehabilitation Waiver, and (4) provide direct services in Sacramento County per SB 840, Statutes of 1991. It was agreed with the Administration to eliminate funds of $2,000 for the Governor's Homeless Conference.
- Reduces by $5 million ($1.3 million General Fund) and one position funds available for the implementation of certain federal requirements under Mental Health Medi-Cal Managed Care due to changes in federal regulations that provide the DMH with more flexibility in implementation.
- Provides $10 million (Proposition 98-General Fund) to continue the Early Mental Health Initiative for children.
- Proposes an alternative to eliminating the Second Level Treatment Authorization Request (TAR) appeals by adopting trailer bill language to require any hospital losing its second level appeal to be required to reimburse the DMH for its total cost of processing the appeal, less the federal match.
- Captures $2 million in General Fund savings for the San Mateo Field Test Model by recognizing the shift in Medi-Cal accounting (i.e., changing from an accrual to a cash based system).
- Augments by $1.250 million (Reimbursements from the California Children and Families Commission) to provide infant, preschool and family member mental health services on a two-year pilot project basis.

State Hospitals

- Deletes $500,000 (General Fund) from the Administration's $2.1 million request to fund program expenditures related to the Sexually Violent Predator Program. The intent of this action is to continue discussions regarding potential options that may be available and to allow for further investigation by the Legislative Analyst's Office regarding proposed expenditures.
- Approves as budgeted the appropriation for the State Hospitals.
- Agrees to delay activation of the Salinas Valley Psychiatric Program for savings of $1 million (Reimbursements from the California Department of Corrections).
- Agrees to delay activation of Coalinga State Hospital as proposed by the Administration for savings of $5 million ($1.250 million General Fund).

HUMAN SERVICES

4130 HEALTH AND HUMAN SERVICES DATA CENTER

- Reduced spending authority by $10.3 million for maintenance and operations of the Child Welfare Services Case Management System (CWS/CMS) to reflect savings resulting from a negotiated CWS/CMS maintenance and operations contract extension.
- Reduced spending authority by $7 million due to financing new CWS/CMS hardware.
- Eliminated the Statewide Fingerprint Imaging System for savings of $10.7 million.
- Adopted Budget Bill language to require the Data Center to reduce its rates by at least 8 percent for savings in department budgets of approximately $20 million. Directed Finance to adjust items to reflect the decreased departmental costs resulting from the required rate reduction.
- Denied requested spending authority increases for infrastructure costs totaling $4.9 million.
- Increased spending authority by $4.3 million to reflect actual expenditure level.

4140 OFFICE OF STATEWIDE HEALTH PLANNING AND DEVELOPMENT

- Agreed with Governor's reduction of $142,000 for the Health Professions Career Opportunity Program and adopted trailer bill language to make program implementation contingent on a budget appropriation.
- Approved the Governor's request to restore $4.5 million in General Fund (GF) support for the Family Physician Training Program to reflect withdrawal of proposed fees to fund the program.
- Eliminated funding for the Rural Health Small Grants Program for Proposition 99 fund savings of $1 million and directed the savings to the Managed Risk Medical Insurance Board for the Rural Health Demonstration Projects.

4170 DEPARTMENT OF AGING

- Agreed with the Governor's reduction of $3.2 million to Foster Grandparent Program, Senior Companion Program and Respite Registry Program and adopted trailer bill language to make program implementation contingent on a budget appropriation.
- Reduced funding for the StayWell program by $200,000, reduced state administration funding by $600,000, and directed the $800,000 in savings to the Senior Nutrition Program.

- Reduced funding for Health Insurance Counseling and Advocacy Program (HICAP) by $560,000 to reflect a loss in federal funds.
- Augmented local funding for Nutrition, Family Caregiver program, and preventive health by $1.1 million to reflect new federal Older Americans Act Program funding.
- Restored $865,000 GF to the Brown Bag Program.
- Restored $2.35 million GF to the Senior Nutrition Program.
- Agreed with the proposed increase of $2.3 million from the Federal Penalty Citation Account to the State Long-Term Care Ombudsman Program.

4180 COMMISSION ON AGING

- Approved as budgeted.

4200 DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS

- Reversed the proposed realignment of alcohol and drug treatment programs.
- Approved the Governor's proposed reduction of $11.5 million to county alcohol and drug treatment programs.
- Augmented funding for drug courts by $5.3 million and restructured drug courts serving adults to focus exclusively on felons for net GF savings of $12.7 million. Savings are realized in the Department of Corrections budget.
- Increased funding for Drug Medi-Cal by $5.8 million to reflect cost and caseload changes.
- Approved the Governor's proposed $6 million federal funding increase to the Safe and Drug Free Communities and Schools Grant and the State Incentive Grant to support substance abuse prevention programs primarily serving youth.

4700 DEPARTMENT OF COMMUNITY SERVICES AND DEVELOPMENT

- Rejected the Governor's proposal to consolidate the Department of Community Services and Development into the Department of Social Services. This action does not result in GF costs.
- Restored $2.9 million in funding for the Naturalization Services Program.

5160 DEPARTMENT OF REHABILITATION

- Approved $22.8 million ($16.5 GF) in reductions to employment programs serving persons with developmental disabilities. Suspended the Work Activity Program (WAP) rate adjustment for 2003-04. Reduced WAP rates by 5 percent. Restored 2.5 percent of the rate reduction proposed by the Governor for a resulting reduction to the Supported Employment rate of 2.5 percent.
- Reduced funding for the Habilitation Services Program by $12.3 million GF and reverted $5.7 million to the GF due to changes in caseload.
- Increased funding for the Vocational Rehabilitation Services Program by $1.9 million ($.6 GF) to reflect changes in caseload and increased costs per client.
- Approved the proposed transfer of the Habilitation Services Program from Department of Rehabilitation to Department of Developmental Services effective July 1, 2004 for savings of $2.2 million GF in 2004-05. Adopted placeholder trailer bill language to effectuate the transfer.
- Adopted trailer bill legislation to remove the sunset of two provisions governing the Supported Employment Program.

5170 STATE INDEPENDET LIVING COUNCIL

- Approved as budgeted.

5175 DEPARTMENT OF CHILD SUPPORT SERVICES

- Adopted trailer bill legislation to increase collection of child support arrears owed to the state and to establish more accurate support orders for a $50 million increase in GF revenues, an increase of $6.9 million in earned federal incentives, and net GF savings of $3 million.
- Adopted trailer bill legislation to require the Department of Child Support Services to work with the Legislature and stakeholders to evaluate the existing county allocation methodology, consider alternatives and report to the Legislature at a budget hearing by March 31, 2004.
- Approved the Governor's proposal to reduce funding for local child support agencies by $108.8 million ($37 million GF).
- Suspended health insurance incentives and performance incentives for savings of $4.2 million.
- Increased funding to pay for the federal penalty resulting from the state's failure to implement a statewide child support system to $208.6 million GF, offset by reimbursement of $52.1 million from counties.
- Reduced GF support for local child support agencies by $1.8 million due to an increase in the federal incentive funds earned by the state.

- Approved the reappropriation of unspent funds to support the continuing consolidation of county automation systems into fewer systems to increase efficiency and reduce maintenance and operations costs.
- Increased funding for Child Support State Administration hearings by $778,000 ($264,000 GF) to address a substantial backlog in the number of cases awaiting hearings.
- Restored a $2.4 million January reduction in child support revenues transferred to the Foster Parent Training Program operated by the Community Colleges.

5180 DEPARTMENT OF SOCIAL SERVICES

- Reversed proposed realignment of Adoption Assistance Program, Adult Protective Services, CalWORKs employment services and administration, Child Welfare Services, Foster Care, KinGAP and In-Home Supportive Services program costs to counties.
- Adopted budget bill language and trailer bill legislation to authorize the Department of Finance to adjust funding if legislation is enacted to realign costs for Adult Protective Services, Child Welfare Services, CalWORKs grants, employment services and administration, and Foster Care to counties and to provide counties a new revenue source to fund the programs.

COMMUNITY CARE LICENSING

- Adopted the Governor's proposal to reduce funding for Community Care Licensing by $5.6 million GF as a result of reforms to target annual visits to high risk facilities. Adopted trailer bill legislation to require Department of Social Services (DSS) to visit each facility no less than once every five years, to include an escalator clause to trigger additional visits if a significant number of licensing violations are identified, and to require DSS to report to the Legislature on implementation.
- Transferred responsibility for licensing family child care homes from Fresno County to DSS for net general fund savings of $114,000 GF.
- Transferred responsibility for investigating certain complaints filed against a certified family home from DSS to Foster Family agencies for savings of $234,000 GF.
- Suspended, for 2003-04, fee exemptions or adjustments offered to family day care providers, persons operating or managing a certified family home or a foster family home, and volunteers at child care facilities for the costs of processing fingerprints, for savings of $2.8 million GF.
- Reduced GF support by $329,000 due to a caseload reduction.

AUTOMATION PROJECTS

- Reduced spending authority by $10.3 million for maintenance and operations of the Child Welfare Services Case Management System to reflect savings resulting from a negotiated CWS/CMW maintenance and operations contract extension
- Reduced spending authority by $7 million due to financing new CWS/CMS hardware.
- Eliminated funding for the Statewide Fingerprint Imaging System for savings of $10.7 million.

CHILDREN AND YOUTH SERVICES

- Adopted the May Revision cost and caseload adjustment to Adoption Services for savings of $1.1 million ($343,000 GF).Adopted the May Revision cost and caseload adjustment for the Adoption Assistance Program which increases funding by $18.9 million ($6.8 million GF).
- Adopted the May Revision KinGAP cost and caseload adjustment for savings of $3.3 million.
- Adopted the May Revision adjustment for Foster Care which reflects an increase in group home costs, a decrease in federally eligible children in Foster Family Homes, and caseload growth for a total funding increase of $13 million ($12 million GF).
- Increased by $11 million GF funding to provide transitional housing for foster youth.
- Rejected the Governor's proposed increase of $28 million Temporary Aid for Needy Families (TANF) funds to support the state's Program Improvement Plan (PIP) and Child Welfare Services system redesign as the federal government has not approved the state's PIP and the Legislature has not received complete information on the proposed PIP and the system redesign.
- Approved the transfer of $26 million in TANF funds to support Child Welfare Services resulting in $26 million GF savings.

CalWORKs

- Adopted the May Revision CalWORKs caseload estimate for net savings in assistance payments of $307 million.
- Adopted the Governor's proposed restoration of CalWORKs grants to their current level.
- Rejected the proposed suspension of cost-of-living adjustments in 2002-03 and 2003-04.
- Increased funding for CalWORKs administration and employment services by $184.9 million due to a revised estimate of the number of parents who will reach their time limit in 2003-04.
- Increased the one-time employment services augmentation by $35 million.
- Adjusted funding to reflect a delay in the implementation of prospective budgeting and new estimates of the administrative savings resulting from the reform for net savings of $ 20 million.

- Adopted trailer bill legislation to allow counties to expend previously earned and appropriated county incentive funds in future years. This change does not increase GF costs.
- Eliminated budget bill language which prohibited the redistribution of unspent county CalWORKs services and administration dollars. This change does not increase GF costs.
- Provided a $530 million TANF fund transfer to support Stage 2 childcare.
- Approved the Governor's proposal to count $57 million in childcare expenditures towards the TANF federal maintenance of effort requirement for general fund savings of $57 million.

ADULT PROGRAMS

- Adopted the May Revision SSI/SSP and In-Home Supportive Services (IHSS) cost and caseload adjustments for increased costs of $34.9 million.
- Adopted the Governor's proposed restoration of SSI/SSP grants to their current level.
- Rejected the Governor's proposal to suspend cost of living adjustments in 2002-03 and 2003-04 for an increase in costs of $396.3 million GF.
- Rejected the Governor's proposal to transfer TANF funds to support caseload growth in the In-Home Supportive Services program for GF costs of $54.1 million.

LABOR

0559 LABOR AND WORKFORCE DEVELOPMENT AGENCY

- Approved Finance Letter.

7100 EMPLOYMENT DEVELOPMENT DEPARTMENT

Faith-Based Funding

- Approved as budgeted.

Trailer Bill Language

1. Awards grants or contracts under federal workforce Investment Act or any other state or federally funded workforce development program shall comply with Section 4 of Article I and Section 5 of Article XVI of the California Constitution.
2. Allows grants or contracts awarded under the federal Workforce Investment Act or any other states or federally funded program to comply with civil rights laws, and the First Amendment to the United States Constitution in regards to pervasively sectarian organizations.
3. Provides constraints that include prohibitions on the discrimination against beneficiaries and staff based on protected categories and on the promoting of religious doctrine to advance sectarian beliefs.

Reed Act Fund

- Adopted Finance Letter

Budget Bill Language

1. Provides upgrades in EDD's computer system.
2. Appropriates $95 million of federal funds for that purposes and for the purpose of expeditious payment of eligible claims and fraud detection.

Employment Training Panel

- Adopted Finance Letter

Supplemental Report Language

1. Requires the Department of Social Services and the Employment Training Panel to report to budget committee no later than April 1, 2004 on the feasibility of referring CalWORKs recipients to Employment Training Panel, reducing the diversion of Employment Training Funds to Cal WORKs employment services.
2. Requires development of the reports to include Department of Social Services, Employment training Panel and any relevant stakeholders, including but not limited to representative from the County Welfare Directors Association of California.

WIA Discretionary Funds

- Adopted Trailer Bill Language.

Trailer Bill Language

1. Requires separate schedules which itemize the proposed programs that are to be supported by federal funds.
2. Requires itemized schedules to include provisions authorizing Director of Finance to make certain transfers and modifications.
3. Requires transfers and notification provisions to be in addition to those prescribed in Section 36 and 28 of the proposed budget act.

7350 DEPARTMENT OF INDUSTRIAL RELATIONS

- Adopted finance Letter.
- Control Section 4.15 The Administration has scored a $30 million dollar savings through Workers' Compensation Reforms.

January 10 Trailer Bill

- Adopted Governor's January 10 proposal.

Industrial Welfare Commission (IWC)

- Decreased IWC's budget from $470,000 to $235,000.

VETERANS AFFAIRS

0553 OFFICE OF INSPECTOR GENERAL FOR VETERANS AFFAIRS

- Approved as budgeted.

8955-8966 DEPARTMENT OF VETERANS AFFAIRS AND VETERANS HOMES OF CALIFORNIA

- Adopted April Finance Letter.
- Rejected Finance Letter for increase in positions at headquarters and decrease in Yountville budget.
- Adopted Finance Letter to expend additional, funds received due to increase in per diem rate.
- Accepted provisional language for Chula Vista and Barstow.
- Rejected Governor's January 10 budget proposal to reduce County Veterans Service Office by $470,000.
- Rejected Governor's January 10 budget proposal to increase Domiciliary Fees from 47.5 percent to 55 percent.