Senate Budget and Fiscal Review

Subcommittee No. 3 2006 Agendas

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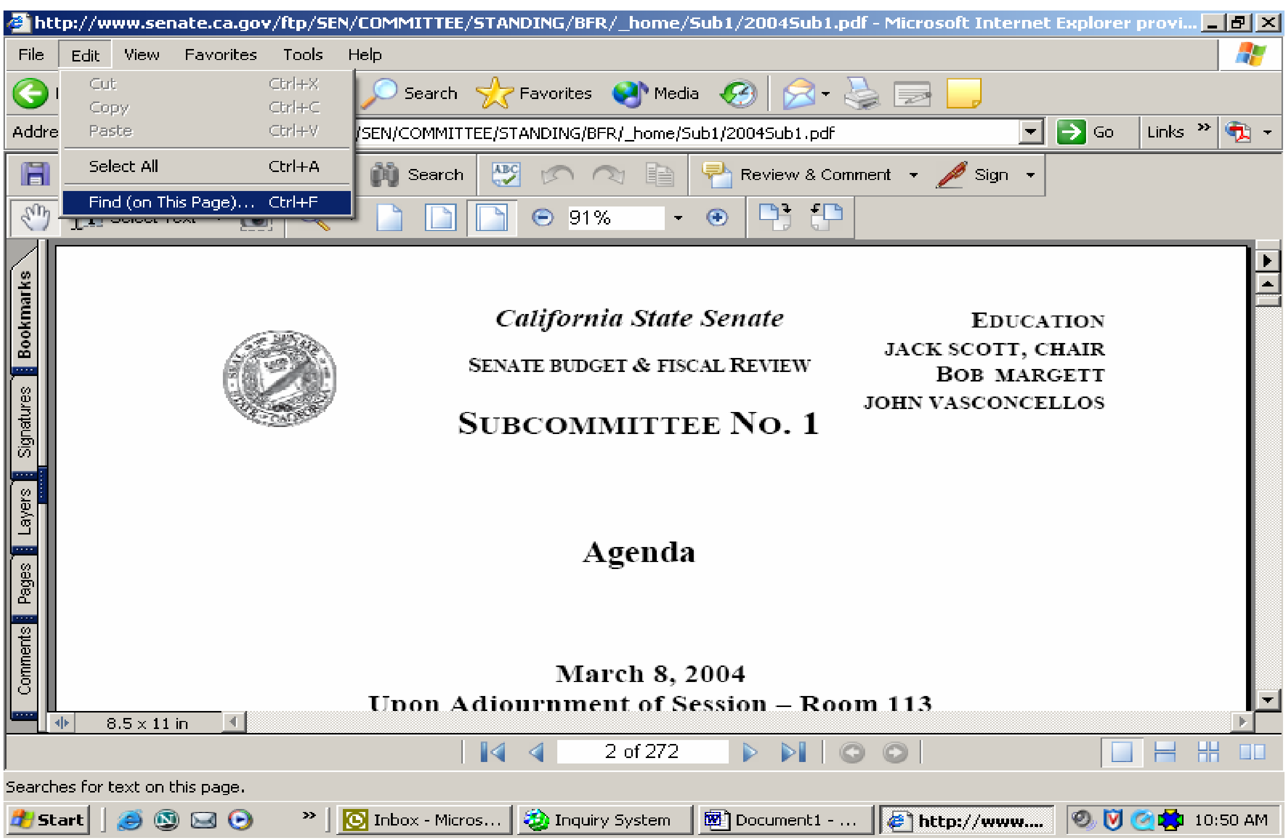


Senate Budget and Fiscal Review—Wesley Chesbro, Chair

SUBCOMMITTEE NO. 3 Agenda

Chair, Senator Denise Moreno Ducheny
Senator George C. Runner
Senator Wesley Chesbro

Wednesday, February 8, 2006, 1:30 pm
John L. Burton Hearing Room (4203)
Consultant, Anastasia Dodson

2006 Federal Budget: Impact on Human Services and Low-Income Families in California

OVERVIEW 20 minutes

- Cliff Allenby (Department of Social Services)
- Todd Bland (Office of the Legislative Analyst)
- Jean Ross (California Budget Project)
- Mike Herald (Western Center on Law and Poverty)
- Jennifer Rodriguez (California Youth Connection)

CHILD SUPPORT 20 minutes

- David Maxwell-Jolly (Department of Child Support Services)
- David Oppenheim (Child Support Directors Association)
- Curt Child (National Center for Youth Law)
- Mark Beckley (Department of Finance)

CHILD WELFARE and FOSTER CARE 20 minutes

- Mary Ault (Department of Social Services)
- Cathy Senderling (County Welfare Directors Association)
- Nick Buchen (Department of Finance)

CalWORKs and CHILD CARE 20 minutes

- Charr Lee Metsker (Department of Social Services)
- Frank Mecca (County Welfare Directors Association)
- Nancy Strohl (Child Care Law Center)
- Diana Spatz (LIFETIME)
- Nick Buchen (Department of Finance)

PUBLIC TESTIMONY 20 minutes

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.

Senate Office of Research, 1020 N Street, Suite 200, Sacramento, CA 95814
Don Moulds, Director

FEDERAL DEFICIT REDUCTION ACT OF 2005: POTENTIAL IMPACTS TO CALIFORNIA

Prepared for the Senate Budget and Fiscal Review Committee
Subcommittee No. 3
February 8, 2006

On February 1, 2006, Congress passed the Deficit Reduction Act of 2005, which the President is expected to sign. Some of the potential impacts to California in the area of human services are summarized below.

CHILD SUPPORT

- **Prohibits the state from using federal "performance incentive dollars" towards its contribution to child support program costs.** Currently, California uses the federal performance incentive funds towards its 34 percent contribution to child support program costs (the federal government contributes 66 percent). The Legislative Analyst's Office (LAO) estimates an annual loss of $90 million in federal funds to California, beginning in federal fiscal year (FFY) 2008.

- **Reduces the state's ability to collect child support.** A portion of child support collections is retained by California as General Fund revenue. If California does not backfill the $90 million annual loss in federal matching funds cited above, the state could lose some ability to collect child support. The LAO estimates that this could result in an annual loss of $10 million to $15 million in General Fund revenues.

- **Imposes an annual fee for non-CalWORKs cases.** Assesses a $25 annual fee on states for each family that does not receive CalWORKs cash assistance. The fees would be deducted from the federal allocation for administration costs. The LAO estimates this would result in an annual loss of $5 million in federal funds to California, beginning in FFY 2007.

- **Provides federal financial participation in the pass-through of child support payments to CalWORKs families.** California would no longer have to reimburse the federal government for a portion of the $50 per child support payment that is currently passed on to welfare families. The LAO estimates this would result in annual General Fund savings of $15 million, beginning in FFY 2009.

Foster Care

- **Restricts eligibility of children for federal foster care payments.** Requires states to use the income of the family from which the child was removed, rather than the income of the family with whom the child is placed, in determining eligibility (this is a reversal of the federal court decision in *Rosales v. Thompson).* The LAO estimates an annual loss of $5 million in federal funds to California, beginning in FFY 2006.

- **Limits federal administrative funding for certain placements.** Limits federal administrative funding for children placed in certain settings, such as unlicensed or unapproved foster homes or juvenile detention facilities. The LAO estimates an annual loss of $15 million to $20 million in federal funds to California, beginning in FFY 2006.

- **Increases federal funding for child welfare services and juvenile court improvements.** The LAO estimates that California is likely to receive about $50 million over a five-year period, beginning in FFY 2006.

Temporary Assistance for Needy Families (TANF)

- **Changes the methodology for calculating work participation rates.** A change in methodology would likely require California to increase its work participation rates in CalWORKs from 23 percent to 50 percent for all families, and from 32 percent to 90 percent for two-parent families. Families receiving CalWORKs assistance funded solely by state dollars would now be included in the work participation rates.

- **Maintains penalties for noncompliance with work participation requirements.** Noncompliance results in a loss of federal funds that California would be required to backfill. In addition, California would be required to increase its state maintenance-of-effort (MOE) spending. The LAO estimates that noncompliance could result in General Fund backfill costs of $185 million initially (potentially increasing thereafter), beginning in FFY 2009, and an increase in General Fund MOE spending of $180 million, beginning in FFY 2007.

- **Maintains the TANF block grant amount at its current level.** Increasing the work participation rates in CalWORKs could require increased state spending for employment-related services for families, such as child care. The Center for Law and Social Policy estimates that costs to California for these services would be approximately $400 million, beginning in 2007.

Child Care

- **Increases child care funding.** Increases federal child care funding to California by approximately $25 million annually for five years, beginning in FFY 2006, according to the LAO.

Joint Informational Hearing

Assembly Health Committee (Assemblymember Chan, Chair)
Assembly Budget Subcommittee No. 1 (Assemblymember De La Torre, Chair)
Senate Health Committee (Senator Ortiz, Chair)
Senate Budget Subcommittee No. 3 (Senator Ducheny, Chair)

"MEDI-CAL: HOSPITAL FINANCING IMPLEMENTATION AND COVERAGE INITIATIVE"

Tuesday, February 14, 2006
10:00 a.m. – 12:00 noon
State Capitol, Room 4202

I. Opening remarks from Committee Chairs

II. Medi-Cal Hospital Financing Waiver: Implementation Status

- Stan Rosenstein, Deputy Director of Medical Services, Department of Health Services
- Melissa Stafford Jones, Chief Executive Officer, California Public Hospital Association
- Santiago Muñoz, Executive Director, Division of Clinical Services and Development, University of California

III. Medi-Cal Hospital Financing Waiver: California Medical Assistance Commission (CMAC)—Hospital Payments

- Keith Berger, Executive Director, California Medical Assistance Commission
- Katherine Douglas, President and CEO of Private Essential Access Community Hospitals, Inc.

IV. Hospital Waiver Coverage Initiative: Administration's Proposal and Reaction

- Stan Rosenstein, Deputy Director of Medical Services, Department of Health Services
- Barbara Glaser, Legislative Advocate, California Hospital Association
- Charles Bacchi, Vice President, Legislative Affairs, California Association of Health Plans
- Dorian Seamster, Deputy Director, Policy, California Primary Care Association
- Elizabeth Landsberg, Western Center on Law and Poverty

V. Public Comment

Background Materials

Joint Hearing on Implementation of the Hospital Waiver

I. Overview of the Hospital Financing Waiver

Background (See Appendix for Summary Tables). As a result of federal policy changes, California was required to completely change its method in which Safety-Net Hospitals are financed under the Medi-Cal Program. The Administration negotiated a five-year federal Waiver with the federal Centers for Medicare and Medicaid (CMS) which was completed as of September 1, 2005.

The federal requirements for this Hospital Finance Waiver are contained in the *"Special Terms and Conditions"* document which serves as a contract between California and the federal CMS. Senate Bill 1100 (Perata-Ducheny), Statutes of 2005, provides the state statutory framework for implementing the new Hospital Finance Waiver. A summary of this framework is provided in the Appendix.

Under this new waiver, Public Hospitals will certify their health care expenditures (referred to as "Certified Public Expenditures" or CPE) in order to obtain federal funds, and Private Hospitals will rely solely on the state's General Fund to obtain their federal funds. In addition, Public Hospitals will be able to use Intergovernmental Transfers (IGT's), which was the primary method of funding the state match under the previous financing system, on a limited basis to obtain federal matching funds.

Private Hospitals are receiving their funding as contained within the Waiver framework since General Fund support is used to obtain the federal match. However Public Hospitals are only receiving federal payments for Medi-Cal services, referred to as Medi-Cal per diem payments as discussed below.

II. Key Implementation Issues Impede Flow of Federal Funds

Several Implementation Issues Unresolved. Though the Waiver is approved, it is not yet fully operational. There are several key implementation issues which are still pending. Until these issues get resolved, it is unlikely that full federal funding will proceed as provided for within the Waiver. The most critical implementation issues are as follows:

- ***CPE Still Pending Federal Approval So Funds Not Yet Provided.*** The definition of what constitutes a certified public expenditure is still pending federal CMS approval. Therefore, the federal CMS will not yet provide California with federal funds for its Disproportionate Share Hospital Program (about $1.032 billion in federal funds) or the Safety Net Care Pool ($586 million in 2005-06).

Public Hospitals are therefore only receiving Medi-Cal per diem reimbursement. Private Hospitals are receiving all of their reimbursements since General Fund support is used to draw the federal match.

- ***State to Develop Process for Public Hospitals to Report CPE.*** The Department of Health Services (DHS) notes that work is proceeding on reporting forms and procedures for the Public Hospitals to provide their individual CPE information to the state, once federal CMS approval is obtained. It is likely this process will take from several weeks to a month to complete.

  In addition, it is unclear at this time whether the DHS will authorize some portion of federal funds to be paid to Public Hospitals from DSH or the Safety Net Care Pool pending completion of the forms and submission of them to the DHS by all of the Public Hospitals.

- ***Public Hospital Cash Flow Concerns.*** Presently, Public Hospitals are only receiving Medi-Cal per diem reimbursement. No supplemental federal funds associated with the Waiver are being provided. As such, several Public Hospitals are experiencing cash flow concerns and are in discussion with the DHS. Normally Public Hospitals would have received about $650 million in payments by this time of the fiscal year.

- ***State Plan Amendments (SPAs) Still Pending.*** The mechanics of the Waiver also require the state to submit three State Plan Amendments (SPAs) to the federal CMS for approval. These SPAs include changes pertaining to (1) CPEs, (2) the Disproportionate Share Hospital Program, and (3) Medi-Cal services provided by physicians, interns and residents, and non-physician practitioners.

  Each of these SPAs needs to be finalized by the DHS and submitted to the federal CMS for approval. It is likely that completion of these will take at least several months.

III. Potential Short-Term Options to Mitigate Cash Flow Concerns

As the DHS continues to work towards full Waiver implementation with the federal CMS and hospitals, there is a need to discuss options to maintain Public Hospital fiscal stability in the short-term. Some hospitals may be able to sustain themselves using reserves made available through their counties, while others may not have this flexibility. Some options which may be available include the following:

- ***Provide a Limited General Fund Loan.*** The DHS has provided General Fund loans (at no interest) in the past under the auspices of the Medi-Cal Program. However these loans/advances have not equated to large amounts and have been narrow in their focus.

- ***Use Safety Net Care Pool Funds First.*** Once the CPE definition is approved by the federal CMS, the DHS may be able to receive federal funds for the Safety Net Care Pool (i.e., Health Care Support Fund, see below). These funds could then potentially be allocated to the Public Hospitals to assist with cash flow concerns. A "settle-up" process could then be done at a later date once the new financing system is in place.

  The mechanics of the Waiver, as contained in SB 1100, envisioned that the Safety Net Care Pool Funds would be expended after Disproportionate Share Hospital Funds were allocated. However at this time it is unknown when DSH funds will be available due to the need to compete the SPA with the federal CMS.

IV. Governor's Proposed Budget for the Hospital Financing Waiver

Background (See Table, below). The Governor's budget proposes two-years of expenditures for the federal funds made available through the Waiver. A portion of these federal funds require a General Fund match. However most of the necessary match to draw the federal funds comes from the Public Hospitals through the form of a certified public expenditure or an IGT. The proposed budgeted expenditures and their corresponding match are shown in the table below.

Summary of Special Funds Contained in the Waiver. SB 1100 establishes several special funds to appropriate and allocate the federal funds. A brief description of each of these is as follows.

- ***The Health Care Support Fund (i.e., Safety Net Care Pool).*** This fund is used to appropriate the Safety Net Care Pool Funds. These funds are capped at $586 million (for year one and two of the Waiver) since the Administration and Legislature mutually agreed not to require the mandatory enrollment of aged, blind and disabled individuals into Medi-Cal Managed Care as proposed by the Administration.

These funds are to be used for uncompensated care provided to the uninsured. Funds from this pool cannot be used for services provided to individuals who do not have legal documentation status. As such, the CPE used to match the federal funds must be discounted by 17.79 percent. (The Disproportionate Share Hospital Fund can be used for uncompensated care provided to all individuals, regardless of immigration status.)

As contained in SB 1100 these federal funds are to be allocated to Public Hospitals and certain state-operated programs as specified. Of the amount available to the Public Hospitals as shown in the table below, about $400 million is needed to provide baseline funding for 2005-06. Any remaining amount of funds will be used to fund stabilization, as specified in the enabling statute.

The amount shown for state-operated programs results in a corresponding General Fund savings. This General Fund savings are then re-invested into the Medi-Cal Program to assist in funding Private Hospitals through the Waiver.

- ***Disproportionate Share Hospital (DSH) Funds.*** As directed by SB 1100, DSH Funds will be solely allocated to Public Hospitals using existing formulas. The Public Hospitals will use both CPE and IGTs as appropriate to draw the federal match. The DHS will administer this process.

- ***Physician and Non-Physician Services in Medi-Cal.*** As part of the Waiver agreement, the federal CMS required California to identify costs that are in excess of payments received on a per-visit or per-procedure basis from any Medi-Cal source of reimbursement. As noted above, this change requires a SPA and it is also identified as a separate cost from inpatient expenditures for purposes of the Waiver.

- ***Interim Payments for Medi-Cal "Cost-Based" Inpatient Days.*** Under the Waiver, Public Hospitals must contract with the CA Medical Assistance Commission (CMAC) but will receive cost-based reimbursement for inpatient days provided to Medi-Cal enrollees as determined by the DHS. Public Hospitals must use CPE to match the federal funds.

  The DHS will administer these payments and are to conduct a "settle-up" process with each of the individual Public Hospitals to ensure appropriate payment. The amount of federal funds shown in the Governor's budget for this purpose is a "placeholder" amount and is likely to high of an amount.

- ***Private Disproportionate Share Hospital Fund.*** This fund will be used to appropriate the "replacement" DSH funds to the Private Hospitals. General Fund support is used for the federal match. The amount appropriated is based on the prior year amount as directed by SB 1100.

- ***Private Hospital Supplemental Fund.*** This fund is used to provide replacement SB 1255 supplemental federal funding to Private Hospitals. General Fund support is used to obtain the federal match. The enabling statute specified an amount to be provided to this fund based upon prior payments made to these hospitals.

- ***Distressed Hospital Fund.*** SB 1100 created this new fund. Technically, it is not part of the Hospital Financing Waiver but it was established due to unexpended funds remaining from prior year IGTs which could be used to obtain a federal match under the prior Waiver. The California Medical Assistance Commission (CMAC) will allocate these funds as appropriate, based on criteria established in the enabling legislation.

- **Medi-Cal Inpatient Reimbursement for Private Hospitals.** The CA Medical Assistance Commission (CMAC) will continue to operate the Selective Provider Contracting Program. Medi-Cal inpatient reimbursement is provided to the Private Hospitals as had been done in the past (i.e., reimbursement is made under the Medi-Cal Program using 50 percent General Fund to match 50 percent in federal funds). **As such, these dollars are <u>not</u> reflected in the table below *(next page).***

The following table provides an overview of the Governor's budget, showing the: **(1)** available federal funds under the Waiver; **(2)** required Public Hospital CPE and IGT match to draw their federal funds; **(3)** required General Fund match to draw the federal funds for the Private Hospitals; and **(4)** allocations to be made by type of hospital as identified under the Waiver.

Table: Governor's Budget Appropriations for Hospital Waiver Funding

Overview of Hospital Waiver Funding	**2005-06**	**2006-07**
A. Hospital Care Support Fund ***(Safety Net Care Pool-federal funds)***	**$586 million**	**$586 million**
Public Hospitals, including UC system	$528.3 million	$495.8 million
Public Hospitals CPE required to match Federal Funds	($528.3 million)	($495.8 million)
Total for State Programs (This results in General Fund savings which are re-invested to assist in matching federal funds for the Private Hospitals funding.)	$57.7 million	$90.2 million
B. Disproportionate Share Hospital Fund ***(Federal Funds)***	**$775.2 million**	**$1.032 billion**
Public Hospitals, including UC system (Federal Funds)	$771 million	$1.028 billion
Public Hospitals CPE required to match Federal Funds	($221.7 million)	($319.9 million)
Public Hospitals Intergovernmental Transfer required	($549.3 million)	($708.1 million)
District Hospitals (Federal Fund amount)	$4.2 million	$4.5 million
District Hospitals (General Fund amount)	($4.2 million)	($4.5 million)
C. Physician & Non-Physician Srvcs in Medi-Cal ***(Federal Funds)***	**$95.9 million**	**$98.6 million**
Public Hospitals	$95.9 million	$98.6 million
Public Hospitals CPE required to match Federal Fund	($95.9) million	($98.6) million
D. Interim Medi-Cal "Cost-Based" Payments ***(Federal Funds)***	**$662.8 million**	**$1.025 billion**
Public Hospitals *(Place holder amount)*	$662.8 million	$1.025 billion
Public Hospitals CPE required to match Federal Fund	($662.8 million)	($1.025 billion)
E. Private Disproportionate Share Hospital ***(Federal Funds)***	**$213.1 million**	**$232.5million**
General Fund match required	($213.1 million)	($232.5million)
Private Hospitals total amount received (federal and GF support)	($426.3 million)	($465 million)
F. Private Hospital Supplemental Fund ***(Federal Funds)***	**$118.4 million**	**$118.4 million**
General Fund match required	($118.4 million)	($118.4 million)
Private Hospitals total amount received	($236.8 million)	($236.8 million)
G. Distressed Hospital Fund (CMAC allocation) ***(Federal Funds)***	**$13.4 million**	**$13.4 million**
Public Hospitals, Intergovernmental Transfer required (prior year)	($13.4 million)	($13.4 million)
Total amount CA Medical Assistance Commission can allocate	($26.8 million)	($26.8 million)
H. District Hospitals Supplemental Payments ***(Federal Funds)***	**$1.9 million**	**$1.9 million**
General Fund match required	($1.9 million)	($1.9 million)
District Hospitals total amount received	($3.8 million)	($3.8 million)
Total Federal Funds Budgeted	**$2.467 billion**	**$3.109 billion**
General Fund Support for Private Hospitals (*Not* including Medi-Cal inpatient per diem costs)	**$337.6 million**	**$357.3 million**
Total CPE ***and*** **IGT provided by Public Hospitals**	**$2.071 billion**	**$2.662 billion**

Total Funds (all sources)	**$4.876 billion**	**$6.128 billion**

V. Coverage Initiative

Waiver Requirements. The Centers for Medicare and Medicaid Services' (CMS) Special Terms and Conditions (STC) indicates that $180 million of federal Safety Net Care Pool funds in each of demonstration years three, four and five (September 2007 through August 2010) is available contingent upon the state implementing a Healthcare Coverage Initiative (Coverage Initiative) that will expand health care coverage options for uninsured Californians. The Coverage Initiative can rely upon existing relationships between the uninsured and safety net health care systems, hospitals and clinics. (For state budgeting purposes, the "Hospital Care Support Fund" has been established to receive federal Safety Net Care Pool payments.)

The STC states that the $180 million is an annual allotment and cannot be used in subsequent demonstration years. Additional Safety Net Care Pool funds may be used for the Coverage Initiative at the state's option.

The state agreed to the following milestones as outlined in the STC:

- By January 31, 2006 submit a concept paper on the Coverage Initiative;
- By September 1, 2006 submit a waiver amendment on structure, eligibility and benefits for the Coverage Initiative; and,
- By September 1, 2007 begin enrollment in the Coverage Initiative.

Department of Health Services (DHS) Concept Paper. The January 31, 2006 concept paper developed by DHS and submitted to CMS makes a number of points. First, annual Coverage Initiative expenditures must equal $440 million to maximize the full federal allocation. This is because the federal funding comes from the Safety Net Care Pool. Claims from the pool are reduced 17.79 percent because the federal government assumes those expenditures are for non-emergency care to unqualified immigrants for whom the federal government will not pay.

To illustrate, if in a year total Coverage Initiative expenditures are $360 million, the federal government will pay half reduced by the 17.79 percent reduction, or only $148 million. To get a $180 million federal payment, public expenditures would have to be $440 million. If total expenditures are $440 million, the federal government would pay half reduced by 17.79 percent, which yields approximately $180 million in federal funds.

DHS points out that $540 million in the last three years of the Waiver ($180 million per year) will be the only source of growth in Waiver funding to offset increases in caseload and costs for indigent health care services. As those hospital costs rise, federal payments under the Waiver will otherwise remain flat. DHS implies that the financial situation of these hospitals should be taken into account in designing the Coverage Initiative.

An additional issue raised by DHS is that programs supported by the Coverage Initiative must be fully operational on September 1, 2007, including full program enrollment. The entire $180 million must be spent annually and cannot be rolled over to subsequent years, except to pay for expenses incurred in the previous year.

In their concept paper, DHS raises the following questions:

- What will be the source of the local and state funds needed to claim the available federal funds?
- How will interested entities be selected to develop and implement Coverage Initiative activities?
    - Will the allocation be based on the number of uninsured and the geographic diversity in respective counties?
    - Will selection be based on program design? Or some other funding allocation?
    - How will the program interact with funding allocations made under existing state law?
- What are the criteria for eligible individuals to participate in the Coverage Initiative?
    - Should the program target uninsured adults not eligible for Medi-Cal?
    - What income limits should apply? 100% of federal poverty level (at or below $9,570 for an individual in 2005), county Medically Indigent Adult income levels, or some other standard?
- Should different or uniform models be tested?
- Should inpatient care be included or excluded?
- Which providers will receive Coverage Initiative funds?

Finally, DHS states that legislation in 2006 is necessary for submission of the required Waiver amendments.

Policy issues to consider. There are two threshold questions that must be answered in order to develop a framework for the Coverage Initiative.

What is the non-federal source of funding and should the Coverage Initiative be designed to direct all federal payments to safety net hospital systems? The non-federal source of funding could be General Funds or local funds, or a combination of both. If it is determined that the Coverage Initiative should be designed to direct federal payments to safety net hospital systems, what will the implications be for counties that operate public hospitals? As indicated by DHS, the federal money that is available for the Coverage Initiative represents the only source of growth in the last three years of the Waiver for indigent health care services. Since federal payments to public hospitals are capped under the Waiver, and the state will not be at risk for any increases in cost or caseload associated with health care services for indigent populations, counties with public hospitals will shoulder the financial burden associated with responding to these increases. Many additional issues will need to be considered, including those raised below.

Is it reasonable to expect any Coverage Initiative program to be fully operational on September 1, 2007? It is unlikely any new program could be fully operational without adequate lead time and resources for planning and marketing purposes. In addition, the Waiver is time-limited: without an extension the Waiver will end August 2010. This structure may limit the state's ability to create new programs. Policymakers may wish to consider expansions to existing state and local programs that already have infrastructure in place, including very simple enrollment mechanisms, which could more easily be expanded to new populations.

Is $440 million a year for three years enough funding to implement a statewide Coverage Initiative program? Given the limited funding available, policy makers may want to consider pilot projects targeting specific populations or certain geographic regions. Another option may be to test innovations to existing state or county programs that will reduce the population of uninsured individuals who are eligible but not enrolled in existing programs.

How will the state evaluate the success of the initiative? What outcome measurements and performance indicators should be used? There are many benchmarks that could be used, such as a reduction in the number of uninsured, reduction in emergency room visits, reduction in inpatient costs, improved coordinated case management, etc.

How will the Administration proceed with the development of the initiative? The DHS concept paper raises many questions but does not provide answers to those questions. The DHS paper does not contain draft legislation or a timeline for meeting legislative policy or fiscal deadlines other than to mention that legislation in 2006 is necessary before the department can submit Waiver amendments that are due to CMS by September 1, 2006.

Stakeholder Input Sought. On October 19, 2005, DHS requested from stakeholders initial input on the development of the Coverage Initiative concept in preparation for a larger public stakeholder process that was expected before the end of the year. There were no additional public meetings scheduled in 2005. However, Administration officials have indicated that public meetings will be scheduled in Sacramento and Los Angeles in the coming weeks. Approximately 25 responses were submitted to the department by the November 4, 2005 deadline. Recommendations and suggestions contained in some of those responses are summarized below. A side by side of the Administration's concept paper along with five of the more comprehensive proposals follows the bullets.

General Recommendations

- Focus on uninsured low-income adults with an emphasis on local flexibility and control, test innovative models such as expanded coverage of preventive services, management of chronic diseases, intensive case management of high cost users, and assignment of patients to medical homes.
- Relieve the burden on safety net care providers, build upon existing programs and provide insights to help shape plan designs for the future, fund medical care in a manner that reduces costs and improves quality, and permit local flexibility.
- Support cost-effective, primary and preventive care, ensure adequate, actuarially sound provider reimbursements, ensure culturally and linguistically responsive delivery systems, implement effective quality monitoring and measurements, involve consumers and providers and protect consumer choice.

Supplemental Funding for Existing Local Programs

- Provide funding for "Frequent Users" programs, which provide intensive case management services to individuals who repeatedly seek care inappropriately in hospital emergency departments. Early evaluations indicate a reduction in emergency department visits, hospital inpatient days and significant cost avoidance for hospitals.
- Permit counties that operate their own indigent care programs to match local expenditures with federal funds using their own indigent care standards.

Expand Existing Programs

- Expand state programs using General Fund such as Expanded Access to Primary Care, Major Risk Medical Insurance Program, Genetically Handicapped Persons Program, and County Medical Services Program.
- Expand primary care services and provide fair reimbursement for physicians.
- Create a program to cover children, such as raising income eligibility in Healthy Families to 350 percent of the federal poverty level, and increasing the allowable income levels of families in the California Children's Services program. Improve access to outpatient, urgent and preventative care by supplementing the Outpatient Disproportionate Share fund.
- Fund the coverage of parents of children on Healthy Families.

Protect Safety Net Hospitals

- Maintain the viability of safety net hospitals, recognize the important role of facilities that provide costly tertiary and quaternary care, continue to earmark funding for public hospital payments, keep the project manageable and efficient, and sustain providers that currently serve Medi-Cal and uninsured patients.
- Choose the source of the non-federal share of funds carefully in order to protect funding for safety net hospitals. Anchor the product around public hospitals because they provide a range of services to the uninsured, they are the primary recipients of Waiver funding, and they will likely treat many of the newly covered individuals after the funding expires.

	Administration's Principles and Goals	California Association of Public Hospitals and Los Angeles County	Insuring the Uninsured Project	Health Consumer Advocates	San Diegans for Healthcare Coverage	Working Partnerships USA
Selection Process	Unknown.	Unknown.	Competitive grants to local and regional coalitions.	N/A	Unknown.	Santa Clara County Pilot Project.
Administration	Unknown.	Counties that operate public hospitals or have a UC hospital.	Unknown. Could be determined by coalition.	Expand Medi-Cal and Healthy Families.	Unknown.	Unknown.
Eligibility	Unknown. No linkage to Medi-Cal or Healthy Families. No entitlement.	Uninsured adults (18-64) with income under 100 percent of the federal poverty level: ability to target sub-populations and tailor services to improve care; no linkage to Medi-Cal or Healthy Families, except possibly uninsured parents of	Low wage, uninsured workers with no minor children at home where there is no possible federal funding available, such as farm workers, child care workers, foster parents, garment workers or workers in other low wage industries. Not	All state residents with family income up to 300 percent of the federal poverty level. Simplify existing Medi-Cal and Healthy Families program rules (i.e., standard income deduction, self-declaration of	Working uninsured and their families. Anyone episodically eligible for state programs should remain in coverage program and wrap around state program benefits should be provided.	Uninsured workers and dependents under 300 percent of the federal poverty level who live in Santa Clara County.

	Administration's Principles and Goals	California Association of Public Hospitals and Los Angeles County	Insuring the Uninsured Project	Health Consumer Advocates	San Diegans for Healthcare Coverage	Working Partnerships USA
		children in Medi-Cal or Healthy Families.	Healthy Families parents or uninsured children.	income, no assets test, etc).		
Enrollment	Health card and medical record.	Health card. Total enrollment based on funding.	Unknown.	Accelerate enrollment at the Single Point of Entry and provider based on one-stop simplified e-app through gateway programs.	Unknown.	Unknown.
Benefits	Unknown. Defined benefit package that includes preventive services and early intervention/ provide a medical home (primary care physician).	Inpatient, outpatient and prescription drug services, with an option to focus services to sub-populations such as to bridge gaps in care and provide better care coordination and	Preventive and outpatient services that will improve individual and public health, and reduce demand on hospital emergency rooms combined with coverage	Medi-Cal and Healthy Families.	Essential, basic benefits package that encourages access to early intervention and improved health outcomes, including disease management. Healthy	Comprehensive benefits including preventive care, prescription drug and hospitalization.

	Administration's Principles and Goals	California Association of Public Hospitals and Los Angeles County	Insuring the Uninsured Project	Health Consumer Advocates	San Diegans for Healthcare Coverage	Working Partnerships USA
		case management. Assignment of medical home (PCP) and description of covered services. Option to provide case management services to patients with chronic conditions (diabetes, hypertension, congestive heart failure, asthma), and create patient registries.	for catastrophic hospital costs.		behavior incentives should be incorporated.	
Delivery System	Unknown. Organized delivery system.	Public hospitals and clinics and providers contracted by counties, UC	Local safety net health plans, where possible, with broad flexibility to	Medi-Cal and Healthy Families.	Unknown.	County based, multi-purchaser insurance plan.

	Administration's Principles and Goals	California Association of Public Hospitals and Los Angeles County	Insuring the Uninsured Project	Health Consumer Advocates	San Diegans for Healthcare Coverage	Working Partnerships USA
		hospitals.	develop cost effective and quality networks.			
Non Federal Financing	$260 million, source unknown.	Assumes public hospital and UC CPEs.	Combination of state and local funds; encourage the use of private, employer, and employee funding. No supplanting of existing government funds.	Impose HMO gross premium tax, savings from Medi-Cal managed care reforms, employer payments, premiums and copayments.	State, local funds and private.	Workers, employers, third party, possibly a subsidy from the Santa Clara County Health and Hospital System that can be leveraged with other sources of funds.
Safety Net Providers	Ensure long term viability within existing systems.	Support and sustain public and UC hospitals in counties that contain 80% of uninsured.	Local health plans contract with safety net providers.	Uses safety net to the same extent as current system.	No references.	County could serve as a participating provider.
Cost Sharing	Unknown.	Unknown.	No or small deductible for outpatient and	Based on ability to pay. Nothing for people at or	Based upon family income.	Affordable premiums.

	Administration's Principles and Goals	California Association of Public Hospitals and Los Angeles County	Insuring the Uninsured Project	Health Consumer Advocates	San Diegans for Healthcare Coverage	Working Partnerships USA
			substantial deductible or expenditure cap for inpatient.	below 200 percent of the federal poverty level, current Healthy Family levels for people with family income between 201 and 300 percent.		
Other	Improve access and monitor for health outcomes, promote personal responsibility, screen and enroll for Medi-Cal, Healthy Families or local insurance programs.	Improve system of care for uninsured; counties should be responsible to develop, coordinate and oversee their local programs within state and federal parameters, reduction in inappropriate health care by		Build a basic infrastructure for eventual universal coverage for all residents with income up to 300% of the federal poverty level.	Establish limited pilot projects that demonstrate innovation. Establish crowd-out rules and accounting.	

	Administration's Principles and Goals	California Association of Public Hospitals and Los Angeles County	Insuring the Uninsured Project	Health Consumer Advocates	San Diegans for Healthcare Coverage	Working Partnerships USA
		uninsured, improvement in services to uninsured and Medi-Cal patients, and reduced demand on Medi-Cal. No entitlement.				
Strengths	Unknown.	Permits broad local flexibility. Supports public health systems. Identifies funding mechanism.	Target individuals with no other potential for federal funding. Permits local flexibility.	Better coordinates existing programs. Serves all low-income populations. Provides some support for public health systems.	Promotes public private partnerships. Defines target population.	Promotes public private partnerships. Defines target population.
Weaknesses	Unknown.	Target population is unclear. Specific outcomes	Need time for ramp up. Potential negative impact on safety net	Fiscal estimate unknown, but probably substantial costs to implement.	Need time for ramp up. Potential negative impact to safety net	Need time for ramp up. Unknown impact to safety net providers.

	Administration's Principles and Goals	California Association of Public Hospitals and Los Angeles County	Insuring the Uninsured Project	Health Consumer Advocates	San Diegans for Healthcare Coverage	Working Partnerships USA
		unclear.	providers to the extent enrollees choose other providers. Funding mechanism not specific.	Unknown impact on safety net providers.	providers. Funding mechanism not specific.	Funding mechanism not specific. Is limited to one county.

APPENDIX

Key Sources OF PAYMENTS TO HOSPITALS UNDER THE WAIVER

Public Hospitals (22 Specified)

Medi-Cal "Cost–Based" Reimbursement
- Each hospital receives individual Medi-Cal "cost-based" rate.
- Must contract with CA Medical Assistance Commission (CMAC).
- Use Certified Public Expenditures (CPE) for federal match. No General Fund support.
- If Medi-Cal inpatient volume increases, so does federal funds.

Hospital Care Support Fund (i.e., Safety Net Care Pool)
- $400 million needed to maintain 2004-05 baseline level.
- Use CPE for federal match. No General Fund support for publics.
- Additional funds for equity adjustments and stabilization funding is provided as specified in legislation. Amount available for this purpose is contingent on the amount available after the baseline level is funded and the state receives its share as designated.
- These funds are not yet available since the CPE is not finalized.

Disproportionate Share Hospital (DSH) Payments
- Provides $1.032 billion (federal funds) per existing federal law.
- Use CPE for up to 100% of uncompensated care costs (UCC) and then use Intergovernmental Transfers (IGT) for 100% to 175% of UCC for federal match. No General Fund support for publics.

Private Hospitals, Children's, and District Hospitals

Medi-Cal Per Diem Payments as provided by CMAC
- Use General Fund support for federal funds.
- Volume increases available as Medi-Cal Inpatient needs increase.
- Rate increases contingent upon General Fund and CMAC.

"Replacement" DSH & "Replacement" Graduate Medical Education (GME)
- DSH and GME for these hospitals will no longer be available as previously provided. As such a replacement program was created.
- The 2004-05 baseline level is maintained overall.
- Use General Fund support for federal funds.
- These dollars are being allocated.

Health Care Support Fund for Stabilization.
- Use General Fund support for federal funds.
- Legislation specifies criteria for stabilization funding.

"Distressed" Hospital Fund for Publics, Privates, Children's & Districts
- Accessible by all CMAC contracting hospitals, including Privates and Publics.
- Makes available another $16 million (federal funds) on an annual basis to hospitals deemed "distressed", as contained in legislation and as approved by CMAC.

Hospital Financing Waiver Overview

Prepared by Diane Van Maren, Senate Budget

(Chart: Methods of Hospital Payment by Type of Hospital)

Private & Children's Hospitals

- **Medi-Cal Inpatient Per Diem**. Hospitals contract with the CA Medical Assistance Commission (CMAC) for Medi-Cal Inpatient Per Diem Payments. These payments are made using General Fund support and a corresponding federal match (currently 50/50 percentage split). These federal funds are unlimited and will be available based on Medi-Cal inpatient volume.
- **"Replacement" DSH & "Replacement" GME**. In the aggregate, hospitals will receive payments equal to what they received in 2004-05 for both Disproportionate Share Hospital and Graduate Medical Education funding. These funds are part of the "hold-harmless" or baseline funding process. General Fund support will be used to obtain a federal match from the Safety Net Care Pool for this purpose.
- **"Distressed" Hospital Funds.** This funding will be accessible by hospitals through CMAC as specified in legislation.
- **Baseline Funding.** All contracting hospitals will receive a baseline amount equivalent to their 2004-05 level. This is the first priority of the various funding mechanisms referenced above.

District Hospitals

- **Medi-Cal Inpatient Per Diem**. Hospitals contract with CA Medical Assistance Commission (CMAC) for Medi-Cal Inpatient Per Diem Payments. This method of payment is the same as for Private Hospitals.
- **"Replacement" DSH & "Replacement" GME**. In the aggregate, hospitals will receive payments equal to what they received for 2004-05 for both Disproportionate Share Hospital and Graduate Medical Education funding. The method of payment is the same as for Private Hospitals.
- **"Distressed" Hospital Funds.** This funding will be accessible by hospitals through CMAC as specified in legislation. A key criterion to be eligible is that a hospital must contract with CMAC.
- **Baseline Funding.** All contracting hospitals will receive a baseline amount equivalent to their 2004-05 level. This is the first priority of the various funding mechanisms referenced above.

All *Non-Contract* Hospitals

- **Medi-Cal Inpatient Rate**. All non-contract hospitals will receive an established Medi-Cal inpatient rate

Public & University of CA Hospitals

- **Medi-Cal Inpatient "Cost-Based".** All Public Hospitals (22 specified) must contract with CMAC. Each hospital will receive a "cost-based" rate which reflects their individual hospital expenditures. "Certified public expenditures" (CPE) will be used to draw the federal match. These federal funds are available as long as there is CPE to draw the match. No General Fund support.
- **Disproportionate Share Hospital Payments (DSH)**. Per existing federal law, the DSH federal funds are capped at $1.03 billion. These funds will be solely allocated to the 22 Public Hospitals based on a formula. CPE will be used to draw the federal match. No General Fund support.
- **Safety Net Care Pool Funds**. This pool is capped at $586 million (federal funds) for the first two-years of the Waiver and is used for uncompensated care provided to the uninsured. About $400 million will be used to provide "baseline" funding to the Public Hospitals. CPE's will be used to draw the federal funds for the Public Hospitals.

  The remaining pool amount is used to provide certain equity adjustments and stability funding to hospitals, as well to support certain state-operated programs.
- **"Distressed" Hospital Funds.** This funding will also be accessible to Public Hospitals.

SUBCOMMITTEE NO. 3 Agenda
Health, Human Services, Labor & Veteran's Affairs

Chair, Senator Denise Ducheny

Senator Wesley Chesbro
Senator Dave Cox

March 6, 2006

10:00 AM

Room 4203
(John L. Burton Hearing Room)

(Diane Van Maren)

Item	**Department**
4440	**Department of Mental Health—*Selected Issues as Noted***

- **Community Mental Health issues**
- **State Hospital issues**

PLEASE NOTE: Only those items contained in this agenda will be discussed at this hearing. *Please* see the Senate File for dates and times of subsequent hearings.

Issues will be discussed in the order as noted in the Agenda unless otherwise directed by the Chair. 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.

Department of Mental Health

A. OVERALL BACKGROUND

Purpose and Description of Department. The Department of Mental Health (DMH) administers state and federal statutes pertaining to mental health treatment programs. The department directly administers the operation of five State Hospitals—Atascadero, Coalinga, Metropolitan, Napa and Patton, and acute psychiatric programs at the California Medical Facility in Vacaville and the Salinas Valley State Prison.

The department provides hospital services to civilly committed patients under contract with County Mental Health Plans (County MHPs) while judicially committed patients are treated solely using state funds.

Purpose and Description of County Mental Health Plans: Though the department oversees policy for the delivery of mental health services, counties (i.e., County Mental Health Plans) have the primary funding and programmatic responsibility for the majority of local mental health programs as prescribed by State-Local Realignment statutes enacted in 1991 and 1992.

Specifically counties are responsible for: (1) all mental health treatment services provided to low-income, uninsured individuals with severe mental illness, within the resources made available, **(2)** the Medi-Cal Mental Health Managed Care Program, **(3)** the Early Periodic Screening Diagnosis and Testing (EPSDT) Program for children and adolescents, **(4)** mental health treatment services for individuals enrolled in other programs, including special education, CalWORKs, and Healthy Families, and **(5)** programs associated with the Mental Health Services Act (Proposition 63).

Overall Governor's Budget. The budget proposes expenditures of $3.4 billion ($1.6 billion General Fund) for mental health services, **an increase of $316.4 million General Fund and 475.8 positions from the revised current-year budget.**

This General Fund increase is the net result of significant adjustments in the State Hospital budget, the transfer of General Fund support from the Department of Health Services to the Department of Mental Health for the Early and Periodic Screening, Diagnosis and Treatment Program, and the removal of funds used to support AB 3632 special education students who need mental health services.

In addition to the above expenditures, the DMH is also proposing capital outlay expenditures of $42.6 million ($41.6 million Public Building Construction Fund and $947,000 General Fund).

Further, it is estimated that almost $1.2 billion will be available in the Mental Health Subaccount (County Realignment Funds) which does not directly flow through the state budget. Counties use these revenues to provide necessary mental health care services to Medi-Cal recipients, as well as indigent individuals. The total amount reflects an increase of $23.6 million (County Realignment Funds), or about two percent over the anticipated current-year level.

Table: Total Proposed Funding for Department of Mental Health

Summary of Expenditures (Dollars in Thousands)	**2005-06**	**2006-07**	$ Change	% Change
Program Source				
Community Services Program	$2,576,579	$2,450,152	-$126,427	-4.9
Long Term Care Services	$920,084	$993,799	$73,715	8.0
State Mandated Local Programs	$120,000	$0	-$120,000	-100.0
Total, Program Source	**$3,616,663**	**$3,443,951**	**$172,712**	**-4.8**
Funding Source				
General Fund	$1,272,519	$1,588,959	$316,440	25.0
General Fund, Proposition 98	$13,400	$13,400	0	0
Mental Health Services Fund (Proposition 63)	$665,663	$663,913	-$1,750	-0.2
Federal Funds	$63,141	$63,199	$58	-0.09
Reimbursements	$1,600,694	$1,112,776	-$487,918	-30.5
Traumatic Brain Injury Fund	$1,150	$1,207	$57	5.0
CA State Lottery Fund	$96	$96	0	0
Licensing & Certification Fund	--	$401	$401	100
Total Department	**$3,616,663**	**$3,443,951**	**-$172,712**	**-4.8**

<u>B. ISSUES FOR VOTE ONLY *(Items 1 Through 3—through to page 6*)</u>

1. <u>Healthy Families Program Adjustments—Supplemental Mental Health Services</u>

<u>Issue:</u> The Governor's budget proposes **an increase of $1.733 million** (federal funds received as reimbursement) **to reflect technical adjustments to the supplemental mental health services provided by County Mental Health Plans under the Healthy Families Program (HFP).**

Of the amount requested, $1.575 million (federal funds received as reimbursements) is for caseload adjustments and $158,000 is for county administration costs. These adjustments are based on past claims paid through the program.

The proposed budget adjustment would provide a total of $26.1 million ($339,000 General Fund, $9.1 million County Realignment Funds, and $16.6 million federal funds) for supplemental mental health services under the HFP.

<u>Background—What is the HFP & How are Supplemental Mental Health Services Provided:</u>

The Healthy Families Program provides health insurance coverage, 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.

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 Plans 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.** With respect to legal immigrant children, the state provides 65 percent General Fund financing and the counties provide a 35 percent match.

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.**

<u>Subcommittee Staff Comments and Recommendation (Adopt):</u> The proposed increase reflects technical adjustments. The adjustment is consistent with the forecast methodology used in past years. No issues have been raised on this proposal. **It is therefore recommended to approve as budgeted.**

2. Transfer Funding for Certain Mental Health Services for Juvenile Justice Wards

Issue: The budget proposes **to permanently transfer $3.6 million (General Fund) from the California Department of Corrections and Rehabilitation (CDCR) to the DMH for mental health services provided to juvenile justice wards receiving treatment at Metropolitan State Hospital.** Presently, the CDCR reimburses the DMH for these services. **As such, there is no net General Fund affect on the budget from this action.**

This transfer of funds is a technical adjustment only and would be consistent with the decision made last year to transfer General Fund responsibilities from the CDCR to the DMH for the care and mental health treatment of CDC inmates residing in DMH operated facilities. By transferring these General Fund dollars to the State Hospital appropriation, the administrative activities related to the billing and collection of funding from the CDCR will be eliminated.

Background—20-Bed Unit: There is a 20-bed inpatient mental health treatment unit located within the Southern Youth Correctional Reception Center and Clinic (administered by the CDC). This unit is operated under the acute psychiatric license of Metropolitan State Hospital. Services to the wards are provided by the DMH through an interagency agreement with the CDCR.

For the current year, the DMH receives a total of $4.9 million for services provided to the wards. This includes $1.3 million for State Hospital beds provided throughout the system and $3.6 million for the 20-bed program as noted above.

Subcommittee Staff Comments and Recommendation (Adopt): The proposed increase reflects a technical adjustment and is consistent with the objective to have the DMH appropriate General Fund support associated with CDCR wards and inmates who are receiving mental health treatment through the DMH-operated system. No issues have been raised on this proposal. **It is therefore recommended to approve as budgeted.**

3. San Mateo Pharmacy and Laboratory Services Adjustments

Issue: The Governor's budget proposes two adjustments to this project. **First, it reflects a transfer of $6.5 million (General Fund) from the DHS to the DMH.** This is being done to more accurately reflect the appropriation and expenditure of the funds which are for mental health services. No net funding increase is attributable to this transfer.

Second, a *net* increase of $633,000 ($348,000 General Fund and $285,000 in Reimbursements from the DHS) is requested to adjust the funding levels provided for pharmacy expenditures in the San Mateo Project.

This net adjustment reflects a reduction of $702,000 (total funds) attributed to implementation of the Medicare Part D Drug Program, and other pharmacy-related increases based on the forecasting model used by the DMH for this purpose. In addition, an adjustment was made as the result of accrual to cash carryover calculations from the Medi-Cal Program.

It should be noted that technical May Revision adjustments are anticipated based on updated data.

Additional Background—What is the San Mateo Project? The San Mateo County Mental Health Department has been operating as the mental health plan under a federal Waiver agreement and state statute since 1995. **San Mateo is the only county that has responsibility for the management of some financial risk and the management of pharmacy and related laboratory services, in addition to being responsible for psychiatric inpatient hospital services and outpatient specialty mental health services.**

This project is intended to test managed care concepts which may be used as the state progresses towards the complete consolidation of specialty mental health services and eventually, a capitated or other full-risk model. As the San Mateo Project has matured and evolved, additional components have been added and adjusted.

Subcommittee Staff Comments and Recommendation (Adopt): The increase of $633,000 ($348,000 General Fund and $285,000 in Reimbursements from the DHS) is requested to reflect a forecasting methodology developed by the DMH for pharmacy expenditures specific to this project. Specifically, the forecasting methodology is based on a study conducted in 2003. The requested increase reflects a 7.56 percent increase in pharmacy expenditures.

The General Fund transfer of $6.5 million from the DHS to the DMH is also consistent with realigning appropriations within departments based on program functions.

The budget adjustments reflect the existing agreement between the state and San Mateo. No issues have been raised on this proposal. **It is therefore recommended to approve as budgeted pending receipt of the Governor's May Revision.**

C. DISCUSSION ITEMS--Community-Based Mental Health Services

1. Mental Health Managed Care Adjustments

Issues: The budget reflects **two adjustments** to the Mental Health Managed Care Program **for a total *net reduction* of $3.1 million (General Fund) in 2006-07, along with corresponding adjustments in Reimbursements.**

***First,* a *net* increase of $4.3 million (General Fund) is requested to reflect adjustments for the local assistance.** This net increase reflects the following key adjustments:

- Increase of $4.4 million (General Fund) to reflect an increase in caseload (both inpatient and outpatient);
- Decrease of $67,000 (General Fund) to eliminate one-time funding provided last year for changes in the appeals and state fair hearing processes; and
- Does not provide for an adjustment for the medical consumer-price index for counties.

The Governor's budget does not reflect a medical consumer-price index adjustment which was supposed to be part of the annual formula agreed to by the counties and the state. **No medical consumer-price index adjustment has been provided since the Budget Act of 2000. For 2006-07, the cost of the medical consumer-price index would be $9.4 million (General Fund), if provided.**

***Second*, a reduction of $7.5 million (General Fund) is proposed within DMH state support to eliminate *one-time only* funding provided in the current year to comply with federal regulations related to providing informing materials to all Medi-Cal enrollees and all current clients enrolled in Mental Health Managed Care.**

Background—Overview of Mental Health Managed Care: Under Medi-Cal Mental Health Managed Care psychiatric inpatient hospital services and outpatient specialty mental health services, such as clinic outpatient providers, psychiatrists, psychologists and some nursing services, are the responsibility of a single entity, the Mental Health Plan (MHP) in each county.

Full consolidation was completed in June 1998. This consolidation required a Medicaid Waiver ("freedom of choice") and as such, the approval of the federal government. Medi-Cal recipients *must* obtain their mental health services through the County MHP.

The Waiver promotes plan improvement in three significant areas—access, quality and cost-effectiveness/neutrality. The DMH is responsible for monitoring and oversight activities of the County MHPs to ensure quality of care and to comply with federal and state requirements.

Background—How Mental Health Managed Care is Funded: Under this model, County 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. **County MHPs access County Realignment Funds (Mental Health Subaccount) for this purpose.**

An annual state General Fund allocation is also provided to the County MHP's. 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.

The state's allocation is contingent upon appropriation through the annual Budget Act.

Based on the most recent estimate of expenditure data 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.)

Constituent Concerns with Not Funding Medical Consumer-Price Index. The Subcommittee is in receipt of a letter from the CA Mental Health Directors Association (CMHDA) and the CA State Association of Counties (CSAC) who are seeking funding for the medical consumer-price index. They contend that without such increases, the ability of counties to provide services to their target population of seriously mentally ill indigent individuals will continue to erode, with more County Realignment revenues going to provide the match for Medi-Cal services.

Specifically, they note that the medical consumer-price index has not been funded by the state since the Budget Act of 2000. Since this time, medical inflation increases have occurred and the cost of prescription drugs continue to grow. Counties also absorbed a five-percent ($11 million) reduction in the program through the Budget Act of 200, and have absorbed some costs of complying with new federal Medicaid managed care regulations with no additional funds. **In short, they contend that the ability of counties to meet their legal mandates in the Medi-Cal Program is directly tied to the adequacy of County Realignment Funds.**

Further, CMHDA and CSAC note that although the Mental Health Services Act (i.e., Proposition 63) provided new revenues for mental health services, revenues from this act cannot be used to supplant existing programs.

Subcommittee Staff Comment and Recommendation: It is recommended to adopt the Governor's proposed budget at this time, pending receipt of the May Revision.

The proposal reflects the standard calculations, except for the medical CPI adjustment. An increase of $9.4 million (General Fund) would be needed to fund the medical CPI adjustment for 2006-07.

Questions:

1. DMH, Please provide a brief summary of the budget proposal.

2. DMH, Why wasn't the medical CPI adjustment funded and are you concerned about any repercussions that may occur from this action?

2. Early, Periodic Screening, Diagnosis & Treatment—*Baseline & Audit Concerns*

Issues: The budget proposes to **(1)** make several technical adjustments to account for caseload and utilization needs, **(2)** transfer General Fund support from the DHS to the DMH to more appropriately align resources with programs, and **(3)** capture significant savings from extrapolating audit data and applying this data across program treatment services within selected audited agencies (legal entities). The net effect of these adjustments is an increase of $38.8 million ($18.9 million General Fund) for total program expenditures of $714.4 million ($352.3 million General Fund, $77.3 million County Realignment Funds and $362.1 million federal funds) for 2006-07.

Specifically, the key adjustments are as follows:

- *Utilization Adjustments*. The budget increases by $38.8 million ($18.9 million General Fund) due to more participants and service utilization. These adjustments are consistent with prior fiscal methodologies.
- *Technical Transfer of Funds.* The budget transfers the General Fund portion of the base program from the Department of Health Services to the DMH. This action aligns expenditures within one department and is consistent with past approaches to improve budget accountabilities.
- *Audit Assumptions.* The budget assumes a $19.1 million ($8.3 million General Fund) offset through audit disallowances and audit recoupments from county and community mental health providers. **It should be noted that of this $19.1 million offset, $4.8 million ($2.2 million General Fund) is assumed to be offset due to the actual EPSDT revised audits (i.e., recoupments), and $14.3 million ($6.1 million General Fund) is offset due to use of the "Disallowed Claims System" (i.e., claims are withdrawn from billing by providers through the County Mental Health Plan).**

The Governor's proposed technical adjustments to the budget are consistent with past practices in providing mental health treatment services under the EPSDT Program, with the *exception* of the audit disallowances and audit recoupments. These audit adjustments have raised significant concerns with community mental health providers and some County Mental Health Plans.

Constituency Concerns with Use of Extrapolation of Audit Data. As part of a series of cost containment actions over several years, effective January 2005, the DMH hired a consultant to commence chart audits of EPSDT services using a revised audit methodology.

Though EPSDT audits have been conducted previously, these newer audits use an *"extrapolation" method* which is then applied across those services provided by the audited "legal entity". It is the application of this "extrapolation" method that has raised the most concerns of many constituency groups.

Under the DMH extrapolation method, the audit contractor selects a statistically valid sample of case files from a particular provider to review. ***Any* audit disallowances resulting from this sample of this one provider are then extrapolated to *all* of the said agency's (i.e., legal entity) other mental health treatment clinics/service providers. As such, a small number of cases are then applied to the *entire* agency (all of the providers affiliated with the agency). Therefore, a few hundred dollars of audit disallowances from one provider can then become thousands of dollars of disallowances to the agency (legal entity) under this extrapolation method.**

According to the DMH, with the use of extrapolation for each $100 in claims that are disallowed, DMH has recouped $5,000 (on average). Therefore a legal entity could estimate its total dollars to be recouped by multiplying the dollar amount of the claims disallowed by 50. Further, if the DMH did *not* do extrapolation, only about 2 percent would be recouped. It should be noted that there are 40 pending audit appeals currently being tracked by the DMH since inception of this revised audit method.

A core concern of the extrapolation method is its validity. An agency (legal entity) can have different facilities which provide different services and serve different populations. As such, auditing one facility and extrapolating to others can give misleading results. Further, extrapolation is done by service function (such as therapy service, medication management, case management) but there is not a statistically valid sample for each service function at the level of the legal entity. For example, 50 charts are audited from one provider and the results could represent less than 1 percent of the claims for a particular service (i.e., for the agency/legal entity as a whole).

Through a series of meetings and letters, many organizations, including the CA Council of Community Mental Health Agencies, California Alliance of Child and Family Services, and County Mental Health Directors Association, have expressed their concerns to the DMH about the extrapolation method of auditing.

Numerous issues have been raised regarding the use of the extrapolation method, as discussed above, as well as several other issues including the following:

- Lack of clarity regarding the reimbursement method for **interpreter services**. Several providers have experienced audit disallowances for providing this service which is critical for meeting an individual's needs to receive culturally competent services for mental health treatment. The DMH has not been clear as to how these services should be reimbursed.
- **Lack of guidance** from the state to the counties and to the providers regarding the use of certain reimbursement codes under the program, particularly case management services.
- Use of the **"Disallowance Claims System" needs to be revamped.** Under this system a provider can request a County Mental Health Plan to remove a request for reimbursement (claim for services) from the billing system prior to any formal audit disallowance. Since the request for billing has been removed, the claim is not reviewed as part of the audit process.
- Concern that these revised audits are causing an administrative burden while not addressing any issues related to concerns of inadequate service capacity as raised through litigation in prior years (See Additional Background Section, below).

Additional Background Information on How the EPSDT Program Operates. 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. Examples of services include family therapy, crisis intervention, medication monitoring, and behavioral management modeling.

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

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.

County Mental Health Plans must use a portion of their County Realignment Funds to support the EPSDT Program. Specifically, a "baseline" amount was established as part of an interagency agreement in 1995, and an additional 10 percent requirement was placed on the counties through an administrative action in 2002. **As such counties must provide about $77.3 million in County Realignment Funds to support the EPSDT Program in 2006-07.**

Subcommittee Staff Comments: Audits of all public programs are necessary and appropriate in order to mitigate fraud and abuse, and to ensure that consumers are receiving appropriate and high quality services. However, considerable concerns have been raised as to the validity and fairness of these audits. Further it is unclear at this time as to what programmatic improvements are to be achieved through the use of extrapolation, other than fiscal reductions.

It is recommended to have the DMH engage in further discussions with constituency groups regarding their concerns and to report back to the Subcommittee in early April to see if any modifications to the process would be warranted.

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

1. DMH, Please **briefly describe how the revised audit methodology works**, including the extrapolation process and the "Disallowance Claims System".

2. DMH, Have the revised audits revealed any significant levels of fraud or providing extensive services to children who did not have medically necessary needs?

3. DMH, What quality improvements to the EPSDT Program are being contemplated due to the result of these audits?

4. DMH, Are any changes to this new audit process being contemplated? If so, when may resolution on issues be achieved?

5. DMH, Please clarify how interpreter services are to be reimbursed.

3. Mental Health Services Act—-Update on Implementation Activities *(Informational)*

Issue. The **Subcommittee has requested for the DMH to provide an update regarding the implementation of the Mental Health Services Act (Act).** The DMH has recently provided the Legislature with a report on implementation activities as required (received February 2006).

Most of the Act's funding will be provided to County Mental Health programs to fund programs consistent with their approved local plans. The Act provides for a *continuous appropriation* of the funds to a special fund designated for this purpose.

The Mental Health Services Oversight and Accountability Commission (OAC) is established to implement the Act and has the role of reviewing and approving certain county expenditures authorized by the measure. The OAC has been meeting regularly to discuss issues and an Executive Director to the Commission was recently hired.

***Status Update*.** The **report prepared by the DMH contains the following key information:**

- During 2004-05, the DMH expended $16.9 million (special funds) in the development and planning phases to implement the provisions of the Act. This included $4.3 million (special funds) for the initial statewide stakeholder process, training, short-term strategies, development of performance outcomes and related startup efforts.
- $12.6 million (special funds) was distributed to counties for their community program planning.
- It is anticipated that $375 million (special funds) in 2005-06 and about $1.2 billion (special funds) in 2006-07 will be allocated to continue a phased implementation of the Acts components. This information is highlighted in the table below.

Table: DMH Estimate of Mental Health Services Act *Expenditures* as of January 2006

Components of the Act	Actual Expenditures **2004-05**	Estimated Expenditures **2005-06**	Projected Expenditures **2006-07**
Mental Health	$4,319,000	$16,813,000	$8,413,000
Health Services		52,000	$493,000
Social Services		$515,000	$508,000
Education		$633,000	$396,000
Rehabilitation		$195,000	$195,000
Alcohol & Drug		$247,000	$250,000
Managed Risk Medical Ins			$151,000
State Controller			$43,000
Total State Support (rounded)	**$4,319,000**	**$18,455,000**	**$10,500,000**
Local Assistance			
Education & Training			$252,000,000
Capital Facilities & Technology			$252,000,000
Local Planning	$12,624,000		
Prevention & Early Intervention			$275,000,000
Community Services & Support		$356,870,000	$398,000,000
Total Local Assistance	**$12,624,000**	**$356,870,000**	**$1,177,000,000**
Grand Total	**$16,943,000**	**$375,325,000**	**$1,187,500,000**

<u>Additional Background—Summary of Key Aspects of Mental Health Services Act (Proposition 63, 2004).</u> The Mental Health Services Act addresses a broad spectrum of prevention, early intervention and service needs and the necessary infrastructure, technology and training elements that will effectively support the local mental health system.

The Act imposes a 1 percent income tax on personal income in excess of $1 million. The Act is projected to generate about $254 million in 2004-05, $683 million in 2005-06 and $690 million in 2006-07 and increasing amounts thereafter.

The six components and the required funding percentage specified in the Act for 2004-05 through 2007-08 are shown in the table below.

Table: Percent Funding by Component as required by Act

Six Component of MHSA Act	2004-05	2005-06	2006-07	2007-08
Local Planning	5%	5%	5%	5%
Community Services & Supports	0	55%	55%	55%
Education & Training	45%	10%	10%	10%
Capital Facilities & Technology	45%	10%	10%	10%
State Implementation/Admin	5%	5%	5%	5%
Prevention	0	20%	20%	20%
TOTALS	100 %		100 %	100 %

- <u>Local Planning (County plans)</u>: Each county must engage in a local process involving clients, families, caregivers, and partner agencies to identify community issues related to mental illness and resulting from lack of community services and supports. **Each county is to submit for state review and approval a three-year plan for the delivery of mental health services within their jurisdiction.** Counties are also required to provide annual updates and expenditure plans for the provision of mental health services.
- <u>Community Services and Supports</u>. These are the programs, services, and strategies that are being identified by each county through its stakeholder process to serve unserved and underserved populations, with an emphasis on eliminating racial disparity.
- <u>Education & Training.</u> This component will be used for workforce development programs to remedy the shortage of qualified individuals to provide services to address severe mental illness.
- <u>Capital Facilities and Technology.</u> This component is intended to support implementation of the Community Services and Supports programs at the local level. Funds can be used for capital outlay and to improve or replace existing information technology systems and related infrastructure needs.
- <u>Prevention & Early Intervention.</u> These funds are to be used to support the design of programs to prevent mental illness from becoming severe and disabling.

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

1. DMH, Please provide a brief summary of the status of the County Plans, and key related components regarding implementation of the Mental Health Services Act.

2. DMH, What will be the key expenditures for 2006-07 (charts and description)?

4. Mental Health Services Act—Augmentation for State Support

Issue: The DMH is seeking an increase of $434,000 (Mental Health Services Act Fund) to fund two new state positions and consultant expenses related to implementation of the Mental Health Services Act (Proposition 63, 2004). Specifically, these resources are proposed to be used as follows:

- *CA Mental Health Planning Council.* Provides funds to support a Staff Mental Health Specialist position for the CA Mental Health Planning Council to address ongoing workload activities required by the Act, and for additional operating costs associated with these activities.
- *Department of Mental Health.* Provides funds to support a Staff Programmer Analyst position within the DMH to assist with the development of a statewide information technology infrastructure that interfaces with county information technology systems to comply the performance requirements of the Act.
- *Various Contracts.* Provides funds for the **Mental Health Services Oversight Commission** to use for various contracts as follows:
  - $100,000 for research projects;
  - $5,000 for conference and training services for public meetings;
  - $6,000 for public address assistance; and
  - $20,000 for legal counsel assistance.

Subcommittee Staff Recommendation. No issues have been raised by this proposal. The requested staff has been justified based on the workload needs of implementing the Mental Health Services Act. **It is recommended to adopt the budget proposal.**

Questions.

1. DMH, Please briefly describe the budget request.

5. Need to Receive Report from the DMH on Mental Health Parity

Issue and Background. Through the Budget Act of 2004, the Legislature requested the DMH, in collaboration with the Department of Managed Health Care, and the Department of Insurance to conduct an analysis of mental health parity in California. Among other things, this analysis was to include suggested approaches over the short-term and long-term to effectuate a more comprehensive mental health system in California, both public and private. **This analysis was due to the Legislature by March 1, 2005. It is one-year late.**

Though receipt of the report has been requested numerous times, including through this Subcommittee last year, it still has not been provided. The only response that has been forthcoming is that it is under review.

Questions. The Subcommittee has requested the DMH to respond to the following question.

1. **DMH**, When will the **requested report which is one-year over due be provided**?

D. DISCUSSION ITEMS—State Hospitals

<u>Overall Background and Funding Sources.</u> The department directly administers the operation of five State Hospitals—Atascadero, Metropolitan, Napa, Patton, and Coalinga. In addition, the DMH administers acute psychiatric programs at the California Medical Facility in Vacaville, and the Salinas Valley State Prison.

Patients admitted to the State Hospitals are generally either (1) civilly committed, or (2) judicially committed. As structured through the State-Local Realignment statutes of 1991/92, County Mental Health Plans (County MHPs) contract with the state to purchase beds. County MHPs reimburse the state for these beds using County Realignment Funds (Mental Health Subaccount).

Judicially committed patients are treated solely using state General Fund support. The majority of the General Fund support for these judicially committed patients is appropriated through the Department of Mental Health (DMH). However, a small amount of reimbursement is also provided to the DMH by the CA Department of Corrections and Rehabilitation to support certain specified patient populations.

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 as noted.

Of the total patient population, ***over 90 percent*** **of the beds are designated for penal code-related patients and less than 10 percent are to be purchased by the counties**, primarily Los Angeles County.

<u>Overall Budget for the State Hospital System.</u> Total expenditures of **$958.4 million ($876.4 million General Fund) and 9,714 positions are proposed to operate the five State Hospitals that serve a total population of 5,830 patients.**

Table: DMH Summary of Population by Hospital ***(DMH Estimate for Budget Purposes)***

Hospital Summary	Budget Act of 2005 (6/30/2006)	*Revised* 2005-06 (6/30/2006)	Proposed Patient Growth for 2006-07	Proposed 2006-07 Population (6/30/07)
Atascadero	1,402	1,297	125	1,422
Coalinga	747	723	65	788
Metropolitan	745	688	17	705
Napa	1,120	1,120	75	1,195
Patton	1.369	1,369	-43	1,326
Vacaville	294	294	0	294
Salinas	64	100	0	100
TOTALS	**5,741**	**5,591 (150 less in the CY compared to Budget Act)**	**239 (Proposed Net increase over CY)**	**5,830 (Proposed BY)**

1. Caseload at the State Hospitals is Over Estimated According to LAO

Issues. The Legislative Analyst's Office (LAO) **has identified several areas for General Fund reduction related to the level of patient caseload at the State Hospitals. The proposed reductions are as follows and include both the current-year and budget-year:**

- *Reduce Funds Due to Less Caseload.* Reduce by $10 million (General Fund) for the current-year, and $20 million (General Fund) for the budget year, to account for an over estimate of caseload in the State Hospitals as budgeted by the DMH;
- *Reduce for Unavailable Beds at Coalinga.* Reduce by $8.5 million (General Fund) in the current-year because Coalinga State Hospital will not achieve its current-year patient caseload due to staff shortages, as discussed further below. The proposed reduction reflects a reduction of 50 penal code-related patients in the current-year.

Using actual caseload data from January, the LAO believes that overall caseload for the current year will be about 190 patients less than estimated by the DMH. In addition, about 50 beds purchased by the CA Department of Corrections and Rehabilitation (CDCR) at Coalinga will not be used due to staffing shortages. Similarly, the spending plan then overestimates the funding needed for the budget year.

Reasons Why Caseload is Presently Less at the State Hospitals. There are several reasons why caseload is presently less than estimated at the State Hospitals. These are as follows:

- *Coalinga State Hospital Activation Slower Than Anticipated.* This new facility was activated as of September 2005 as planned; however the actual patient population has not reached its anticipated level due to concerns with hiring staff, primarily clinical staff. **As of January 2006, about 58 percent of the staff positions were vacant and the actual caseload was only 140 patients or about 300 patients less than anticipated in the Budget Act of 2005.**

- *Clinical Staff Short Falls Partially Due to "Plata" Ruling.* The DMH contends its difficulties in hiring and retaining staff stem in part from the recent federal "Plata" court case involving problems with the provision of health care at the state prisons. Through the federal ruling, the CA Department of Corrections and Rehabilitation (CDCR) was required to increase the salaries paid to certain personnel classes of physicians, nurses and other clinical staff. As such, the DMH states that hiring and retention of their clinical staff, particularly at Coalinga State Hospital, became problematic because their compensation was not competitive with nearby prisons.

  In response to this concern, the Joint Legislative Budget Committee recently approved the Administration's current-year request to fund recruitment and retention ("R & R's") pay for certain physician and nursing classifications at the State Hospitals. **Therefore, the DMH anticipates that this action will facilitate hiring which will enable more patients to then be placed at Coalinga.**

- *Declining Number of Civilly Committed Patients.* County Mental Health Plans purchase beds from the State Hospital system for patients with severe mental illness when appropriate services cannot be obtained in a community-setting. Over the last several years, the number of beds purchased by counties (known as Lanterman-Petris-Short beds or LPS-beds) has continued to decline.

  One subset of this population is a unit at Metropolitan State Hospital that provides mental health services for adolescents who are severely emotionally disturbed. This patient population has been declining for several years from about 110 patients to only about 28 patients currently (22 patients from Los Angeles). As a result, the DMH has held up a bidding process for an estimated $8.8 million (Bond Funds) project to construct an on-site school building at Metropolitan for these patients. In addition, the DMH is assessing whether the existing population is sufficient to justify the continuation of this unit.

Subcommittee Staff Recommendation. It is **recommended to adopt the LAO recommendations** to:

> **(1)** Reduce by $10 million (General Fund) in the current-year and $20 million (General Fund) in the budget year due to an over estimate of caseload; and
>
> **(2)** Reduce by $8.5 million (General Fund) in the current year to reflect the reduced patient population residing at Coalinga State Hospital.

It should be noted that this recommendation will likely need to be adjusted at the May Revision when updated projections are obtained.

In addition, it is recommended to adopt the following Budget Bill Language in order for the Legislature to keep informed regarding the DMH's intentions of operating a special adolescent unit at Metropolitan State Hospital, and whether an on-site school is still warranted.

> Item 4440-011-0001
> Provision x.
>
> "The department shall provide the policy and fiscal committees of the Legislature with an update by no later than January 10, 2007, or sooner if applicable, on the status of the operation of the adolescent unit at Metropolitan State Hospital, including whether construction of the on-site school is warranted."

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

1. **LAO**, Please present your fiscal recommendations to reduce the budget due to caseload.

2. **DMH,** Do you concur with the LAO recommendations regarding caseload?

3. **DMH**, Please provide a brief update on the staffing issues at Coalinga and the overall future ability to increase patient caseload at the facility.

4. **DMH**, Please provide a status update on your review of the viability of continuing the adolescent unit at Metropolitan State Hospital.

2. Administration’s Request for Statutory Change for Patton State Hospital

Issue. The DMH is requesting a **statutory change** to Section 4107 (c) of Welfare and Institutions Code **in order to continue to operate above state licensing capacity at Patton State Hospital (Patton) for an additional *four years*.**

Presently, existing statute allows the DMH to operate above capacity only until September 2006 (i.e., one year after activation of Coalinga State Hospital). The requested statutory change would extend the date from September 2006 to September 2009. The DMH contends that if this extension is not done, fewer “secure” beds will be available at Patton and a system-wide problem regarding access to secure beds for Penal-Code patients would arise.

Patton presently has a state licensed capacity of 1, 336 patient beds. Existing statute provides for the DMH to operate at a capacity of *up to* 1,670 patient beds, or 334 patient beds more than the state license capacity.

The DMH states that for the past year, Patton has been operating at a fairly constant level of 1,525 patients, or about 189 patient beds above licensed capacity. In order to operate at this higher capacity, the DMH had to have their plan for Patton reviewed by the Department of Health Services’ Licensing and Certification Division (DHS). In addition, monthly status reports must be provided to the DHS to continue to receive their approval of the plan.

Background—Why the Need to Extend the ”Over Bedding” Timeframe at Patton. For the past several years, in order for the DMH to manage the increased growth of Penal-Code related patient commitments, the DMH has been operating at above state licensing capacity at Atascadero and Patton State Hospitals.

Through trailer bill language enacted for the Budget Act of 2001, a limit to the level of over bedding at Patton was instituted (i.e., up to 1, 670 patients until one-year following activation of Coalinga State Hospital). **This language was intended to provide appropriate time to staff Coalinga so patients could be transferred there from other State Hospitals. However the activation of Coalinga was slowed and now, though activated as of September 2006, Coalinga is currently experiencing difficulties in the recruitment and retention of clinical staff.**

The DMH contends that an extension of the over bedding timeline is needed or significant problems will arise, including the following:

- Since Patton presently is operating at 189 beds over capacity (total of 1,525 patients), these Penal-Code related patients would need to be transferred to other State Hospitals.
- The current waiting list of over 300 court-ordered patients system-wide would grow by about 189 patients.
- Few numbers of secured beds equates to the DMH accepting fewer referrals from the CA Department of Corrections and Rehabilitation (CDCR), which may violate requirements of the Coleman Settlement (requires mental health treatment for prisoners) and related court orders.

Subcommittee Staff Recommendation. **It is recommended to modify the Administration's proposed statutory change to more accurately reflect the requested extension of the date (i.e., to 2009) and to reflect a revised patient cap. The DMH has agreed with this suggested modification.**

As such, the recommended revised trailer bill language (Section 4107 (c) of Welfare and Institutions Code read as follows (overlay to existing law):

> "Notwithstanding any other provision of law, the State Department of Mental Health shall house no more than 1, 336 patients at Patton State Hospital. However, until September 2009, ~~one year after the activation of the Coalinga Secure Treatment Facility~~ up to ~~1,670~~ 1,530 patients may be housed at Patton State Hospital.

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

1. DMH, Please briefly describe the trailer bill language request and its implications. Do you concur with the proposed modifications to the language?

2. DMH, How is the DMH continuing to coordinate with the DHS on these issues?

3. Augmentation for Implementation of State Hospital Changes per CRIPA

Issue. The budget seeks **a total increase of $43.5 million** ($37.8 million General Fund, and $5.7 million in County Realignment Funds) **to proceed with numerous, significant changes within the State Hospital system to comply with requirements as directed by the U.S. Department of Justice and the Civil Rights of Institutionalized Persons Act (CRIPA)**

This request consists of (1) $43.3 million ($37.6 million General Fund and $5.7 million in County Realignment Funds) to hire 453 new staff for the State Hospitals, and **(2)** $180,000 (General Fund) to hire 2 new staff for DMH Headquarters.

The DMH contends that if the state fails to address CRIPA deficiencies, the State Hospitals could be placed into federal receivership by the federal courts (as has been done with the CDCR's health care program). Further, the DMH agrees that a general upgrading and modernization of its approach to treating institutional populations is overdue.

The $43.3 million ($37.6 million General Fund) to be expended at the State Hospitals would be used as follows:

- **$39.7 million (total funds) is dedicated to support 453 positions.** This request assumes that all staff are **hired as of July 1, 2006**, the beginning of the new fiscal year. With respect to the types of positions, the following general categories apply:

Table—Summary of DMH Positions (453 total) for State Hospitals

Professional & Nursing Classes	Level-of-Care & Support Classes
Senior Psychiatrist 46.7 positions	Clinical Dietitian 5.5 positions
Senior Psychologist 176.4	Special Investigator 8.6
Psychiatric Social Worker 16.3	Health Records Technician 21.5
Rehabilitation Therapist 30.4	Office Technician 48
Registered Nurse 48.3	
Psychiatric Technician 51	

- **$1.8 million (General Fund--*one-time only*) for special repairs** at the State Hospitals because the U.S. DOJ has cited certain environmental conditions that are potential safety hazards at the facilities. Examples include replacing fire doors, repairing leaking roofs and windows, upgrading temperature control systems in patient areas, and resurfacing broken asphalt and sidewalks.

- **$1.8 million is for contracts with expert consultants** who are knowledgeable regarding CRIPA and mental health treatment services. About $1 million of this amount is for monitors who will be under the direct supervision of the U.S. DOJ.

The $180,000 (total funds) for Headquarters support would be used to fund two positions—a Psychologist and an Associate Mental Health Specialist. The DMH would use these positions to (1) analyze a significant amount of data regarding compliance with CRIPA, (2) disseminate corrective action plans when needed, (3) utilize performance improvement mechanisms to assess and address compliance goals, and (4) prepare various reports for the U.S. DOJ, the Administration and the Legislature.

Background—Deficiencies at State Hospitals and Need for Signed Agreement. In July 2002, the U.S. DOJ completed an on-site review of conditions at Metropolitan State Hospital. Recommendations for improvements at Metropolitan in the areas of patient assessment, treatment, and medication were then provided to the DMH.

Since this time, the U.S. DOJ has identified similar conditions at Napa, Patton, and Atascadero. The DMH states that a proposed Remediation Plan to resolve CRIPA at all four State Hospitals (Coalinga was not involved), as well as a consent decree between California and the U.S. DOJ, are both presently pending approval by the Administration and U.S. DOJ.

The DMH has *not* shared this pending Settlement Agreement (i.e., Remediation Plan and consent decree) with the Legislature.

According to the DMH, these documents provide a timeline for State Hospitals to address the CRIPA deficiencies and include agreements related to treatment planning, patient assessments, patient discharge planning, patient discipline, and documentation requirements. It also apparently addresses issues regarding quality improvement, incident management and safety hazards in the facilities.

A key component to successfully addressing the CRIPA deficiencies is implementation of the "Recovery Model" at the State Hospitals. Under this model, the hospital's role is to assist individuals in reaching their goals through individualized mental health treatment, and self determination. This model includes such elements as the following:

- Treatment is delivered to meet individual's needs for recovery in a variety of settings including the living units, psychosocial rehabilitation malls and the broader hospital community.
- There are a broad array of interventions available to all individuals rather than a limited array.
- A number of new tracking and monitoring systems must be put in place to continually assess all major clinical and administrative functions in the hospitals.
- Incentive programs—called "By Choice" will be used to motivate individuals to make positive changes in their lives.

Legislative Analyst's Office Recommendation. The **LAO raises three key issues. First**, they believe it is unlikely that the DMH can hire all 453 new staff positions by July 1, 2006, as proposed in the budget. Typically, it can take several months to hire staff, particularly certain clinical positions, such as Psychiatrist's, Psychologists and Registered Nurses.

Second, based on State Controller's data, about 24 percent or 2,030 positions within the State Hospital system were vacant as of January 2006. Therefore, full year funding of the proposed 453 new staff would only lead to over budgeting.

Third, the LAO notes that resources should not be provided by the Legislature until the Remediation Plan and consent decree have been finalized and provided to the Legislature.

Subcommittee Staff Recommendation. Based on the LAO analysis and discussions with the DMH, the following actions are recommended:

- Direct the DMH to provide the Subcommittee with **a revised funding proposal** which would phase-in the requested new staff. This should be provided *prior* to the May Revision;
- Adopt uncodified trailer bill language (Hand Out) to require the DMH to report to the Legislature regarding implementation of changes at the State Hospitals and compliance with CRIPA; and
- Require the DMH to provide the Remediation Plan and consent decree as soon as possible.

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

1. DMH, Please provide a brief overview of the significant concerns identified by the U.S. DOJ related to CRIPA.

2. DMH, Please provide a brief summary as to how the budget proposal will address these needs.

3. DMH, When may the Remediation Plan and consent decree be agreed to by the Administration and the federal U.S. DOJ? When may the Legislature receive this information?

4. LAO, Please discuss your concerns with the DMH budget proposal.

4. Expansion of Level IV Licensed Beds at Salinas Valley Psychiatric Program

Issue: The CA Department of Corrections and Rehabilitation (CDCR) contracts with the DMH to provide Intermediate Care inpatient mental health services for inmate-patients (i.e., Level IV beds) requiring that level of treatment. **The budget proposes an increase of $7 million (General Fund) to provide for 36 more beds (from the existing 64 to a total of 100 beds) within the Salinas Valley Psychiatric Program. This increase will fund about 69 positions, primarily clinical classifications.**

This proposed expansion is consistent with the plan submitted by the CDCR to the Coleman federal court as required. **The Joint Legislative Budget Committee (JLBC) approved a current-year deficiency request for this activation in November 2005. The phase-in of staffing for the current-year was to commence in December 2005, with activation of the additional 36 beds to occur as of May 2006.**

The DMH states they have the management and operational infrastructure in place to support this expansion.

Background—Need to Expand Services to Address Coleman Federal Court Concerns. The CDCR completed an "Unidentified Needs Assessment" in response to a federal court order (i.e., Coleman lawsuit). This assessment states that 287 additional Intermediate Care beds are presently needed to treat Level IV inmate-patients currently housed within CDCR. As such, further expansion of these Level IV beds is needed quickly.

The budget request will allow for the activation of an additional 36 beds at Salinas to bring the total number of beds at Salinas to 100. The DMH is under contract with the CDCR to provide clinical mental health services at Salinas and at Vacaville.

Subcommittee Staff Recommendation. It is recommended to approve the proposal as budgeted. The state needs to proceed in order to begin to meet the requirements of the Coleman lawsuit. In addition, the JLBC approved a current-year deficiency in November 2005 regarding implementation of this expansion.

Questions.

1. DMH, Please provide a brief status update regarding the May 2006 activation of the 36-bed expansion.

LAST PAGE OF AGENDA

Diane Van Maren(w) 651-4103
Senate Budget & Fiscal Review

Outcomes for Senate Subcommittee No. 3: for Monday, March 6th

Item 4440--Department of Mental Health

B. ISSUES FOR "VOTE ONLY" (Items 1 Through 3)

- **Action:** Approved as budgeted Items 1, 2, and 3.
- **Vote:** 3-0

C. DISCUSSION ITEMS--Community-Based Mental Health Services

1. Mental Health Managed Care Adjustments

- **Action:** Approved as budgeted *pending receipt* of May Revision.
- **Vote:** 3-0

2. Early, Periodic Screening, Diagnosis & Treatment—*Baseline & Audit*

- **Action:** Directed the DMH to discuss further with constituency groups and to report back to the Subcommittee in ***early*** April. (**Issue left "OPEN**").

3. Mental Health Services Act—-Update *(Informational Only)*

- **Action:** No action necessary.

4. Mental Health Services Act—Augmentation for State Support

- **Action:** Approved as budgeted, pending receipt of May Revision and review by the new Executive Director of the Commission.
- **Vote:** 2-1 (Senator Cox)

5. Need to Receive Report from the DMH on Mental Health Parity (Page 15)

- **Action:** The Chair directed the DMH to provide the Subcommittee with a status report (on completion of the report) by no later than April 15th.

<u>D. DISCUSSION ITEMS—State Hospitals</u>

<u>1. Caseload at the State Hospitals is Over Estimated According to LAO</u>

- **<u>Action*:*</u>** **(1)** Adopted the LAO recommendations to reduce by a total of $18.5 million General Fund in the current year and $20 million General Fund in the budget year due to reduced caseload, ***and*** **(2)** Adopted the Budget Bill Language as shown in the agenda. The caseload will be reviewed again at the May Revision.
- **<u>Vote:</u>** 3-0

<u>2. Administration's Request for Statutory Change at Patton State Hospital</u>

- **<u>Action*:*</u>** Adopted compromise trailer bill language as shown on page 20 of agenda.
- **<u>Vote:</u>** 3-0

<u>3. Augmentation for Implementation of State Hospital-- CRIPA</u>

- **<u>Action</u>**: Directed the DMH to provide the Subcommittee with a revised funding proposal to phase in the staff and a copy of the Remediation Plan as soon as possible (held issue "OPEN"). **Also** adopted **uncodified trailer bill language** regarding reporting (Hand Out).
- **<u>Vote:</u>** 3-0

<u>4. Expansion of Level IV Licensed Beds at Salinas Valley</u>

- **<u>Action*:*</u>** Approved as budgeted.
- **<u>Vote:</u>** 3-0

Senate Budget and Fiscal Review—Wesley Chesbro, Chair

SUBCOMMITTEE NO. 3 Agenda

Chair, Senator Denise Moreno Ducheny
Senator Dave Cox
Senator Wesley Chesbro

Thursday, March 9, 2006
(Upon Adjournment)
Room 3191
Consultant, Anastasia Dodson

Vote-Only Agenda

Discussion Agenda

Due to the volume of issues testimony will be limited. Please be direct and brief in your comments so that others may have the opportunity to testify. Written testimony is also welcome and appreciated. Thank you for your consideration.

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.

Vote-Only Issues

5180 Department of Social Services (DSS)

Vote-Only Issue 1: Foster Care Audits Staff

Description: The budget requests $577,000 ($357,000 General Fund) and the restoration of 6.0 three-year limited-term positions in the Department of Social Services to perform fiscal audits of non-profit corporations that operate foster family agencies or group home programs. The department indicates these positions are necessary to comply with existing statute, which requires these fiscal audits. In addition, these positions will improve the department's ability to monitor the programmatic and fiscal accountability of the programs. Positions previously established to perform this audit function were eliminated in 2003-04 position reduction drills.

Recommendation: Approve as budgeted, to allow the department to comply with existing statute and improve monitoring foster family agencies and group home programs.

Vote-Only Issue 2: Title IV-E Claiming Staff

Description: The budget requests $793,000 ($397,000 General Fund) for 9 positions in the Department of Social Services to ensure that federal IV-E funding for Foster Care relative placements is being accurately claimed. Title IV-E funding is limited to children whose families meet the 1996 Aid to Families with Dependent Children (ADFC) income limits. Since only a portion of California's foster care, adoptions, and child welfare caseload qualifies for IV-E funding, counties must determine which cases qualify, and submit their claims for state and federal review.

The 9 DSS positions would ensure compliance with the *Higgins v. Saenz* stipulated agreement and a corrective action agreement with the federal Administration for Children and Families, which require the department to demonstrate that children are placed in relative homes that meet the safety standards for approval and that these homes are properly entitled to receipt of federal funds. In spring 2006 the department will begin reviewing calendar year 2004 foster care claims for compliance with *Higgins* and the corrective action agreement.

California has a higher percent of children determined eligible for federal IV-E funding than most other states. For example, in 2002 the state received IV-E reimbursements for 79 percent of children in out of home placements, compared to the national average of 55 percent. The state will receive an estimated $1.6 billion in IV-E funding in 2005-06, and $1.7 billion in IV-E funding in 2006-07. In 2002 the state received 23 percent of all IV-E funds appropriated in the nation. However, recent federal audits have resulted in disallowances of $45 million in 2002, $34 million in 2003, and up to $100 million in 2000-01. The requested positions would develop a proactive technical assistance model to improve the accuracy of federal IV-E claiming.

Recommendation: Approve as budgeted, to ensure compliance with the *Higgins v. Saenz* stipulated agreement and the federal corrective compliance plan on IV-E claiming.

4200 Department of Alcohol and Drug Programs (DADP)

Vote-Only Issue 3: Drug Medi-Cal Fraud Deterrence Staff

Description: The budget requests $286,000 ($143,000 General Fund) and 3 positions to establish a Drug Medi-Cal Fraud Deterrence Program. These resources would be used to provide more consistent oversight and monitoring of Drug Medi-Cal Narcotic Treatment Program (NTP) providers that contract directly with the DADP. These positions are projected to increase Drug Medi-Cal recoupments by $3.7 million in 2006-07.

Recommendation: Approve as budgeted, to ensure consistent oversight and monitoring of Drug Medi-Cal providers, and increase Drug Medi-Cal recoupments.

Discussion Issues

5180 Department of Social Services (DSS)

DSS Issue 1: Overview of Caseload, Costs, and Outcomes for Children and Family Services

Caseload and Costs Overview

Children and Family Services includes a continuum of programs designed to protect children from abuse, neglect, and exploitation, strengthen families, deliver services to children in out-of-home care, and support the adoption of children with special needs. These programs are operated by county welfare departments, and funded jointly with federal, state, and county resources.

The budget provides $4.8 billion ($1.4 billion General Fund) to support children and family services programs. Federal funding for these programs is provided by Social Security Act Titles IV-B, IV-E, XIX, and XX funding, as well as Temporary Assistance for Needy Families (TANF) funds.

Child Welfare and Foster Care Funding Sources

(dollars in millions)

2005-06	**FEDERAL IV-E**	**OTHER FEDERAL**	**STATE**	**COUNTY**	**TOTAL**
Child Welfare Services	$801.5	$565.5	$615.9	$208.7	$2,191.5
Foster Care Grants	493.8	39.2	410.7	676.9	1,620.6
Foster Case Mgmt	44.3	4.5	32.2	12.4	93.4
KinGAP	0.0	67.1	15.5	15.5	98.1
Adoptions	39.5	0.0	48.8	0.5	88.8
AAP	263.1	0.0	270.4	90.2	623.7
Total	**$1,642.2**	**$676.3**	**$1,393.5**	**$1,004.2**	**$4,716.1**

2006-07	**FEDERAL IV-E**	**OTHER FEDERAL**	**STATE**	**COUNTY**	**TOTAL**
Child Welfare Services	$829.2	$558.2	$630.6	$212.6	$2,230.7
Foster Care Grants	510.3	38.6	395.8	676.5	1,621.2
Foster Case Mgmt	42.8	4.4	31.0	12.0	90.2
KinGAP	0.0	68.0	16.0	16.0	100.0
Adoptions	43.9	0.0	54.9	0.5	99.3
AAP	284.5	0.0	293.5	97.8	675.8
Total	**$1,710.7**	**$669.2**	**$1,421.8**	**$1,015.4**	**$4,817.2**

- **Child Welfare Services (CWS).** This program encompasses a variety of services designed to protect children from abuse, neglect and exploitation. Services include Emergency Response, Family Maintenance, Family Reunification, and Permanent Placement. Combined average monthly caseload for these programs is estimated to decline by 1.5 percent in the budget year, primarily due to an increase in Kin-GAP caseload, which reduces Permanent Placement services. Total funding for CWS increased by 1.8 percent, to $2.2 billion ($631 million General Fund).

- **Foster Care Program.** The state's Foster Care program 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. Average monthly Foster Care caseload is estimated to decrease by 0.2 percent, to 74,200 children. In recent years group home and foster family agency caseload has been gradually increasing. Foster family homes caseload has been decreasing, primarily due to a shift to the Kin-GAP program. Nonetheless, California's Foster Care population represents approximately 20 percent of the national Foster Care caseload. Total Foster Care grants are expected to decrease by 2 percent, to $1.6 billion ($396 million General Fund).

- **Kin-GAP Program.** The Kin-GAP program provides support to children in long-term stable placements with relatives. The projected average monthly caseload is 15,500 children, reflecting an increase of 2.7 percent. The Kin-GAP program is funded with TANF and General Fund MOE funding. Total funding for Kin-GAP increased by 2 percent, to $100 million TANF/MOE. The Kin-GAP increase results in a decrease in Foster Family Home and Child Welfare Services – Permanency Planning.

- **Adoptions Programs.** The state's adoptions programs include the Adoptions Assistance Program (AAP) as well as other state and county efforts to improve permanency outcomes for foster children. The AAP provides subsidies to promote permanent placement of children that are older, members of sibling groups, have disabilities, or are otherwise difficult to place. Budget year AAP caseload is expected to be 75,000, an increase of 7.9 percent over current year. Total funding for AAP and other adoptions programs increased by 8.8 percent, to $775 million ($348 million General Fund).

Performance Outcome Measures

Over the past few years, major efforts have been underway to improve the child welfare system. These efforts share a new focus on outcomes – child safety, permanence, and well-being – rather than process. The reform efforts include the federal Child and Family Services Review and the Child and Welfare System Improvement and Accountability Act (AB 636, Steinberg).

Federal Child and Family Services Review (CFSR): In 2002, the federal Administration for Children and Families (ACF) conducted a performance review of California's child welfare system for the first time. The performance review included two broad sets of evaluation criteria. Both sets of criteria contained seven separate subareas for review. The first part of the review, referred to as "systemic," focused on factors such as training, statewide data collection, and the state's quality assurance processes. The second part of the review focused on seven measurable outcomes within three broad areas: safety, well-being, and permanency of children involved in the system.

In 2002, California passed two of the seven systemic factors and failed all seven of the outcome measures pertaining to child safety, well-being, and permanency. As a result, the state was required to develop and implement a Performance Improvement Plan (PIP) in order to avoid penalties in the form of reductions in federal funding. The PIP outlined the degree of improvement that the state needed to achieve in order to avoid penalties, as well as a number of action steps that the state was required to take.

As of July 2005, ACF certified that the state had successfully met all seven of the systemic factors and completed the required action steps in the PIP. Final data review for the other seven outcome measures will not occur until April 2007, based on data collected through the third quarter (end of September) of 2006.

AB 636, California Child Welfare System Improvement and Accountability Act: In 2001, the Legislature passed the Child and Family Welfare System Improvement and Accountability Act (AB 636, Steinberg) to replace the state's process-driven county compliance review system with a new system focused on results for children and families. Using the federal CFSR standards as a starting point, AB 636 established a framework for measuring county performance and monitoring improvement in ensuring the safety, permanence, and well-being of children.

However, AB 636 also added outcome measures and requirements that were important to California.

Starting in January 2004, counties began engaging their communities in examining performance and developing specific plans for system improvement. In this initial self-assessment phase, counties examined their strengths, service gaps and needs based on the outcome measure data. Each county prepared and submitted a self-improvement plan to the department and began implementing new practices and policies designed to improve their performance. The system is structured as an ongoing quality improvement program, with each county monitoring its quarterly performance data and adjusting its approach accordingly.

Counties have also been participating in peer quality case reviews focused on areas needing improvement. In these focused reviews, neighboring counties partner with the department to review a random sample of cases and interview social workers to generate qualitative in-depth analysis of case results while promoting best-practice sharing among counties.

CWS Improvement Pilot Projects: In addition, beginning in 2004-05, 11 counties have received funds for pilot projects to improve their CWS outcomes. The pilots have focused on three methods for improving CWS delivery: (1) differential response intake, (2) standardized safety assessment, and (3) improving permanency and youth services. The success of these pilot projects will help improve outcomes measured by AB 636 and the CFSR.

Funding for CFSR, AB 636, and CWS improvement pilots includes the following:

	2005-06		**2006-07**	
	Total Funds	**General Fund**	**Total Funds**	**General Fund**
AB 636 County System Improvement Plan	$11.2 million	$4.9 million	$11.2 million	$4.9 million
Data Improvement for AB 636 and CFSR	$1.1 million	$468,000	$1.1 million	$484,000
AB 636 Peer Quality Case Reviews	$1.9 million	$813,000	$2.0 million	$890,000
CWS Improvement Pilots	$13.7 million	$7.8 million	$13.7 million	$7.8 million
AB 636 Outcome Improvement	$5.9 million	$3.7 million	$12.9 million	$7.6 million
Total	**$33.8 million**	**$17.7 million**	**$40.9 million**	**$21.7 million**

Additional Funding to Improve Outcomes?

The Subcommittee may wish to consider additional funds for CWS Improvement Pilots. This funding would allow counties to expand into areas where current efforts point toward the need for improved outcomes for children and families. Additional counties could implement Differential Response projects; others could expand current targeted efforts to a greater number of families. More counties could initiate or expand multi-disciplinary teams, which bring community organizations together with family members to build a coordinated set of services to meet a family's unique needs. Supports could be expanded for Foster Parents and relatives to improve placement stability. With additional funding, counties would be able to develop promising initiatives tailored for their communities.

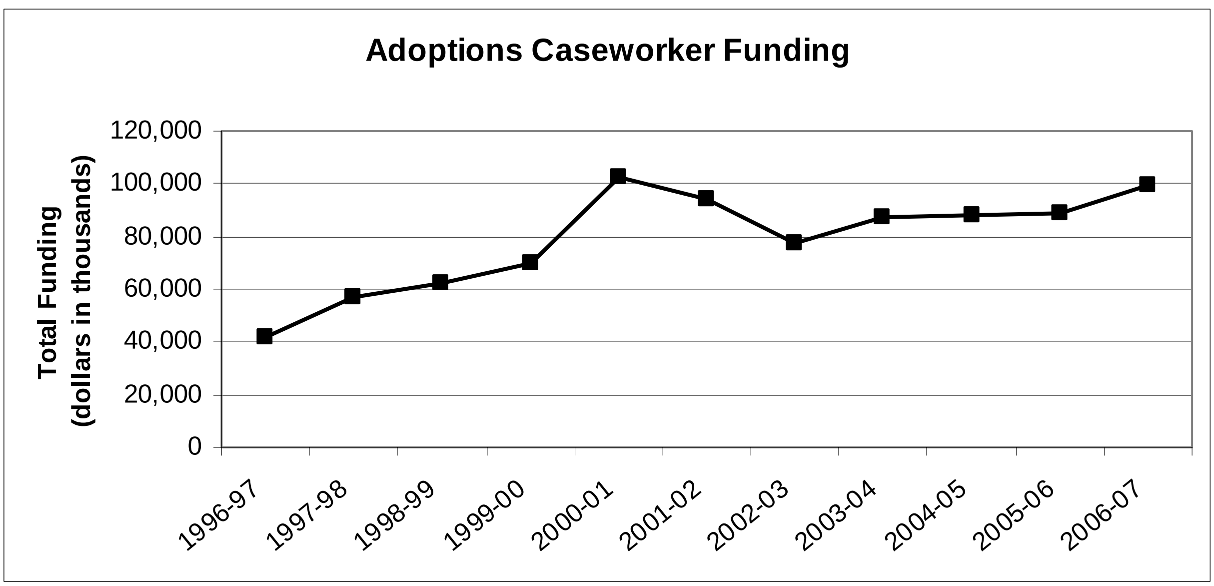
Data produced by the UC Berkeley Child Welfare Performance Indicators Project shows that counties are making positive progress on most measures. The number of children in foster care has dropped without compromising child safety. Children who do enter foster care are now leaving care more quickly to return to their families or to adoption. The recurrence of child abuse or neglect has decreased slightly, while re-entry rates have also declined.

Panel Discussion – Please discuss the outcomes for state and federal performance measures, and the outcomes of the 11 county pilot projects.

- Mary Ault, Department of Social Services
- Barbara Needell, UC Berkeley
- Frank Mecca, County Welfare Directors Association
- Lauren Nackman, Legislative Analyst's Office

DSS Issue 2: Improving Adoptions Outcomes Proposal

Description: The budget requests a total of $12.2 million ($7.1 million General Fund) to hire additional state and county adoptions caseworkers, who are estimated to result in 560 additional adoptions in 2006-07. Funding for adoptions caseworkers has remained relatively flat in recent years, while the number of children needing permanent placement has increased.



Background: Tens of thousands of children of all ages in California are currently living in foster care, and are not expected to reunify with their parents. These children will likely grow up in foster care unless they are adopted. Children who grow up in foster care are significantly at risk for adverse outcomes as adults, such as becoming homeless, incarcerated, teen parents, or unemployed. Repeated moves through the foster care system increase poor outcomes.

To increase the number of foster care children that are adopted, the department requests $1.4 million ($698,000 General Fund) to hire 16.5 DSS positions in the Adoptions Services Bureau (ASB), which serves a 28-county service area. Two of these positions would work exclusively with older, hard-to-place foster youth. The department also requests $10.8 million ($6.4 million General Fund) for local assistance to reflect a 15.6 percent increase in county adoptions caseworkers, offset by minor adjustments in Foster Care and AAP costs.

More specifically, the department indicates the requested resources would be used as follows:

- Train the ASB and county child welfare partners by consulting and training with nationally known older youth adoption experts.
- Learn and build on the knowledge of Sierra Adoption Service's staff, who have successfully placed older youth for adoption though the federally funded Destination Family Program.
- Receive technical assistance and training from the California Permanency for Youth Project (CPYP) whose objective is implementing new practices to achieve permanency/adoption for older youth.
- Conduct extensive case reviews on children with the plan of long term foster care to identify older youth for adoption.
- Engage and involve the older youth in the process of adoptive placement and adoption decisions by explaining the adoption process and discussing options with the youth.
- Utilize tools and action plans for helping youth consider adoption: The ASB will develop videos of older children that have been successfully adopted as well as facilitate meetings between older youth that have been successfully adopted and youth that are still waiting in long term foster care.
- Utilize targeted recruitment strategies, such as expert guest speakers providing adoption-education presentations and adopted-youth speaking to pre-adopted youth participating in the Independent Living Program.
- Contact the youth's birth and previous foster families, teachers, group home employees and therapists to identify possible adoptive families that may not have been an option when the child entered the foster care system.
- Facilitate potential cross-jurisdictional placements.
- Assess, prepare, train and support families willing to provide an adoptive home for an older youth.
- Provide parent/older youth adoption matching activities that are comfortable to the youth and family. For example, meeting at a pizza parlor, skate parks, video game rooms, sending each other videos or photo albums.
- Complete the adoptive placement of the youth with the family and include the full range of adoption services given to the ASB's adoptive children and families.

- Provide adoption post-placement and post-finalization services such as Adoption Assistance, crisis intervention and wrap around services.

The department indicates that the Adoptions Services Bureau positions are expected to result in 105 finalized adoptions per year, plus 16 additional adoptions of foster youth aged 11 and older. These adoptions are expected to result in General Fund savings of $5.1 million across 12 years, due to reduced foster care and child welfare services costs. The department also indicates that the additional county welfare department funding would result in 1000 finalized adoptions per year, although only 500 adoptions in the first year, as the adoption finalizations would not begin to occur until January 2007. These adoptions are expected to result in General Fund savings of $361,000 in 2006-07, and $23.5 million savings across 12 years, due to reduced foster care and child welfare services costs.

Questions:

1. DSS, please describe the proposal.

2. DSS, how has the number of adoptions finalized by state or county staff changed in recent years? How would this proposal affect that trend?

Recommendation: Hold open until May Revision.

DSS Issue 3: Kinship Support Expansion Proposal

Description: The budget requests an additional $2.5 million General Fund to expand current county programs and allow all counties to apply for Kinship Support Services funds.

Background: The Kinship Support Services Program (KSSP) provides community-based family support services to kinship (relative) caregivers and the children who are placed in their homes by the juvenile court or who are at risk of dependency or delinquency.

The increasing number and proportion of children in out-of-home care placed in the homes of relatives are among the most important child welfare trends of the decade. The increasing number of children in care and the declining pool of traditional foster families, along with recognition of the benefits of family care, are among the forces that have led to a growing use of kinship care.

This program allows eligible counties to combine resources and partner with community-based organizations to support programs that provide supportive services to relatives caring for abused and neglected children and those at risk of becoming dependent children. Some of the services include respite, support groups, training, family counseling, mental health, legal services, tutoring, and linkages and referrals to other resources in the community, including medical and housing. These services encourage and enable relatives to take in or keep relative foster children in their homes, instead of these children going into Foster Family Agency or Group Home care.

Relative caregivers are often aging grandparents, single and in declining health, socially isolated or emotionally unprepared to assume the responsibility of raising young children, despite how much they love them. The children, often abused or neglected, may have physical or behavioral problems that require professional help as well as the nurturing attention of the relative caregiver. The services provided by KSSP help maintain the placement and keep it from unraveling as economic, behavioral, educational and other childrearing stress arises that can threaten the stability of the placement.

These services also assist relative caregivers, who are informally caring for relative children without government intervention, by providing cost effective alternatives to prevent the children from entering the foster care system. KSSP also prevents children from reentering the foster care system when they have exited through programs such as the Kinship Guardianship Assistance Payment Program (Kin-GAP) a permanency option for children in appropriate, long-term foster care placements with relative caregivers and now rely on community services that would have otherwise been provided by their child welfare social worker.

KSSP strives to:

- Stabilize new or troubled placements of children in kinship care, reducing the likelihood of their being removed to traditional foster care.
- Immerse relative caregivers in a supportive community of other caregivers.
- Support the mental health, physical health, and overall well-being of relative caregivers.
- Educate, empower, and energize relative caregivers for parenting.
- Provide children in relative care with supportive mental health and educational enrichment services.
- Direct relative caregivers to other helpful resources and services.

The budget requests an additional $2.5 million General Fund to expand current county programs and allow all counties to apply for Kinship Support Services funds. This program was funded at $1.5 million General Fund for eleven counties in 2005-06. For 2006-07, the application process will require each interested county to submit a comprehensive proposal outlining how many relative caretakers reside in their county, what services will be provided to relative caretakers and the children in their care, how the county will develop the necessary community supports, how many relative caretakers and children will be served, and what the county outcome improvement goals are for the program. The proposals must also include a description of how each county will measure the success and cost-effectiveness of their program, and how the county will report these measures to DSS.

Questions:

1. DSS, please present the proposal.

DSS Issue 4: Transitional Housing Placement Program (THPP)

Description: The budget requests an additional $1 million General Fund to augment the Transitional Housing Placement Program (THPP). Total funding for THPP in 2006-07 is proposed at $8.2 million ($2.8 million General Fund). The additional funding will allow more counties to participate in THPP, which provides housing assistance to emancipating foster youth aged 16 to 24. Although counties have a sixty percent share of cost for THPP services provided to children 18 and older, over 28 counties are participating in THPP, and additional applications are pending.

Background: Each year, approximately 5,000 youth emancipate from the foster care system in California; many leave without the resources, skills or abilities to find safe housing and support. These youth are at a critical juncture and may become homeless, out of school, unemployed, and receive CalWORKs or, with housing and other support, become healthy and productive citizens.

According to the Campaign for Safe Transitions:

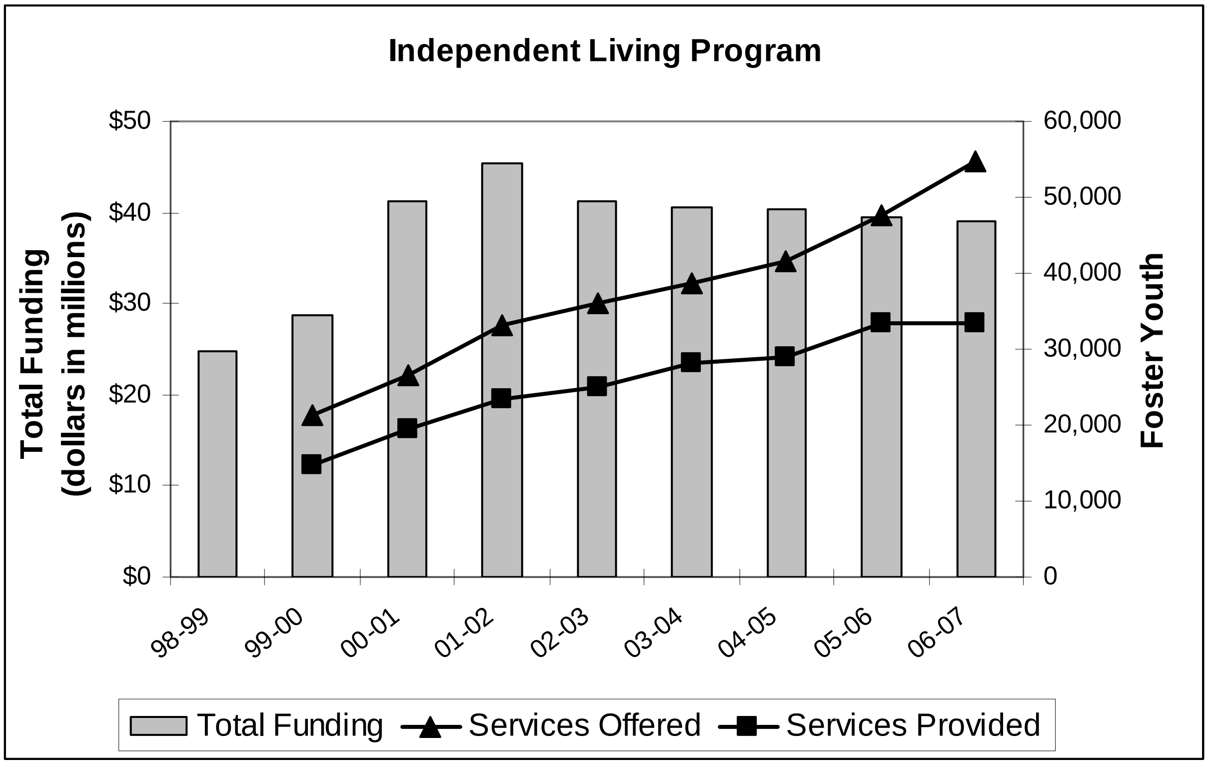
- Nearly a third of foster youth will become homeless at some time within the first year after they leave the system at age 18. Approximately 65% of California youth graduating from foster care in 2000-2001 were in need of safe and affordable housing at the time of graduation.
- Fewer than 10% of foster youth enroll in college and only 1% actually graduate.
- Unemployment rates for emancipated youth are estimated at 50%.
- Emancipated foster youth earn an average of $6,000 per year.
- About one fourth of former foster youth will be incarcerated within the first two years after they leave the system and approximately one third of former foster youth will be on public assistance shortly after aging out of the system.
- It is estimated that 10% of the young women emancipating from foster care in California are parents and that existing services for teen mothers are inadequate.
- 67% of females emancipated from the child welfare system in California had at least one birth within five years of leaving care.
- 40% of emancipated foster youth with one child reported having special needs due to pregnancy or parenting which interfered with independent living.

Questions:

1. DSS, please describe the proposal.

DSS Issue 5: Independent Living Program

Description: The budget includes $38.6 million ($15.2 million General Fund) in 2006-07 for the Independent Living Program (ILP). Funding for ILP has been slightly declining since 2002-03. However, the number of foster youth served by the program has been steadily increasing, and the number of youths that can be served by the program will be limited in 2005-06 and 2006-07. Additional funding of $34.8 million General Fund would be needed to serve all eligible foster youth.



Background: The Independent Living Program (ILP) provides training and assistance to foster care adolescents and emancipated youth to enable them to be independent. County welfare departments provide or arrange for these services, which include educational assistance, employment, life skills training, and housing. This program serves youth ages 16 to 21, and in some counties includes youth ages 14 and 15 when it is determined that these youth would most likely remain in foster care until emancipation.

The funding allocation for ILP is not caseload driven, does not take into consideration any increasing costs for county cost-of-business, and is not tied to the actual cost for providing services at a "best practice" or other standard level. Funding for ILP was allocated on a caseload basis in 1999-00. Since then, the General Fund portion of the ILP allocation has been held flat, and any funding changes have been due to federal funding changes. The result has been a continuous erosion of funding per youth over time, clearly moving in the opposite direction when it comes to services to support emancipating foster youth. Funding per youth served has declined from $1,939 in 1999-00 to $1,009 in 2006-07. Additional funding of $34.8 million General Fund for this program would restore the program to the 1999-00 per youth level.

Questions:

1. DSS, please describe the Independent Living Program.

DSS Issue 6: Child Welfare Services Social Worker Standards (SB 2030)

Description: There has been an ongoing effort in the Child Welfare Services (CWS) program to determine how many cases a social worker can carry and still effectively do his or her job. In 2000, the Child Welfare Services Workload Study required by Chapter 785, Statutes of 1998 (SB 2030, Costa) determined that those caseload standards were too high and that social workers had too many cases to effectively ensure the safety and well-being of California's children. Trailer bill language for the Budget Act of 2005 requires the department to report annually on progress made on reaching the SB 2030 CWS caseload standards.

Background:

Child Welfare Services Workload Study (SB 2030) Findings: In 1998, the Department of Social Services commissioned the SB 2030 study of counties' caseloads. At the time, the study concluded that for most categories the caseloads per-worker were twice the recommended levels. According to the study, it was difficult for social workers to provide services or maintain meaningful contact with children and their families because of the number of cases they were expected to carry.

The report also found that the 1984 standards used by the state were based on outdated workload factors, and did not reflect any additional responsibilities that had been placed on social workers by the state and federal governments. These findings and the minimal and optimal social worker standards proposed by the report have been included in budget discussions regarding staffing standards since the report's release. However, due to the state's budget shortfalls, the department has continued to use the 1984 workload standards, instead of the minimal and optimal standards, as the basis for allocating funds to counties for child welfare services staff. Although the 1984 workload standards are still in use, additional funding of approximately $330 million ($143 million General Fund) has been provided in recent years to move closer to SB 2030 standards.

Annual Report Requirement: The human services trailer bill for the Budget Act of 2005 requires DSS to report annually at budget hearings on how close the state is to achievement of the SB 2030 standards.

Questions:

1. DSS, please explain the SB 2030 standards. Is the status report on achievement of those standards available yet?

DSS Issue 7: Group Home Funding and Residential-Based Services Reform

Description: Foster Care group home rates have been increased in only four of the last fourteen years. Although the Consumer Price Index has increased by over 52 percent since 1990-91, group home rates have increased by 27 percent in that time. The Subcommittee may wish to consider a group home rate increase in 2006-07, continuance of existing rate relief provisions, and funding for an evaluation of residential-based services reform options.

Background:

There are approximately 13,000 children and youth placed in programs that are referred to generically as “group homes” in California. Of those, about 7500 are dependents of the court placed by county child welfare services, 4500 are wards of the court placed by county juvenile probation departments, and 1000 are placed voluntarily by their parents through county mental health departments pursuant to individual educational plans. There are approximately 1800 licensed residential facilities in the state serving these children, ranging in size from single 6-bed homes sprinkled in the community to large campus-style programs with a single license.

Children and youth placed in group home programs fall into a number of need-related categories including: (1) emotionally disturbed youth and those with mental illness, (2) youth in the juvenile justice system with behavioral disorders, (3) youth with substance abuse problems, (4) juvenile sex offenders, (5) children and youth in need of emergency shelter and assessment, (6) older youth emancipating from the foster care system, (7) youth in need of life skills training, (8) pregnant and parenting teens, and recently (9) foster youth placed in academically-focused academies.

The Subcommittee may wish to consider the following budget proposals for Group Homes:

- **Rate Relief Provisions:** The Legislature adopted group home rate relief provisions in 2002-03, 2003-04, 2004-05, and 2005-06. These provisions allowed facilities more flexibility in the Rate Classification Levels, but do not result in additional General Fund costs. Group home providers have requested continuance of these rate relief provisions in 2006-07.

- **Foster Care Rates:** The cost to provide a 3.75 percent increase for all Foster Care providers would be $58.3 million ($16.4 million General Fund) in 2006-07. The cost to provide an increase for group home providers only would be $25.8 million ($7.4 million General Fund).

- **Group Home Reform Plan:** The Subcommittee may wish to consider funding for a consultant to develop a plan for group home reform. A number of studies, reviews, reports, legislative hearings, workgroups and stakeholder sessions have underscored the need for improvement in the use of group homes. While efforts at both the county and state levels have focused on reducing the utilization of group homes, little has been done to define the specific roles of residentially-based services within the broader child welfare, juvenile justice, and mental health systems.

This plan would build on the efforts of the Residentially-Based Services Reform workgroup, which includes advocates, providers, local government, legal, legislative, and Administration representatives. This group has developed a comprehensive framework document that could be used as a starting point for development of a group home reform implementation plan.

Questions:

1. DSS, please briefly describe current reimbursement rates for group homes.

Recommendation: Hold open until May Revision.

DSS Issue 8: Title IV-E Disallowance and TANF Backfill

Description: The budget proposes to shift $32 million in current year and $26 million in budget year in Temporary Assistance for Needy Families (TANF) funding from CalWORKs to the CWS-Emergency Assistance Program, to backfill a Title IV-E federal funding disallowance. The budget also proposes to shift $25.3 million General Fund in the current year and $8.4 million General Fund in the budget year to backfill a $33.8 million Title VI-E federal funding disallowance for Foster Care for calendar year 2003. The Joint Legislative Budget Committee has indicated concerns with the current year transfer request, as it is not consistent with the provisions of Section 28, and it would limit Legislative flexibility with scarce TANF resources.

Background:

- **Title IV-E Funding Requirements:** Title IV-E funding is limited to children whose families meet the 1996 Aid to Families with Dependent Children (AFDC) income limits. Only a portion of California's foster care, adoptions, and child welfare cases meet these income limits and qualify for matching federal IV-E funding. Services for those cases that do not qualify for IV-E are funded with state and county funds. Counties must determine which cases qualify for IV-E funding under various circumstances, and submit their claims for state and federal review.

- **California Receives High Proportion of IV-E Funds**. California has a higher percent of children determined eligible for federal IV-E funding than most other states. For example, in 2002 the state received IV-E reimbursements for 79 percent of children in out of home placements, compared to the national average of 55 percent. Although recent federal audits have resulted in disallowances of $45 million in 2002, $34 million in 2003, and up to $100 million in 2000-01, the state will still receive an estimated $1.6 billion in IV-E funding in 2005-06, and $1.7 billion in IV-E funding in 2006-07. In 2002 the state received 23 percent of all IV-E funds appropriated in the nation.

Questions:

1. DOF/DSS, why should TANF be substituted for General Fund resources in Child Welfare and Foster Care, particularly when the state has a relatively high proportion of cases that qualify for IV-E funding, and TANF resources are needed in the CalWORKs program to increase the state's work participation rate?

2. DOF/DSS, does the Administration have the authority to shift TANF to new purposes without Legislative consent?

Recommendation: Hold open until May Revision.

DSS Issue 9: Title IV-E Waiver BCP

Description: The budget requests $805,000 ($403,000 General Fund) to extend 4 limited-term positions for development and implementation of the Title IV-E Child Welfare Waiver Demonstration "Capped Allocation" Project (CAP).

Background: The department has been negotiating with the federal government for a number of years to develop this waiver. If approved, this waiver would allow the use of Title IV-E funds for preventive child welfare services, such as improved hotline response, more parenting education and counseling, multi-disciplinary teams, and services to more families on a voluntary basis. Note that the Deficit Reduction Act of 2005 has set a deadline of March 31, 2006 for all IV-E waivers to be approved.

Questions:

1. DSS, please describe the status of the waiver negotiations with the federal government.

Recommendation: Hold open until April 20th hearing, pending information about the outcome of the federal waiver negotiations.

DSS Issue 10: Deficit Reduction Act

Description: As a result of lost federal Title IV-E funds under the federal Deficit Reduction Act of 2005, the state faces additional General Fund costs of approximately $15 million in 2005-06 and $20 million in 2006-07 for certain foster care services and programs. The Act also provides $5 - $10 million additional federal Title IV-B funding in 2005-06 and 2006-07. However, the additional IV-B funding cannot be used in place of the lost IV-E funding.

Background: The federal Deficit Reduction Act of 2005, approved by Congress on February 1, 2006, includes two significant restrictions on claiming matching federal Title IV-E funds for certain types of foster care activities and cases, effective October 1, 2005. The Act also provides additional Title IV-B funding.

- **Certain Children Federally Ineligible for Foster Care (Reversal of Rosales).** Pursuant to the 2003 *Rosales v. Thompson* federal court case, a child removed from his/her home as a result of abuse or neglect, may be eligible for federal foster care assistance regardless of whether the child's "home of removal" was eligible for aid under federal income guidelines. Children most frequently affected by this decision were those who were removed from their homes and then placed with relatives who subsequently sought financial assistance. As a result of this court ruling, a relative could receive a foster care grant rather than a CalWORKs child-only grant payment. The Deficit Reduction Act amends federal law so as to effectively reverse the Rosales decision.

  The Act reduces federal funds coming to California in two ways. First, the foster children affected by the federal change revert back to being CalWORKs child-only cases, where the federal government does not share in these grant costs. Second, the Act shifts some nonrelative caregiver cases from federally funded foster care to a program that is state- and county-funded only. These changes are retroactive to October 1, 2005.

- **No Federal Funding for Case Management of Certain Placements.** The Deficit Reduction Act explicitly places limits on the claiming of federal funds for case management services for children placed in ineligible facilities, such as those residing in unlicensed relative homes, detention centers, or hospitals. Currently, the state may receive federal reimbursement for certain case management costs while children are in these settings.

- **Increased Funding for Child Abuse Prevention and Court Improvements.** The Deficit Reduction Act increases national Promoting Safe and Stable Families (PSSF) Funds by $200 million over five years. PSSF funds are one of two parts within federal IV-B funds for child welfare and foster care. The Department of Social Services estimates that the state will receive $5 - $10 million in 2005-06 and 2006-07 in additional PSSF funds. The bill also provides $100 million nationally over five years for juvenile court improvements. California is likely to receive roughly 10 percent of these funds.

  PSSF funds are to be used on services to support families and avert foster care, and time-limited services to reunify families and promote adoption. Specific PSSF funding restrictions include:

  - IV-B funds cannot be used to supplant existing state or local spending.

  - A minimum of 20 percent of PSSF funds must be spent on each of the four components of the program (Family Preservation Services, Family Support Services, Adoption Promotion and Support, and Time-Limited Family Reunification).

  - A 25 percent match from state or county funds is required. This match is made available through existing State Family Preservation Program funds.

> Prior to passage of the Deficit Reduction Act, the state's current year PSSF grant was $45.8 million, and the budget year grant was $42.2 million. Historically, 15 percent of the grant is held back for state operations and contract costs. For example, in 2005-06, approximately $6.9 million was held back and approximately $39 million was allocated to counties for child welfare services programs. Of the amount for state operations and contracts, $1.2 million is used for state operations and $5.7 million is used for contracts. In 2006-07, $6.3 million is anticipated to be held back ($1.2 million will be used for state operations and $5.1 million will be used for contracts) and $35.9 million will be allocated to counties.

Questions:

1. DSS and LAO, please discuss the fiscal impact of the Deficit Reduction Act for foster care and child welfare services. How much IV-E funding is anticipated to be lost in 2005-06 and 2006-07?

2. DSS, how does the Administration propose to allocate the additional PSSF funding?

Recommendation: Hold open until May Revision.

DSS Issue 11: Freeze County Funding Proposal

Description: The Governor's Budget proposes legislation to freeze state participation in county administrative costs in health and social services programs at the 2005-06 level. Under this proposal, state support would be adjusted for caseload and workload but not for inflation. As shown in Attachment I, most of these programs have not received cost of doing business increases since 2000-01, and have also received budget cuts in recent years. The total annual impact of unfunded cost of doing business increases and budget cuts since 2000-01 is $942 million ($665 million General Fund) for non-child support programs.

Background: The Legislative Analyst's Office has provided the following background on this proposal.

> The Governor proposes trailer bill legislation to limit state participation in county administrative costs for "salaries, benefits, and overhead" to the amount provided in the *2005-06 Budget Act*, as adjusted for caseload. This limit would begin in July 2006 and would apply to 14 different programs operated by DSS, the Department of Health Services (DHS), and the Department of Child Support Services (DCSS). Counties would have the option of using their own funds to pay for inflationary increases in administrative salaries, benefits, or overhead. If a county provides its own funds for inflationary increases, the county monies would draw down federal funds to the extent the federal government normally provides matching funds.

General Fund Savings. Compared to current law and current budgeting practice, the Governor's proposal results in General Fund savings of $21.2 million in the Medi-Cal Program in 2006-07. There are no savings in the other programs for 2006-07 because they have received no inflationary adjustments since 2001-02 or earlier. This proposal would result in some out-year cost avoidance.

What Is County Administration? County administration covers a range of activities depending on the program. Sometimes county administration means administrative, clerical, or supportive efforts that facilitate delivery of a service or a benefit (for example, determining eligibility for benefits, payment of service provider bills, personnel management, accounting, and fraud prevention/investigation). The Medi-Cal Program generally fits this description. Counties receive approximately $1.2 billion to cover the cost of county eligibility workers who determine if applicants are eligible for Medi-Cal benefits. Another example is the CalWORKs program where county staff determine an individual's eligibility for the program, including determining the amount of the cash grant and employment services to be received by the recipient.

In other programs, county workers may not be providing a specific cash payment or "benefit." Instead, the salaries and support for the staff constitute the entire program. For example, the Child Welfare Services (CWS) program provides (1) social workers who respond to allegations of child abuse, (2) services to children and families where abuse or neglect has occurred, and (3) services to children in Foster Care who have been removed from their parents. Most of the services are provided by county social workers in the form of case management and counseling. In addition, the social workers are supported by a county administrative structure that provides services including accounting, personnel management, and clerical support. In sum, all program costs are for social workers and related county administrative staff. Child support enforcement is similar to child welfare services in that virtually the entire program is administration.

Budget Methodology for County Administration. During the 1990s, most budgets for county administration of health and social services programs were set through the Proposed County Administrative Budget (PCAB) process. Under PCAB, counties submitted proposed budgets and staffing levels for their programs based on estimated costs, caseload, and workload. These requests included adjustments for inflation. State departments such as the Department of Social Services (DSS) or the Department of Health Services (DHS) then reviewed these proposed budgets to determine if the requests were "reasonable" and "consistent" with current state law and made any necessary adjustments. Under PCAB, administrative budgets reflected increased costs due to workload and inflation.

No Inflationary Adjustments for Most County Administration Social Services Budgets Starting in 2001-02. During the state's budget crisis, the Governor and Legislature began to freeze county administrative allocations within DSS. Beginning with 2001-02, most county-administered social services programs were held at their 2000-01 budget level, adjusted for caseload. No adjustment for inflation was provided. The one exception was for the CWS program. This program received an increase for inflation for

2001-02. Since 2001-02, there have been no adjustments to county administrative allocations to account for inflation in any DSS programs.

County administrative allocations within the Department of Child Support Services (DCSS) followed a similar pattern. County allocations were last increased in 2001-02. Then in 2002-03, county administrative allocations were reduced by 5 percent and have been frozen since then.

Medi-Cal Administration Costs Reflect Inflation. In contrast to the social services programs operated by DSS and DCSS, county administrative allocations for Medi-Cal have been adjusted annually for inflation through 2005-06.

The Governor's proposal essentially delegates the decision about whether to reduce service levels in the face of inflationary cost pressures to the counties. County decisions will vary based on their priorities and their individual fiscal situations.

Meeting State Objectives. Each of the programs that would be subject to the proposed freeze was enacted by the Legislature with specific state goals and objectives. Counties administer these programs as agents of the state with the aim of meeting the state established program goals. Unless the counties elect to use their own general purpose revenues to cover inflationary costs, lack of state funding for inflation could slowly erode service levels.

Proposal Is Inconsistent With Budget for State Operations
For 2006-07, the Governor's budget generally provides a 3.1 percent inflationary adjustment for most departments to cover increased costs in operating expenses and equipment. Counties face identical cost pressures, but, pursuant to the Governor's proposal would receive no state funds to cover inflationary costs.

Short-Term Budget Solution Vs. Long-Term Budget Policy
During times of fiscal difficulty, not providing inflationary adjustments is a potential budget solution. As discussed earlier, allocations for administration of most social services programs have not received an inflationary adjustment since 2001-02. Moreover, the Legislature and Governor have suspended the state cost-of-living adjustments for recipients of both Supplemental Security Income/State Supplementary Program and the CalWORKs program in 2005-06 and 2006-07. These budget solutions, however, have been adopted on a one-year or two-year basis. By proposing trailer bill legislation, the Governor is moving from a system of relatively short-term budget solutions to a long-term budget policy with implications for the state county fiscal relationship.

LAO Recommendation: The Governor's proposal would limit state participation in county administrative costs for salaries, benefits, and overhead to the amount provided in the *2005-06 Budget Act*, as adjusted for caseload. The LAO recommends rejecting the Governor's proposal and offers suggestions for developing an alternative policy.

Reject Trailer Bill Proposal
In the LAO's view, there is not a compelling case for adopting trailer bill legislation creating a long-term budget policy of limiting state participation in county administration. The proposed language would restrict legislative flexibility to adjust funding and service levels in county administration.

Adopt a Consistent Approach to Budgeting County Administration
With respect to county inflationary adjustments, the LAO recommends that the Legislature take a consistent approach for all county-administered state programs. Specifically, if an increase is to be provided, it should generally be the same percentage increase for all such programs. Conversely, a decision to provide no increase should be applied to all county-administered programs. Having a consistent policy would eliminate the incentive for counties to shift overhead costs from social services to Medi-Cal (where inflationary adjustments have been granted). This approach has the merit of bringing consistency to budgeting for all county-administered health and social services programs. To the extent the Legislature is concerned about different service levels that have developed in the various programs as a result of differential inflationary adjustments, this could be addressed through separate budget action.

Questions:

1. DSS, please present the proposed trailer bill language. Would it create a state reimbursable mandate?

2. LAO, please present your recommendation.

Recommendation: Reject the DSS and DCSS portion of the proposed trailer bill language, as those portions of the language are not necessary to achieve savings, and they would restrict Legislative flexibility and authority. The remaining portions of the language that affect DHS will be considered in a later Subcommittee hearing.

DSS Issue 12: Child Welfare Services/Case Management System (CWS/CMS)

Description: The Child Welfare Services/Case Management System (CWS/CMS) provides database, case management, and reporting functions to allow county and state users to track child abuse and neglect cases statewide. The CWS/CMS application hosting is currently being transferred from a private vendor location to the Department of Technology Services (DTS). The state Office of Systems Integration, in conjunction with DSS, is also developing a request for proposal for a replacement system for CWS/CMS, as required by the federal government.

Background: The budget provides $110.4 million ($55.1 million General Fund) for maintenance of the existing CWS/CMS and other federally-required activities known as the Go Forward Plan. This Plan includes a Technical Architectural Alternative Analysis (TAAA), migration of the application hosting to DTS, and other activities to determine if or how the CWS/CMS should be changed to meet federal standards. The TAAA report, submitted April 1, 2005, recommends that the state develop a new web-services based system to replace CWS/CMS.

- **CWS/CMS Federal Funding Background.** In 1993, the federal government offered enhanced funding to any state that agreed to develop a Statewide Automated Child Welfare Information System (SACWIS). A SACWIS system performs certain functions such as processing child abuse investigations and preparing foster care case plans. If a state chose to develop such a system, then the federal government provided "incentive funding" at 75 percent of total costs for the first three years of the project's development and then 50 percent for the subsequent years. In 1994, California received federal approval to develop CWS/CMS as SACWIS-compliant. In 1997, the state announced the completion of the CWS/CMS system when it became operational in all counties.

- **Federal Government Expresses Concerns About CWS/CMS.** The federal government, however, did not consider CWS/CMS complete because the system did not meet all the SACWIS requirements. Starting in 1999, the federal government raised concerns about the inability of the CWS/CMS system to meet SACWIS requirements. In June 2003, the federal government notified the state that it did not consider CWS/CMS to meet SACWIS requirements. As a result of that decision, the federal government reduced its share of funding for CWS/CMS from roughly 50 percent to 30 percent. In addition, the federal government notified the state that it would not provide *any* federal funding for the current contract after August 2005.

- **Go Forward Plan Is State's Strategy to Address Federal Concerns.** Starting in March 2004, the administration began developing a strategy to address the federal government's concerns about achieving SACWIS compliance. In August 2004, the administration provided its SACWIS compliance strategy—the Go Forward Plan—to the federal government. The plan consists of three components:

    - Conducting a Technical Architecture Alternatives Analysis (TAAA) to determine the costs and benefits of achieving SACWIS compliance versus non-SACWIS compliance.

    - Developing a Request for Proposal for a contractor to maintain the CWS/CMS software.

    - Transferring the CWS/CMS hardware from the current contractor's site to DTS. The transfer to DTS is scheduled to be completed by March 2006.

  In October 2004, the federal government approved the CWS/CMS Go Forward Plan and restored SACWIS funding to the project. In addition, the federal government retroactively provided SACWIS funding for July 2003 to September 2004.

- **Transfer CWS/CMS to DTS and Reprocure Maintenance Contract.** IBM previously provided both maintenance and hosting for CWS/CMS at its Boulder, Colorado facility. The transfer of the application hosting to DTS is intended to improve the competitive bidding process for the upcoming CWS/CMS maintenance contract reprocurement. The net fiscal impact to the state of the transfer of this system is net costs of $5.3 million in 2005-06, but net annual savings of $2.6 million in 2006-07 and future years.

- **TAAA Report.** This report, submitted to the Legislature on April 1, 2005, identified a number of unmet business needs of the Child Welfare Services program, which are consistent with federal SACWIS requirements. The report indicates that CWS/CMS is perceived as cumbersome by social workers and does not support service delivery practices in an efficient and effective manner. In fact, many social workers report that current system limitations inhibit the amount of time they can spend in the field serving children, their families, and communities. The report quotes a county case worker as saying, "We can make the system work, but it should work for us."

  The report recommended that the state continue maintenance and operations of the current CWS/CMS while simultaneously building a new SACWIS application using a web services based technical architecture. This option provides the best implementation of the business and technical criteria, and was also ranked best in time (36 months to implement) and best cost option (ten year cost of $1.17 billion total funds). The department indicates that making no changes to the system was not an alternative because it did not meet the business needs of the counties and could result in a major loss of federal funding.

Questions:

1. OSI/DSS, what is the status of the transition of CWS/CMS hosting to DTS?

2. OSI/DSS, please present the status of the CWS/CMS Go Forward Plan. What are the next steps?

Recommendation: Hold open until May Revision.

DSS Issue 13: Dependency Drug Courts

Description: Current law requires that the dependency drug court (DDC) program be funded unless it is determined that the program is not cost-effective with respect to the Foster Care and Child Welfare Services Programs. The proposed budget does not provide funding for DDCs or provide trailer bill language to suspend this requirement.

Background: The 2005-06 Budget Act provided $2 million federal Promoting Safe and Stable Families (PSSF) funds for DDCs, including $1.8 million for local DDCs, and $200,000 to fund an evaluation contract. However, not all counties that applied for funding were able to receive it (only 9 counties received grants). The County Alcohol and Drug Program Administrators Association indicates a total of $5.2 million would be needed to expand DDCs to all counties that want to establish these programs in 2006-07.

Background Provided by the Legislative Analyst: The DDCs provide intensive substance abuse treatment along with close court supervision to parents who are involved in dependency court cases. Prior evaluations of the DDC model, including one conducted for the federal Department of Health and Human Services, have produced evidence that the model reduces time to reunification, increases reunification rates, and increases participation in substance abuse treatment. This approach would result in cost avoidance in Foster Care and CWS programs. Based on the LAO's review of existing studies, they believe that cost avoidance in Foster Care and CWS exceeds the cost of the drug court program.

In 2005-06 the Legislature approved funding for the continuation of DDC activities in nine counties, in coordination with the Department of Alcohol and Drug Programs. This funding also supported an evaluation to determine the cost-effectiveness of the programs. Trailer bill language accompanied the 2005-06 Budget Act to specify that: "It is the intent of the Legislature that dependency drug courts be funded unless an evaluation of cost avoidance as provided in this section with respect to child welfare services and foster care demonstrates that the program is not cost-effective."

The DSS indicates that the evaluation is proceeding and that a draft report is due from UCLA in March 2006. The department plans to be present the report to the Legislature in April 2006.

Questions:

1. DSS and DADP, please describe the status of the evaluation of the DDC program.

Recommendation: Hold open until the April 20th hearing, pending further information from DSS and DADP on the cost-effectiveness of dependency drug courts.

4200 Department of Alcohol and Drug Programs (DADP)

The Department of Alcohol and Drug Programs (DADP) provides statewide leadership and oversight for local alcohol and drug intervention, prevention, detoxification, treatment and recovery services, including Drug Medi-Cal, Proposition 36 (the Substance Abuse and Crime Prevention Act of 2000), Drug Courts, Drug Dependency Courts, and the Office of Problem Gambling.

DADP Issue 1: Drug Medi-Cal Program

Description: The Governor's Budget includes $121 million ($63 million General Fund) for Drug Medi-Cal in 2006-07. Drug Medi-Cal provider rates have been essentially frozen at 2002-03 levels since 2004-05. Providers have requested that rates be adjusted to reflect the increased cost of providing services.

Background: Drug Medi-Cal treatment is provided through four modalities:

- **Narcotics Treatment Program** (NTP) provides narcotic replacement drugs (including methadone), treatment planning, body specimen screening, substance abuse related physician and nurse services, counseling, physical examinations, lab tests and medication services to person who are opiate addicted and have substance abuse diagnosis. The program does not provide detoxification treatment. NTP providers are the primary Drug Medi-Cal providers.

- **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 the Early and Periodic Screening, Diagnosis and Treatment (EPSDT) program.

- **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 a substance abuse diagnosis.

- **Perinatal Substance Abuse Services** is a non-institutional, non-medical residential program that provides rehabilitation services to pregnant and postpartum women with a substance abuse diagnosis.

Note also that the budget requests $286,000 ($143,000 General Fund) and 3 positions to establish a Drug Medi-Cal Fraud Deterrence Program. These resources would be used to provide more consistent oversight and monitoring of Drug Medi-Cal Narcotic Treatment Program (NTP) providers that contract directly with the DADP. These positions are projected to increase Drug Medi-Cal recoupments by $3.7 million in 2006-07.

Current statute requires Drug Medi-Cal rates to be adjusted each year to reflect actual costs of program operation. However, these rate adjustments have been suspended by budget bill language in the Budget Acts of 2004-05 and 2005-06, and are proposed for suspension again in the 2006-07 Budget Bill.

The Subcommittee may wish to consider a 5.0 percent rate increase for 2006-07 ($3.7 million General Fund), due to increased costs in recent years associated with the statewide nursing shortage and increased accreditation costs. Full restoration of all Drug Medi-Cal provider rates would cost $7.4 million General Fund in 2006-07.

Patients served by NTPs are primarily heroin addicts, although some patients become addicted to pharmaceutical opiates because the pain associated with a traumatic injury or chronic illness has been inappropriately medicated by their doctors. Patients who enter treatment are assessed to ascertain their physical condition and their level of tolerance to opiates. All patients are tested for various medical conditions and diseases, including sexually transmitted diseases, and once in the program must comply with regular, random testing to detect illegal drug use. Because many patients have other serious medical conditions or diseases, the NTPs work with primary care clinics, public health agencies and managed health care plans to provide appropriate referrals and coordinate care.

Methadone is a long-acting medication that normalizes the physical condition of addicts so that they do not suffer from withdrawal symptoms. Methadone also reduces craving for opiates. Some patients must come into the clinic for a daily oral dose of methadone and others who demonstrate progress in treatment may have a regimen of unsupervised weekly oral medications. The goal of methadone is to stabilize the patient in order to treat the other psychosocial and medical issues.

The department indicates that at an average cost of $11 to $13 per day, methadone maintenance treatment is a cost-effective alternative to incarceration or hospitalization.

Questions:

1. DADP, please present the Governor's Budget proposal for Drug Medi-Cal rates.

Recommendation: Hold open until May Revision.

DADP Issue 2: Funding for Proposition 36, the Substance Abuse and Crime Prevention Act (SACPA)

Description: The Governor's Budget proposes $120 million in 2006-07 for Proposition 36, the Substance Abuse and Crime Prevention Act (SACPA). SACPA provides drug treatment instead of incarceration for certain first or second time non-violent adult drug offenders. SACPA also appropriated $120 million annually from 2001-02 to 2005-06 for drug treatment. Researchers at the University of California at Los Angeles (UCLA) will report on the effectiveness of the program in April 2006.

Background:

- **Voters Approved SACPA in 2000:** 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.

- **Clients Served and Outcomes:** According to UCLA's July 2005 evaluation of SACPA, in 2003-04 51,033 clients were referred to the system and 37,103 (73%) received treatment. This "show rate" compares favorably with show rates in other studies of drug users referred to treatment by criminal justice. The UCLA findings include:

  - Most SACPA clients (89%) were on probation when sentenced or were already on probation. The remaining 11% were parolees with a new drug offense or a drug-related parole violation.

  - SACPA clients had long histories of drug use and half were experiencing treatment for the first time. Methamphetamine was the primary drug used by 53% of SACPA clients. About 45 percent were non-Hispanic White, 32 percent were Hispanic, and 14 percent were African-American. The average age of SACPA clients was 35.

  - Most SACPA clients (84%) were placed in outpatient drug-free programs, and 11% were placed in long-term residential programs. However, many clients had drug problems severe enough to suggest a need for residential treatment. Methadone maintenance, methadone detox, non-methadone detox, and short-term residential treatment were rarely used in SACPA.

  - Of those clients who entered treatment in the second year (2002-03), 34% completed treatment. Of the total clients referred (clients entering treatment as well as those who dropped), the completion rate was 25%. SACPA treatment performance rates are typical for drug users referred to treatment by criminal justice.

  - Success in treatment was particularly difficult for those with heroin addiction. Few heroin users were treated with methadone detoxification or maintenance programs, despite the proven effectiveness of those programs.

- **Program Funding and Expenditures:** SAPCA appropriated $60 million for 2000-01 and $120 million annually from 2001-02 through 2005-06. The sentencing guidelines established by SACPA do not sunset, although the statutory funding requirement sunsets

June 30, 2006. Of total expenditures in 2003-04, counties spent 76% on treatment and related services, and 24% on court, probation, and other criminal justice activities.

Fiscal Year	Amount Allocated to Counties	Carryover Funds from Previous Year	Total Funds Available	Total Expenditures	% Expended of Total Funds Available	% Expended of Total Annual Allocation
FY 2000/01	$58,800,000	Not Applicable	$58,800,000	$7,177,107	12.2%	12.2%
FY 2001/02	$117,022,956	$54,241,609	$171,264,565	$92,783,434	54.2%	79.3%
FY 2002/03	$117,022,956	$85,971,954	$202,994,910	$136,392,288	67.2%	116.6%
FY 2003/04	$117,022,956	$70,872,140	$187,895,096	$134,282,695	71.5%	114.7%
FY 2004/05	$116,594,956	$57,011,522	$173,606,478	$133,483,107	76.9%	114.5%
FY 2005/06	$116,513,956	$40,123,371	$156,637,327	$149,709,926	95.6%	128.5%

- **Governor's Budget:** The Governor's Budget funding level of $120 million may effectively result in funding reductions for counties, as they have been using unspent carryover funds from their initial SACPA allocations to supplement the $120 million annual appropriation. Counties are expected to have little or no carryover funds after 2005-06.

  If the state does not maintain the $120 million funding level after 2005-06, it will not meet its maintenance of effort (MOE) requirement for the federal Substance Abuse Prevention and Treatment (SAPT) block grant. Due to the SAPT MOE, a General Fund reduction would result in a corresponding reduction in federal funds in 2006-07.

  The budget requests statutory changes to align SACPA sentencing guidelines with the drug court model, including drug testing, flash incarceration, and judicial monitoring. The budget also recommends programmatic changes to ensure that offenders are matched with appropriate treatment services, such as narcotic replacement therapy and culturally competent services.

- **Concerns Regarding Funding Level:** Counties, consumers, providers, educators, and advocates have expressed concern that the Governor's Budget funding level for SACPA is insufficient, and that it would result in reduced services, more persons incarcerated, and reduced supervision of violators. Further, the funding level for SACPA has not been adjusted to reflect actual caseload or treatment cost increases.

  The Coalition of Alcohol and Drug Associations (CADA) has requested $209.3 million General Fund for SACPA in 2006-07, an increase of $89.3 million above the Governor's Budget funding level. This figure is based on surveys conducted in 2004 and 2005 among county alcohol and drug program administrators. They indicate the anticipated shortfall in 2006-07 is $68 million for treatment, $4.5 million for ancillary services, and $16.8 million for probation supervision. The greatest unmet needs are for residential treatment and aftercare, which is received by less than one third of Proposition 36 offenders.

Due to funding constraints, some counties currently have waiting lists for residential treatment slots. Clients are provided outpatient services while on those waiting lists. Funding constraints have also resulted in some counties reducing the intensity and duration of treatment, such as providing group counseling instead of individual counseling, and reducing treatment programs from 12 to 8 weeks.

- **Concerns Regarding Licensing of Providers:** Recent articles in the Sacramento Bee have focused on the quality of care provided by counselors under SACPA. These articles indicated that over 40 serious incidents of neglect or abuse had been identified since the implementation of SACPA in 2001. These incidents resulted in the risk or actual injury or death of patients, and may be the result of insufficient regulation and standards for substance abuse counselors.

  The department indicates that increased incidents of abuse or neglect should be considered in the context of the significant increase in treatment admissions and providers under SACPA. The department also notes that it implemented new counselor certification regulations effective April 1, 2005, after seeking stakeholder comments. The regulations are intended to improve the quality of counselors without resulting in workforce shortages. Prior to the regulations, a valid TB test was the only requirement for an individual to become a substance abuse counselor.

  The department indicates it is in the process of developing next steps designed to raise the level of professionalism and expertise of the field based on employer demand and workforce needs. Many of these licensing reforms are being addressed through the regulatory process, although other changes may be included in future HHS Agency licensing reform proposals.

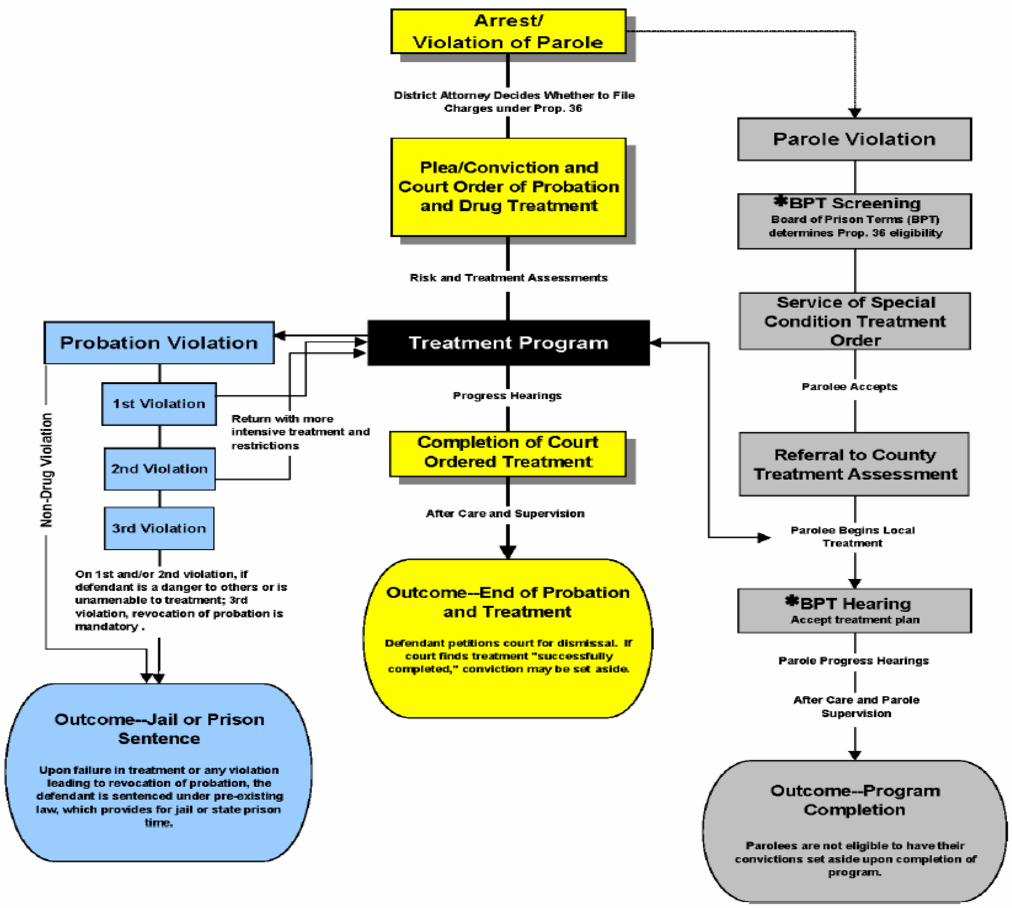
Questions:

1. DADP, please describe modifications to local SACPA programs that have occurred or may develop if the need for services exceeds available funding.

2. DADP, please describe the department's efforts to increase the effectiveness and ensure the quality of local SACPA programs and counselors.

Recommendation: Hold open until the April 20th hearing.

**Sample
Proposition 36 Case Processing
Flowchart**



✱ Effective October 1, 2002, changes to SACPA parolee procedures were adopted by the California Department of Corrections (CDC) and the Board of Prison Terms (BPT) to direct parolees to assessment much more quickly. Under the revised procedures, parolees are referred to assessment centers by their parole agents, rather than by the BPT. The parole agent is the primary point of contact for the assessment center and treatment provider.

Parole Note: Non-drug violations; parolees who do not accept Prop. 36 treatment or parolees who fail treatment would return to prison and/or other sanctions.

California Department of Alcohol and Drug Programs
June 2, 2005

PROGRAM ADMINISTRATION

Program	Description	Accountability/ Performance Monitoring	Average Monthly Caseload 2005-06	2005-06 Budget	Sharing Ratio	Budget Methodology	*Annual* Impact of Cuts Since 2000-01*
CalWORKS Eligibility, Welfare to Work Services, and Child Care	The State's welfare reform program that began 1997-98. Counties perform eligibility determination, benefit issuance, welfare-to-work services, and child care to qualifying low-income families.	50 percent share of work participation penalty	483,524	$1.89 billion total funds	$1.42 billion Federal TANF Funds $408 million State $57.5 million County	The Budget funds costs at the 2000-01 level, creating a program shortfall. Changes in caseload are budgeted, but the costs of serving that caseload are frozen at the 2000-01 level, exacerbating the program shortfall. Budget adjustments are for premises that can increase or decrease the budget. Originally based on PCAB (Proposed County Administrative Budget), a process to determine actual county costs.	$267.8 million unfunded cost-of-doing-business increases $180.4 million cut to county operations and services
Food Stamps Administration	Counties provide eligibility determination and benefit issuance to eligible low-income families.	Federal error-rate penalty	877,300	$499.3 million total funds	50 percent Federal 35 percent State 15 percent County	The Budget funds costs at the 2000-01 level, creating a program shortfall. Changes in caseload are budgeted, but the costs of serving that caseload are frozen at the 2000-01 level, exacerbating the program shortfall. Budget adjustments are for premises that can increase or decrease the budget. Originally based on PCAB, a process to determine actual county costs.	$154.8 million unfunded cost-of-doing-business increases $75.2 million reductions to county operations and services
Medi-Cal Eligibility	Counties provide eligibility determination for health insurance to low-income families	Performance Monitoring Quarterly Reconciliation Healthy Families Bridge Performance Standards	6.8 million	$1 billion	50 percent Federal 50 percent State	Since 2003-04 based on an annual Budget Worksheet request submitted to and approved by DHS. The worksheet is a method to determine actual Medi-Cal costs. The Governor proposes to freeze costs at the 2005-06 level ($42.4 million cut).	$58 million cut to county operations and services

Program	Description	Accountability/ Performance Monitoring	Average Monthly Caseload 2005-06	2005-06 Budget	Sharing Ratio	Budget Methodology	*Annual* Impact of Cuts Since 2000-01*
Adoptions	Counties provide adoptions placements for abused or neglected children in foster care.	Federal Children and Family Services Review State Outcomes and Accountability System (AB 636)	69,060	$73.5 million total funds	43.33 percent Federal 56.67 percent State	The Budget funds costs at the 2000-01 level. Counties are funded with a total of 560.55 full-time equivalent workers statewide. Originally based on the unit cost for an annual adoption worker in each county multiplied by the number of full-time equivalent workers.	$5.7 million unfunded cost-of-doing-business increases $12.8 million cut to county operations and services
Child Welfare Services	Counties provide a broad range of services to abused and neglected children and families at risk of abuse and neglect including emergency response, assessment, family maintenance, family reunification, and permanent placement.	State Outcomes and Accountability System (AB 636) Federal Children and Family Services Review	164,401	$960.5 million total funds	50 percent Federal 35 percent State 15 percent County	The Budget funds costs at the 2001-02 level, creating a program shortfall. Changes in caseload are budgeted, but the costs of serving that caseload are frozen at the 2001-02 level, exacerbating the program shortfall. Budget adjustments are for premises that can increase or decrease the budget. Originally based on PCAB (Proposed County Administrative Budget), a process to determine actual county costs.	$24.3 million unfunded cost-of-doing-business increases $27.1 million cut to county operations and services
Foster Care Eligibility	Counties determine eligibility and establish federal eligibility to create State General Fund savings. In addition, counties determine benefit issuance of foster payments to group homes, foster family homes, guardians, and relative caretakers	Federal IV-E Foster Care Eligibility Review	79,797	$96.6 million total funds	50 percent Federal 35 percent State 15 percent County	The Budget funds costs at the 2000-01 level, creating a program shortfall. Changes in caseload are budgeted, but the costs of serving that caseload are frozen at the 2000-01 level, exacerbating the program shortfall. Budget adjustments are for premises that can increase or decrease the budget. Originally based on PCAB (Proposed County Administrative Budget), a process to determine actual county costs.	$29.7 million unfunded cost-of-doing-business increases $2.6 million cut to county operations and services

Program	Description	Accountability/ Performance Monitoring	Average Monthly Caseload 2005-06	2005-06 Budget	Sharing Ratio	Budget Methodology	*Annual* Impact of Cuts Since 2000-01*
Adult Protective Services	Counties respond to reports of elder and dependent adult abuse and provide assessment, investigation, and case management services including emergency shelter care, food, and transportation.		19,658	$84.6 million total funds	$50.2 million State General Fund Federal Title XIX	Costs have been frozen at the 2002-03 level. Budget adjustments are for changes in estimated federal Title XIX reimbursements only.	$17.8 million unfunded cost-of-doing-business increases $17.7 million cut to county operations and services
In-Home Supportive Services Administration	Counties provide both eligibility determination and assessment for the types and numbers of hours of service for eligible clients. Low-income elderly and disabled adults and disabled children receive in-home care services from providers (i.e. personal care, meal preparation, housecleaning).	Quality Assurance Initiative	372,335	$268.9 million total funds	48.96 percent Federal 35.73 percent State 15.31 percent County	Counties receive funding for a specific number of hours of social worker time. However, the number of hours does not reflect the amount of social worker time needed to determine eligibility and assess the types and numbers of hours of service. Caseload adjustments funded at 2000-01 costs. There has been no increase in cost-of-doing-business since 2000-01.	$68.3 million unfunded cost-of-doing-business increases
Total Annual Impact of cuts through 2005-06 Budget. Impact does not include cuts proposed in the 2006-07 Budget.						**$942.2 million Total Funds $665.4 million State General Fund**	

*Cumulative annual impacts include cuts to county operations and services ($373.8 million) and unfunded cost-of-doing-business increases ($568.4 million) since 2000-01. Cuts include those adopted by the Legislature and funds vetoed by the Governor.

Senate Budget and Fiscal Review—Wesley Chesbro, Chair

SUBCOMMITTEE NO. 3 Agenda

Chair, Senator Denise Moreno Ducheny
Senator Dave Cox
Senator Wesley Chesbro

Thursday, March 9, 2006
(Upon Adjournment)
Room 3191
Consultant, Anastasia Dodson

Trailer Bill Language

SEC. 50. Section 11019 is added to the Welfare and Institutions Code, to read:

11019. (a) Notwithstanding any other provision of law, commencing July 1, 2006, the state's participation in county administration costs for salaries, benefits, and overhead shall be limited to the amount appropriated for these purposes in the Budget Act of 2005, except for additional costs resulting from caseload increases, for the following programs:

(1) Foster Care.

(2) Medi-Cal.

(3) CalWORKs.

(4) Food Stamp.

(5) Child Support.

(6) Cash Assistance Program for Immigrants.

(7) California Food Assistance.

(8) Statewide Automated Welfare System.

(9) Child Welfare Services.

(10) Community Care Licensing Payment.

(11) Kinship Guardianship Assistance.

(12) Adoptions.

(13) In-Home Supportive Services.

(14) Adult Protective Services.

(b) Notwithstanding Section 15204.2, CalWORKs single allocation funds shall not be used to fund increases in county administration costs for salaries, benefits, and overhead that occurred after enactment of the Budget Act of 2005, except for additional costs resulting from caseload increases.

(c) Nothing in this section shall preclude counties from using county-only funds to pay for any subsequent increases to county administration salaries, benefits, or overhead above the level of state participation.

SEC. 22. Section 16605 of the Welfare and Institutions Code is amended to read:

16605. (a) The department shall, subject to the availability of funds appropriated therefor, conduct a Kinship Support Services Program that is a grants-in-aid program providing startup and expansion funds for local kinship support services programs that provide community-based family support services to relative caregivers and the children placed in their homes by the juvenile court or who are at risk of dependency or delinquency. Relatives with children in voluntary placements may access services, at the discretion of the county.

(b) The Kinship Support Services Program shall create a public-private partnership. A combination of federal, state, county, and private sector resources shall finance the establishment and ongoing operation of the program.

(c) The counties ~~participating~~ that elect to participate in the program shall meet the following conditions and requirements:

~~(1) Have 40 percent or more of dependent children in relative care placements.~~

~~(2)~~

(1) Have a demonstrated capacity for collaboration and interagency coordination.

~~(3)~~

(2) Have a viable plan for ongoing financial support of the local kinship support services program.

~~(4)~~

(3) Utilize relative caregivers as employees of the program.

~~(5)~~

(4) Have strong and viable public or private agencies to operate the program.

(5) Provide to the department the number of relative caretakers residing in the county, and the projected number of relative caretakers to be served.

(6) Describe how the county will develop and maintain the necessary community supports.

(7) Outline the county's outcome improvement goals for the program. These goals shall include, but shall not be limited to, moving children out of foster care and into the Kinship Guardian Assistance Payment Program (Kin-GAP) or adoption, placement stability, and preventing children from entering foster care. The county shall also agree to measure and report data regarding the Kinship Support Services Program, as required by the department.

(d) The Kinship Support Services Program shall demonstrate the use of supportive services provided to relative caregivers and children placed in their homes using a community-based kinship support services model. This model shall provide services to relative caregivers that are aimed at helping to ensure permanent family kinship placements for children who have been placed with them by the juvenile court, and to provide family support services that will eliminate the need for juvenile court jurisdiction and the provision of services by the county welfare department.

(e) The program shall provide family support services appropriate for the target populations. These services may include, but are not limited to, the following:

(1) Assessment and case management.

(2) Social services referral and intervention aimed at maintaining the kinship family unit, for example, housing, homemaker services, respite care, legal services, and day care.

(3) Transportation for medical care and educational and recreational activities.

(4) Information and referral services.

(5) Individual and group counseling in the area of parent-child relationships and group conflict.

(6) Counseling and referral services aimed at promoting permanency, including kinship adoption and guardianship.

(7) Tutoring and mentoring.

(f) The Edgewood Center for Children and Families in San Francisco or any other appropriate agency or individual approved by the department in consultation with the Statewide Kinship Advisory Committee shall provide technical assistance to the Kinship Support Services Program and shall facilitate the sharing of information and resources among the local programs.

~~(g) For the 2001–02 fiscal year, the department shall give priority in the grants-in-aid program to counties that have participated in the Kinship Support Services Program prior to the 2001–02 fiscal year or to counties that have received technical assistance and training related to that program, but no funding for program services.~~

~~(h) A county shall not become ineligible for grant funds due to a reduction in the percentage of relative care placements.~~

Hearing Outcomes

Subcommittee No. 3: Thursday, March 9, 2006 (Room 4203) 10:00 am

Vote-Only Agenda

- Vote Only Issue 1: Department of Social Services (DSS), Foster Care Audits Staff
  3-0 Vote to Approve as Budgeted

- Vote Only Issue 2: DSS, Title IV-E Claiming Staff
  3-0 Vote to Approve as Budgeted

- Vote Only Issue 3: Department of Alcohol and Drug Programs, Drug Medi-Cal Fraud Deterrence Staff
  2-1 (Cox) Vote to Approve as Budgeted

Discussion Agenda

5180 Department of Social Services (DSS):

- DSS Issue 2: Improving Adoptions Outcomes: Hold Open until May Revision.

- DSS Issue 3: Kinship Support Proposal: Hold Open until May Revision.

- DSS Issue 4: Transitional Housing Placement Program: Hold Open until May Revision.

- DSS Issue 5: Independent Living Program: Hold Open until May Revision.

- DSS Issue 6: Child Welfare Social Worker Standards (SB 2030): Hold Open – DSS report due at April 20th hearing.

- DSS Issue 7: Group Home Funding and Residential Services Reform: Hold Open – LAO/DSS/DOF to report back in April on costs of Group Home Reform Implementation Plan.

- DSS Issue 8: Title IV-E Disallowance and TANF Funding: Hold Open until May Revision.

- DSS Issue 9: Title IV-E Waiver BCP: Hold Open until April 20th hearing.

- DSS Issue 11: Freeze County Funding Proposal
  3-0 Vote to Reject the proposed Trailer Bill Language

- DSS Issue 12: Child Welfare Services/Case Management System: Hold Open until May Revision.

- DSS Issue 13: Dependency Drug Court: Hold Open until April 20th hearing.

4200 Department of Alcohol and Drug Programs (DADP)

- DADP Issue 1: Drug Medi-Cal: Hold Open until May Revision.

- DADP Issue 2: Proposition 36 – Substance Abuse and Crime Prevention Act (SACPA): Hold Open – Revisit at April 20th hearing.

SUBCOMMITTEE NO. 3 Agenda
Health, Human Services, Labor & Veteran's Affairs

Chair, Senator Denise Ducheny

Senator Wesley Chesbro
Senator Dave Cox

March 13, 2006

10:00 AM

Room 4203
(John L. Burton Hearing Room)

(Diane Van Maren)

Item	Department
4260	**Department of Health Services—*Selected Issues as Noted***

PLEASE NOTE: Only those items contained in this agenda will be discussed at this hearing. *Please* see the Senate File for dates and times of subsequent hearings.

Issues will be discussed in the order as noted in the Agenda unless otherwise directed by the Chair. 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.

A. ITEMS FOR "VOTE ONLY" (One Item)

1. Botulism Immune Globulin (BabyBIG)—Change in Manufacturing Facility

Issue. The DHS **proposes an increase of $1.1 million (Infant Botulism Treatment and Prevention Fund) *one-time only* to support an unavoidable change in one of the manufacturing facilities and to meet U.S. Food and Drug Administration (FDA) requirements.**

According to the DHS, the present manufacturer, who is specified in the FDA license as the plasma fractionators, will no longer be part of the manufacturing process of BabyBIG. The DHS must find a replacement in order to continue producing and supplying the medicine. Any technical transfer of proprietary methodology and technology requires an amendment to the license. Any license changes automatically require extensive studies of proof of capability in the new facility (per FDA). According to the DHS, these studies will cost $1.1 million in 2006-07. The next production of BabyBIG will be in 2008-09.

Background—Status of General Fund Loan. At one time BabyBIG had $2.9 million in outstanding General Fund loans. According to the DHS, the General Fund loan balance is now about $375,000 and will be paid in full in 2006-07.

Background—Description of the Program: Infant botulism occurs when the botulism bacteria temporarily colonizes and produces toxin in the baby's intestine. It is the most common form of human botulism in the United States. About 100 cases occur in the U.S. each year, with about 30 to 50 percent of these occurring in California.

BabyBIG is the DHS-sponsored Orphan Drug that treats infant botulism by neutralizing botulinum toxin. It is the only antidote available in the world for this purpose. In October 2003 the federal FDA issued a license to the DHS to manufacture and sell BabyBIG. The manufacturing process of the treatment takes about one year.

Prior to licensure, the DHS had been selling the drug to hospitals at a pre-license charge of $1,560. However through statutory effective July 1, 2004, the unit dosage now is purchased by hospitals at a cost of $45,300. **This change has enabled the program to recover development costs and to become more self-sustaining (i.e., not reliant on state General Fund support, but fee supported revenues).**

Treatment with BabyBIG has reduced average hospital stay from 5.7 weeks to 2.3 weeks and reduced average hospitals costs from $163,400 to $62,500, a savings of about $100,000 per case (using 2004 dollars). **As such, third-party insurers and hospitals like to use BabyBIG because of the reduction in complications and cost-savings that it provides. Treatment of these patients with BabyBIG saves the Medi-Cal Program more than $1 million annually.**

Subcommittee Staff Recommendation. It is recommended to approve as proposed.

B. ITEMS FOR DISCUSSION *(Individual issues begin on page 6)*

Overview of Public Health Emergencies. The Governor's Office of Emergency Services (OES) is the lead emergency management agency in California. It coordinates the state's response to major emergencies in support of local jurisdictions, which have the primary responsibility for responding to the effects of an emergency. **Local governments generally are expected to be the first responders to a disaster using local resources.**

The OES has prepared the **"State of California Emergency Plan"** which establishes a system for coordinating all phases of emergency management in California. These phases include:

- *Preparedness:* These are activities undertaken in advance to ensure readiness for responding to an emergency, such as developing emergency plans and mutual aid operational plans, training staff, and conducting exercises to test plans and training.
- *Response:* These are activities undertaken to respond to an emergency, such as activating warning systems and mobilizing resources. Emphasis is placed on saving lives, controlling the situation, and minimizing the consequences of a disaster.
- *Recovery:* These activities are undertaken to return to pre-disaster conditions, such as replacing pharmaceutical supplies.
- *Mitigation:* These activities are undertaken to eliminate or reduce the impact of future disasters

As part of the state emergency plan, the OES developed the **"Standardized Emergency Management System (SEMS)"** which is the state's overall framework for managing multi-agency and multi-jurisdictional emergencies in California. **SEMS consists of five organizational levels (i.e., Field, Local, Operational Area, Regional and State) which are activated as needed to respond to emergencies, including those caused by infectious disease agents.**

SEMS uses the "incident command system" which provides a means to coordinate the efforts of individual agencies as they work toward stabilizing the incident and protecting life, property, and the environment. State law requires state agencies to use SEMS, and local jurisdictions must use SEMS to be eligible for reimbursement of response-related personnel costs under disaster assistance programs.

The Department of Health Services (DHS) is the lead state agency for responding to public health emergencies such as infectious disease emergencies. The role of the DHS includes: (1) coordinating the state's overall preparedness and response effort, **(2)** providing policy direction, technical expertise and consultation, **(3)** maintaining expert laboratory resources, **(4)** receiving information about health threats and directing them to the appropriate program or local health jurisdiction, **(5)** facilitating public health alerts, and notification, and **(6)** providing direct response when an event exceeds local capacity.

Local health jurisdictions (61 through out the state) are the point of delivery for public health services and in emergencies provide response *within their capability.* Each jurisdiction has a local health officer (a physician) who is statutorily invested with authority to take necessary actions within its jurisdiction to control the spread of disease or occurrence of additional cases. These actions can range from ordering and enforcing isolation and quarantine of individuals to seizure and destruction of property and restricting school attendance by teachers and students.

State regulations require that local health jurisdictions serving populations of 50,000 or more to provide laboratory services from an approved public health laboratory. California has 38 public health laboratories. A local jurisdiction without its own laboratory can contract with another jurisdiction or use one of the state laboratories to meet its requirement.

During infectious disease emergencies, local and state health laboratories provide testing services to identify the presence of infectious agents, support investigations of disease outbreaks, and aid in efforts to control the spread of disease. When a bioterrorism event is suspected, designated laboratories perform more complex specimen testing services that require special laboratory protocols (such as for anthrax, smallpox, West Nile Virus and many others). The federal government—usually the Centers for Disease Control (CDC)—can also provide assistance in emergencies and under specified circumstances.

Planning for natural disasters, terrorism, or infectious disease outbreaks requires preparation by both the state and local health jurisdictions.

Overall Background—Federal Funding of Homeland Security and Bioterrorism. California receives over $300 million (federal funds) in homeland security and bioterrorism funds**.** These funds are intended to improve the state's emergency preparedness and response in case of a disaster. Though there are federal requirements, as well as certain federal restrictions, the state does have some flexibility on how funds are used each year. In addition, many department's baseline budgets include funding for emergency planning, training, and response activities.

The Department of Health Services (DHS) administers two bioterrorism grant programs. The grant from the federal Centers for Disease Control (CDC) provides grant funds to address threats that impact the public health of our communities. The grant from the federal Health Resources and Services Administration (HRSA) provides funds for hospitals, clinics, and emergency services administrations to support preparedness for response.

With respect to the grant funds from the federal CDC, about 70 percent of these funds are provided to Local Health Jurisdictions (61 entities) and 30 percent is expended by the DHS. The DHS presently funds about 95 positions with the federal CDC grant.

The DHS hand outs provide more detailed information on these funds and expenditures.

<u>Governor's Proposed Augmentations for Public Health Emergency Preparedness.</u> The budget proposes a total increase of **(1)** $11.7 million (General Fund) and 7.1 personnel years for the current year, and **(2) $47.6 million (General Fund) and 60 positions for the budget year for the DHS to expand its response and preparedness for public health emergencies, including pandemic influenza.**

The budget year proposals are discussed below. The current-year proposals will need to be address in legislation.

<u>Availability of Additional Federal Funds—20 Percent is Accessible.</u> After the Governor's budget was released, the federal government **awarded California a total of $9.6 million** ($6.7 million to the DHS and $2.9 million to Los Angeles County**) for state and local response capacity, particularly for the planning and implementation of pandemic influenza response plans and related activities. At this time, it appears that these funds are one-time only. Future appropriations would require Congressional action.**

According to the DHS, the federal CDC has authorized California to be able spend up to 20 percent of the grant (i.e., about $1.3 million). The remaining 80 percent is presently restricted until federal guidance is provided. The DHS has stated that a small portion of the 20 percent in funds needs to be used for a statewide conference in which the federal government will participate. However the remaining amount has not yet been designated since *formal* federal guidance is still forthcoming.

Further, an additional $250 million (federal funds) is to be allocated nationally in the future. Though it is unknown at this time what level of funding California will receive and how much may be specifically available for public health purposes.

1. Local Health Department Preparedness for Pandemic Influenza

Issue: An increase of **$17.9 million (General Fund)** is proposed to develop and implement pandemic influenza plans at the local level and to provide state support in these efforts. **Of this total amount, $1.9 million is for state support and $16 million is for local assistance.**

Specifically, this proposal consists of the following components:

- *Local Health Department Allocation ($16 million).* A total of **$16 million** (General Fund) is proposed for allocation to local health jurisdictions (all 61 in the state). **It is the intent of the Administration to provide this level of funding for *two-years* (i.e., 2006-07 and 2007-08) in order to strengthen and maintain local ability to respond to a pandemic influenza.**

  According to the DHS, each local health jurisdiction will receive a minimum base funding amount of $100,000 for a total expenditure of $6.1 million. The remaining $10 million would then be allocated based on county population. (This method of allocation has historically been used for several grants.)

  The DHS states that these funds would be used to address *locally identified* needs such as the following:
  - Increasing epidemiology and surveillance levels;
  - Improving risk communication;
  - Conducting more laboratory testing;
  - Training local government staff to conduct certain activities;
  - Conducting exercise plans and establishing protocols in all areas;
  - Planning and coordinating health care surge capacity, including alternate care sites;
  - Developing strategies for non-medical case management; and
  - Planning allocation and prioritization strategies for antivirals and vaccines.

- *State Support Funds ($1.9 million).* The DHS is also requesting **$1.9 million** for state support functions as follows:

  - **$500,000 is to support five new positions**—three Health Program Specialist I's, and two Associate Governmental Program Analysts (two-year limited term). The three Health Program Specialist I's would be used to provide technical assistance to the local health jurisdictions. Technical assistance would be provided on-site at the local level and through coordination of consultation across the DHS.

    One Associate Governmental Program Analyst (AGPA) position would serve as a project coordinator for implementing the training program. The other AGPA would manage the local assistance funds at the state level, including making allocations to the local health jurisdictions and monitoring expenditures.

- **$1.4 million is for consultant contracts.** Of this amount, $1 million is for regional and local training, and the remaining $400,000 is for other as yet undefined activities.

  The DHS states that training will cover topics such as distribution and dispensing of antivirals and vaccine, isolation and quarantine, use of personal protective equipment, developing surge capacity, mental health crisis management, community engagement and education.

Legislative Analyst's Office Recommendation—Deny the Proposal. The LAO recommends deleting the entire $17.9 million (General Fund) proposal. The LAO contends that some of the DHS' proposals for emergency preparedness, including this one, appear to fall within the parameters of the federal bioterrorism funding.

Subcommittee Staff Recommendation. It is **recommended to modify the DHS request** to provide for the following components:

- *Local Health Jurisdiction Funding (Approve).* It is recommended to provide the $16 million General Fund appropriation as requested. Though federal bioterrorism funds have been provided to local health jurisdictions, many recent reports continue to express concerns regarding the need to build infrastructure. Specifically the Rand Corporation Report (August 2004), the series of hearings and reports prepared by the Little Hoover Commission, and the Bureau of State Audits Report (August 2005) all note the need for increased local health jurisdiction infrastructure, including the need for scientific and surveillance expertise.

- *State Support (Modify).* It is recommended to fund the three Health Program Specialist I's but to delete the two Associate Governmental Program Analysts (AGPA's). The three Health Program Specialist I's would provide assistance to the 61 local health jurisdictions as specified to ensure that each area completes their plans and has tangible operational goals. Deletion of the two AGPA's would result in savings of $180,000 (General Fund). Monitoring of the training and any accounting functions can be performed by existing state staff funded using the federal bioterrorism funds.

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

1. DHS, Please briefly describe the proposal and the need for funding.

2. DHS, How does this proposal interact with existing activities presently conducted using the federal bioterrorism funds.

3. LAO, Please present your concerns.

2. Managing Antivirals for Pandemic Influenza

Issue. The budget contains **an increase of $1.5 million (General Fund) of which $200,000 is for state support and $1.3 million is for local assistance.** The DHS plans to use antivirals (such as Tamiflu) to strategically contain small disease clusters of pandemic influenza and thus potentially slow the spread of any outbreak of the virus, particularly until a vaccine is available.

Specifically, the $1.5 million (General Fund) would be expended as follows:

- *Local Assistance ($1.3 million).* **This appropriation would be used to purchase about 200,000 doses of antiviral** (such as Tamiflu or the most effective product known at the time)**.** This dosage amount would provide 20,000 5-day treatment courses, or 10,000 or less prophylaxis or preventative courses (i.e., 10 days to 8 weeks, depending on length of treatment needed) in the event that the virus is not contained quickly.

- *State Support ($200,000).* This **appropriation would be used to fund one Associate Governmental Program Analyst (AGPA) position *and* to provide $111,000 for consultant services.** The AGPA position is to be used to manage the antiviral, vaccines and medical supplies that California would need during a pandemic. **This would include activities such as (1)** determining gaps in available inventories of antivirals, vaccine and medical supplies, **(2)** provide ongoing monitoring of developed medical and drug supply inventories, and **(3)** monitor expiration dates of the antiviral in the state-owned cache and work with vendors to rotate as much as possible.

  With respect to consultant services, the DHS intends to enter into an interagency agreement with a University of California campus. The funds would be used for the following:

  - Develop methodology including inventory instrument, for conducting initial and quarterly surveys of inventory of state-wide antiviral, vaccine, medical and pharmaceutical caches (384 caches throughout the state) plus vendor inventories (28 major drug wholesalers and medical supply distributors) for pandemic-related drugs.
  - Establish agreements with private entities for medical and drug inventories for both pandemic and general emergency preparedness. (These agreements would be managed by the AGPA on an ongoing basis.)

Background—Role of DHS in Managing Antivirals & Vaccines. The DHS is the lead state agency responsible for managing federal pharmaceuticals and medical supplies that California may receive during a large-scale disaster or emergency.

The federal Pandemic Influenza Plan recommends that state health departments obtain and stockpile antivirals and vaccines, track supply and administration, and

distribute material to the local level. The DHS notes that managing a large volume of doses potentially numbering in the millions will require the development of a strong program operating under careful management.

The DHS also notes that the statewide inventory of emergency pharmaceuticals and medical supplies is not accurately known at this time and there is no system in place to rapidly determine available material or procure needed material. The proposed AGPA position and consultant services with provide assistance with this as well.

Legislative Analyst's Office—Approve. The LAO recommends approval of this proposal.

Subcommittee Staff Recommendation. It is **recommended to approve the $1.5 million (General Fund) as proposed.** The proposal is consistent with federal requirements and would facilitate California to initiate rapid treatment and prophylaxis when the first case appears in the state. In the event a pandemic does occur, the DHS states that this stockpile would supplement the limited federal supply.

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

1. **DHS**, Please provide a brief summary of the budget proposal.

3. Infectious Disease Laboratory Infrastructure—Strengthen Surge Capacity

Issue. An **increase of $4.2 million (General Fund) is proposed to provide $1.7 million for state support to fund 13 new positions and $2.5 million for local assistance. This request includes funds to implement new tests to control both old and new infectious disease, and to establish pre-doctoral and post-doctoral training programs to provide a qualified pool of candidates to replace local laboratory directors as they retire.**

Specifically the $4.2 million (General Fund) would be expended as follows:

- *Local Assistance ($2.5 million).* There are **38 Public Health Laboratories** (operated by local health jurisdictions) in California which are an integral component to the state's response system to mitigate communicable and infectious disease outbreaks, detect bioterrorism, detect exposure to chemical toxins, and other public health-related concerns and emergencies.

  The Public Health Laboratory directors, as well as the Little Hoover Commission (2003 report on public health system), have identified significant concerns related to maintaining and expanding California's public health system. **A key component is the ability to recruit and retain a clinical workforce.**

  Many of the directors of the Public Health Laboratories were "grandfathered" into their positions since they were hired before certain federal clinical laboratory standards (i.e., "CLIA") were enacted in the early 1990's.

  These newer "CLIA" standards require additional academic degrees. Specifically, a director of a Public Health Laboratory must now (1) hold a doctorate in an approved area of laboratory science, (2) hold a Public Health Microbiologist certificate, and (3) be certified by one of six specified organizations.

  The $2.5 million (General Fund) would be used to fund a pre-doctoral program and contract with the University of California system (one program at UCLA and another at Berkeley). The major components of the program include the following:

  - Support for doctoral students, plus a requirement that employed service in a Public Health Laboratory would be required for the state's support.
  - Support for post-doctoral positions.
  - Assistance to local public health laboratories to employ the graduates in paid positions so they can acquire the necessary public health laboratory experience.
  - Support for an outreach program to encourage undergraduates in relevant sciences to apply to the doctoral programs.
  - Require students upon completion of the program to

The DHS and Public Health Laboratory Directors, as well as other constituency groups, have been in contact with the University of California system regarding this proposal. All parties indicate that details are progressing well. Potential mechanisms for administering these local assistance funds include inter-agency agreements (such as with the UCs), and contracts directly with local health jurisdictions or another fiscal agent (such as a foundation).

- **State Support ($1.7 million).** Under this portion of the proposal, the DHS would **(1)** expend $200,000 to purchase molecular sequencing equipment and, **(2)** hire 13 new, permanent positions for the state's infectious diseases laboratories. Specifically, the positions are shown in the table below.

Classification of Position	Request	Purpose
Research Scientist III	1	Provide parasitology services
Research Scientist III	1	Provide mycology services
Public Health Microbiologist II	2	Provide immunoserology services
Subtotal Microbial Disease Lab	**4**	
Research Scientist III	2	Improving influenza diagnostics
Public Health Microbiologist	3	Improving influenza diagnostics
Public Health Microbiologist	3	Establish a molecular virology unit
Public Health Microbiologist	1	Maintaining quality control & assurance
Subtotal Viral & Rickettsial Disease	**9**	
TOTAL REQUEST	**13**	

Accurate laboratory services are essential to identifying infectious disease agents. The DHS is requesting these positions to improve the day-to-day demand for reference testing, to improve surge capacity, and to expand diagnostic testing (such as antiviral resistance testing, fungal diagnostics, serologic diagnostics, and more molecular techniques).

Overview of the DHS Infectious Disease Laboratories. Public Health Laboratories have a different mission than commercial laboratories. Many laboratory tests are not commercially viable, yet are necessary to maintain the public's health (as well as the individuals). **The DHS states that their infectious disease laboratories have expertise to perform over 8,000 different viral, Rickettsial, bacterial, fungal, and parasitic agents that can cause significant morbidity and mortality.**

The DHS infectious disease laboratories consist of the Microbial Diseases Laboratory (MDL) and the Viral and Rickettsial Diseases Laboratory (VRDL). **These laboratories provide the laboratory support, technical assistance, and research necessary for diagnosing, investigating, and controlling infectious diseases in California.** They provide diagnostic and epidemiologic laboratory support for 83 reportable diseases.

Examples of their activities include:

- Supporting epidemiologic investigations to control outbreaks of foodborne and waterborne diseases, determining sources of adulteration, and supporting product recall or quarantine by regulatory agencies;
- Supporting childhood vaccination programs regarding the prevalence and incidence of disease in children, targeted groups for vaccination, and emerging strains causing illness not covered by current vaccination regimens (e.g., whooping cough);
- Supporting active surveillance, control, and prevention of tuberculosis in immigrants entering California from Southeast Asia and the Pacific Rim by isolating these organisms from infected persons or travelers;
- Conducting surveillance of recreational camping and aquatic facilities for plague-carrying rodents;
- Confirming the presence or absence of bioterrorism agents (e.g., anthrax, plague, and smallpox);
- Investigating outbreaks of gastrointestinal illness;
- Performing HIV strain typing and viral load testing; and
- Conducting arbovirus surveillance, including West Nile virus.

Currently, the MDL has 36 General Fund positions, 12.5 federally funded positions and 7 contract positions. The DHS states that the federally funded and contract positions must work exclusively on the activities contained in their funded scope of work. Further, the DHS states that the existing General Fund positions are fully occupied with current activities.

The VRDL has 35 General Fund positions, 8 federally funded positions and about 40 contract positions. This laboratory is equally overextended and struggling to meet the testing needs in core areas, such as rabies, influenza, West Nile, respiratory outbreaks, hepatitis, HIV, vaccine-preventable diseases, and other items.

Background---Many Concerns with Scientific Capacity of Local and State Laboratories. Through a series of hearings and reports the Little Hoover Commission identified significant needs within California's public health system which require improvement, including the need to bolster the state's public laboratory network (i.e., 38 Public Laboratories and the state laboratories). Among many things the Commission noted that Californians should have access to timely review of serious pathogens, including for bio-safety level 4, and that specific strategies should be devised to ensure available scientific expertise. Further, the Commission noted that adequate laboratory capacity requires state-of-the-art facilities and equipment, highly trained staff, and surge capacity to respond to crisis.

Similar concerns were expressed in the Bureau of State Audits Report (Emergency Preparedness, August 2005) regarding improvements for Public Health Laboratories. They noted the need for scientific and research staff at the state level, and expressed concerns with developing needed professional expertise at the 38 Public Health Laboratories.

In addition, the Rand Corporation (Public Health Preparedness in California—Lessons Learned from Seven Health Jurisdictions, August 2004) has also identified the need for investment in our public health laboratory system.

Legislative Analyst's Office Recommendation--Approval. The LAO recommends approval of this request in recognition that California needs to bolster its scientific expertise and capabilities in regards to communicable diseases.

Subcommittee Staff Recommendation. Subcommittee staff concurs with the LAO recommendation. The need for these resources has been discussed for several years in various forums. California needs to strengthen its scientific expertise and capacity at both the local and state levels. This proposal moves in that direction.

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

1. DHS, Please describe how the $2.5 million program to attract and retain directors of Public Health Laboratories would operate.

2. DHS, Please provide a brief summation of why the requested 13 positions are necessary.

4. Expansion of Local and Statewide Communicable Disease Surveillance

Issue. The budget proposes **an increase of $1.3 million (General Fund) to support 4 new, permanent positions and contract funds. The primary function of this effort is to expand and maintain state and local capacity to conduct communicable disease surveillance.**

The $920,000 in contract funds would be used as follows:

- *Contract to University of California ($693,000).* The **DHS would contract with the UC system to obtain specialized services to conduct support, training, testing, customer service, interfacing, and quality control activities for statewide surveillance operations and initiatives.** *For example*, they would assist and coordinate information exchange between laboratories and public health agencies that will be connected via the various electronic laboratory reporting activities that are becoming available in a number of local health jurisdictions.
- *Other Specialized Consulting Services ($227,000).* The DHS states that these funds would be used to provide other specialized services. **Examples include security assessments/audits, graphic design for training and outreach materials, information management and modeling, and future feasibility studies.**

The requested positions include the following:

- *Research Scientist Supervisor I.* This position would serve as the manager of the unit and would provide expertise for developing and implementing public health information and surveillance strategies.
- *Research Scientist III (Epidemilogy/Biostatistics).* This position is responsible for designing and conducting scientific research to maximize the use of disease surveillance data. This position would have direct responsibility, in collaboration with the 61 local health jurisdictions, to analyze, interpret and disseminate disease surveillance information. This would include conceiving, directing and conducting epidemiologic studies and bio-statistical analyses of communicable diseases.
- *Associate Governmental Program Analyst.* This position would assist with the preparation of grant applications, contracts, and other requests for intramural and extramural funding. In addition they will monitor and track payments, prepare various reports and do other administrative functions.
- *Office Technician.* This position would provide clerical support, maintain inventory and records of equipment, prepare training and conference materials, and other related tasks.

Additional Background—Discussion of Surveillance Infrastructure. Surveillance is a core public health function that relies on various sources of information, data and knowledge to assess the health of the population, direct disease control and prevention efforts, and support policy development. **This often includes the use of various information technologies. The ability of the state and local policy-makers to**

respond to emerging threats to the public health is dependent upon the availability of accurate and complete information.

The DHS and local health jurisdictions have formed the "California Public Health Information Partnership (CalPHIP) which is a partnership specifically formed to coordinate disease reporting and surveillance improvements in the state, including web-based disease reporting for health care provides, laboratories, and local health jurisdictions. In addition, the DHS uses the CA Health Alert Network (to inform of potential problems/outbreaks) to maximize resource sharing between governments.

The DHS contends that though public health agencies in California have made progress toward developing and implementing systems for disease reporting and surveillance, there needs to be a more unified and coordinated approach.

Presently, the DHS uses about $4.8 million from existing federal bioterrorism grants to improve infectious disease epidemiology and investigation for bioterrorism agents. These funds support epidemiologist and research scientists and contracts working to improve disease recognition, investigation and control efforts in compliance plans approved by the federal agencies (federal CDC and federal HRSA).

Additional Comments. The Little Hoover Commission (June 2005), Bureau of State Audits Report (Emergency Preparedness, August 2005) and the Rand Report (August 2004) all have identified the need for improving the statewide communicable disease surveillance system.

Legislative Analyst's Office Recommendation--Approve. The LAO recommends approval of this proposal.

Subcommittee Staff Recommendation. It is recommended to approve as budgeted. The proposal is consistent with trying to build upon existing resources to better manage this complex field of communicable disease surveillance. It also addresses gaps in the existing system that have been identified through other analyses (i.e., the Little Hoover Report and the report prepared by Rand).

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

1. **DHS,** Please provide a brief summary of the request and why it is necessary.

5. Developing Workforce Capacity for Outbreak Response

Issue and Background. The DHS requests **an increase of $350,000 (General Fund) for consultant services to train existing public health field investigation staff (such as public health nurses and other public health professionals) that does not have emergency preparedness training.** According to the DHS, these funds will allow for a comprehensive field investigation training program to establish and **sustain a 100-person ready response team** for infectious diseases and bioterrorism emergencies.

Under this proposal, the DHS would contract with the CA Sexually Transmitted Disease/HIV Prevention Training Center (a national training center used for public health investigators and public health nurses). This training center would implement curriculum to train existing public health investigative staff to function as part of an emergency preparedness team. **This emergency preparedness training would include:**

- Locating and interviewing patients and their contacts;
- How to function in an incident command structure;
- Use of personal protective gear for various chemical agents;
- How to collect specimens according to criminal investigation standards;
- How to perform environmental assessments; and
- Effective implementation of legal orders and isolation.

There are many "frontline" public health professionals (about 400 people) working in state and local communicable disease programs, such as tracking and investigation of sexually transmitted diseases, TB and HIV. **These highly trained professionals have established extensive provider and community networks through their daily activities in case investigation, specimen collection, community forum participation, and provider visitations. As such, with the added skill sets through the consultant training, the expertise of these staff can be used in the event of a public health crisis.**

Legislative Analyst's Office Recommendation--Approve. The LAO recommends approval of this proposal.

Subcommittee Staff Recommendation. It is recommended **to modify the proposal by shifting the funding from General Fund support to federal fund support by using the newly provided federal funds for Pandemic Influenza.**

As noted under the background section of this agenda, the federal CDC has provided California with new funding of which we are presently authorized to spend 20 percent, or $1.3 million (federal funds). Further, the federal CDC has previously allowed the state to use funds for training purposes. **As such, there should be no concerns with this fund shift.**

<u>6. Assuring Pandemic Influenza & Disease Outbreak Preparedness & Response</u>

<u>Issue.</u> The DHS is requesting **an increase of $673,000 (General Fund) to fund 5 new, permanent positions to prepare for and respond to pandemic influenza.** These positions would conduct epidemiologic investigations of influenza and respiratory infectious disease outbreaks, and provide epidemiologic and statistical support to the department.

The requested positions and their intended purposes are as follows:

- *<u>Immunization Branch (4 positions).</u>* A total of four positions--Public Health Medical Officer, Nurse Consultant III, Research Scientist and Health Program Specialist—would be used to do the following key tasks:
    - Review state and national pandemic plans and develop standards for clinical activities that should be included in local pandemic influenza plans.
    - Communicate and coordinate with local, state and federal agencies and provide technical assistance.
    - Work with health care partners and other sources of influenza data to develop methodologies to evaluate influenza illness and vaccination coverage.
    - Research clinical care settings, including staffing, equipment and infrastructure to measure availability of surge capacity for an outbreak.
    - Develop standards of care for a clinical response to pandemic influenza, including antivirals, and vaccine prioritization strategies.
    - Conduct investigations of epidemiology and coordinate a statewide network of local and regional clinicians, epidemiologists and public and private laboratories to facilitate influenza activities.

- *<u>Infectious Disease Branch (one position).</u>* A Research Specialist III position would be used to provide epidemiologic and biostatistical support for the surveillance, prevention and control of influenza and respiratory disease outbreaks in coordination with the infectious disease laboratories.

The DHS states that these positions are necessary because they presently do not have the capacity to implement onsite epidemiologic investigation, or to provide the level of expertise required in the event of a pandemic influenza outbreak in California. They contend that these positions are needed to provide active planning and development of policies, procedures model emergency orders and risk communication strategies in order to prepare for any pandemic event.

<u>Legislative Analyst's Office Recommendation--Deny.</u> The LAO contends that the DHS could utilize existing positions, funded using federal bioterrorism funds, for these purposes.

<u>Subcommittee Staff Recommendation.</u> It is recommended to modify this proposal to provide **a total of three staff—**the Public Health Medical Officer, Nurse Consultant III, and Research Scientist positions for the Immunization Branch. **This would reduce the request by about $200,000 (General Fund).** Therefore the total appropriation would be about $473,000 (General Fund).

These positions would provide assistance to local health jurisdictions from an operational standpoint, by providing scientific and medical expertise. Currently, the DHS responds to flu and respiratory infection outbreaks on an ad hoc basis.

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

1. DHS, Please provide a brief summary of the proposal and how these positions are different than other positions being utilized within the department presently, or contained in other budget proposals.

7. Pandemic Influenza—Media Campaign

Issue. The budget proposes **a total increase of $14.3 million (General Fund) to develop and maintain a public education and media campaign for emergency preparedness and pandemic influenza.**

Of the total amount requested, $12.5 million (General Fund) would be used for the public information campaign and $1.3 million would be used for a hotline.

The remaining approximate $500,000 is for 5 new, permanent state positions. These include **(1)** Public Information Officer II, **(2)** Health Program Specialist II, **(3)** Health Education Consultant III, **(4)** Health Education Consultant II, and **(5)** Associate Governmental Program Analyst.

In addition, the proposal is seeking the Legislature's approval for a *sole-source contract.* The DHS contends that a sole-source contract is needed because a competitive request for application (RFA) or request for proposal (RFP) requires 6 months to one year to implement.

Specifically, the proposal includes funding for (1) outreach to other state agencies and private organizations to assure that they are addressing the impact of public health emergencies, **(2)** print, radio, and television advertisements, **(3)** a telephone hotline, **(4)** a contract with a public relations firm, and **(5)** state staff as noted.

Legislative Analyst's Office Recommendation—Deny. The LAO recommends denying the proposal because it is duplicative of other state efforts. For example, the Office of Emergency Services has a "Be Ready" campaign that was launched in April 2005. Further the LAO notes that both the DHS and CA Health and Human Services Agency have sufficient public relations staff that could supplement these efforts with free public service announcements.

Subcommittee Staff Recommendation. It is recommended to deny the proposal for the same reasons cited by the LAO. Further, a sole-source contract is not appropriate for this purpose. In addition, limited General Fund resources should not be used for this purpose. The Administration may want to consider using a portion of the one-time only federal funds which have recently become available (as discussed in the background section of this agenda) for this purpose.

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

1. **DHS,** Please provide a brief summary of the request.

8. Health Care and Community Infection Control Program *(See Hand Out)*

Issue: The budget proposes **an increase of $1.4 million (General Fund) and 10 new, permanent positions to develop and maintain an ongoing program for the surveillance, laboratory testing, prevention and control of infections in health care facilities and certain community-settings.** Specifically, this proposed program is intended to address hospital and healthcare-associated infections and community infections for which infection control measures are the primary method of control.

In addition, the DHS is proposing trailer bill legislation to make healthcare-associated infections reportable by health care facilities licensed under Section 1250 (a), (b), (c), (f) and (k) of the Health and Safety Code. These facilities include General Acute Care Hospitals, Acute Psychiatric Hospitals, Skilled Nursing Facilities, and specialty hospitals.

The DHS states that the proposed 10 new, permanent positions would be used as follows:

- *Infectious Disease Branch (5 positions).* A total of five positions—two Public Health Medical Officer III's, Nurse Consultant III, Research Scientist III, and Health Program Specialist—would be used to conduct the following key functions:
    - Provide guidance on interpretation of infection surveillance and prevention recommendations issued by the federal Centers for Disease Control (CDC) and other organizations.
    - Develop training and education programs for health care facility infection surveillance and prevention professionals new to the profession.
    - Participate in developing educational programs on infection surveillance and prevention for local health jurisdictions and the general public.
    - Provide consultation and assistance to other state agencies in the development and implementation of infection surveillance and prevention guidelines.
    - Provide educational materials, on-line training programs and information on website.

- *Microbial Diseases Laboratory.* A total of five positions—two Research Scientist III's, two Public Health Microbiologist II's, and a Public Health Laboratory Technician would be used to conduct the following key functions:
    - Assist in the investigation and follow-up of clusters and outbreaks of health care facility associated infections.
    - Provide sufficient laboratory efforts to support health care facilities and local health jurisdictions with pathogen identification, molecular epidemiology and anti-microbial susceptibility testing for the investigation of outbreaks.
    - Oversee the development and evaluation of new tests and testing technologies for the rapid detection and strain typing of hospital care associated infections.

- Performs scientific research studies of moderate scope and complexity for the detection of hospital care associated infections.
- Create, maintain and utilize databases relevant to microbial strain typing patterns.

<u>Administration's Proposed Trailer Bill Language (See Hand Out).</u> The Administration is proposing trailer bill language to add a new section to Health and Safety Code which requires health care facilities, as specified, to provide data on a quarterly basis according to federal CDC guidelines. This reporting would commence as of January 1, 2008. The DHS would promulgate regulations to implement this reporting by July 1, 2007. Though the DHS would provide an annual report, patient outcome data specific to a reporting licensed facility would not be made public.

This language is significantly different than legislation—SB 739 (Speier)—which is in the Assembly. SB 739 was last amended as of August 30, 2005.

<u>Background—Concern with Infections in Health Care Settings</u>. According to the DHS, California's 450 hospitals account for an estimated 300,000 infections, 13,500 deaths, and $675 million in excess health care costs annually. Many more infections occur in California's 1,500 nursing homes and long-term care facilities, 800 Intermediate Care Facilities, 600 ambulatory surgical centers, and 350 dialysis centers.

Community-acquired antibiotic-resistant Staphylococcus aureus emerged in California about 5 years ago and it is already the predominant cause of skin and soft tissue infections as well as an invasive disease in many communities. This pathogen is responsible for major outbreaks of infection in jails, prisons, and athletic teams, and is becoming a problem in various health care facilities.

The DHS notes that state guidelines for infection control and prevention are needed for each of these settings, since there are no national guidelines or standards. DHS has established a Health Care Associated Infections Advisory Working Group to develop recommendations for health care facilities on preventing and controlling infections.

The DHS states that two positions are used to address infection control issues (a Public Health Medical Officer III located in the Division of Communicable Disease and a Nurse Consultant located in Licensing and Certification). **Both of these positions are presently funded by the Licensing and Certification Division of the DHS. No resources currently exist to provide on-going training and technical assistance to L&C surveyors to improve their ability to identify and investigate infection control practice problems. Further according to the DHS, there has been no ability to follow-up to assess how a health facility has corrected a problem that may have caused an outbreak and whether they can sustain improvement in infection control to prevent further outbreaks.**

DHS states that no data on health care associated infections is currently required to be collected or reported in California. Legislation mandating such reporting has been passed in 6 states in the past year.

Background—Existing Legislation in Assembly. Senate Bill 739 (Speier), as amended on August 30, 2005, addresses many of the policy issues regarding health care associated infections. This legislation is presently in the Assembly.

Legislative Analyst's Office Recommendation—Use Fees in Lieu of General Fund. The LAO notes that this new DHS program would directly benefit health care facilities since it would reduce the number of costly infections. Therefore, they believe imposing fees on these facilities to support this proposal is a reasonable approach.

Subcommittee Staff Recommendation. It is recommended to deny this proposal without prejudice and direct the Administration to craft legislation through the policy committee process. This proposal would commence an entirely new program and requires considerable policy debate on reporting requirements, appropriateness of fees and discussions regarding program objectives and outcomes. Further, the Administration can work with Senator Speier regarding her legislation to see if a compromise is achievable.

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

1. DHS, Please briefly explain the budget proposal and the proposed trailer bill legislation.

9. Preparedness for Chemical and Radiological Disasters and Terrorist Attacks

Issue. The budget proposes **a total increase of $4.2 million (General Fund) to support 15 new, permanent positions, hire consultant staff and purchase equipment to prepare for chemical and radiological disasters and attacks on (1) the environment, (2) food, and (3) water.** The proposed equipment costs are $880,000 and the consultant expenditures are $1.3 million. Both of these costs are contained within the $4.2 million amount.

According to the LAO, the funding and positions can be *generally* segmented into the following areas:

- *Environment.* A total of $1.2 million (General Fund) and 4 positions (Research Scientist I, Research Scientist II, Research Scientist III, and a Health Education Consultant III) are identified for this function.
- *Food.* A total of $1.6 million (General Fund) and 6 positions (two Associate Health Physicists and four Research Scientist IV's)
- *Water.* A total of $1.4 million (General Fund) and 5 positions (all Associate Sanitary Engineers)

According to the DHS, these resources would be used to do the following key functions:

- Develop plans and support training for public health responses to chemical and radiological contamination resulting from disasters and terrorist attacks;
- Develop food and water protection plans against intentional contamination with chemical and radiological agents;
- Provide training to local jurisdictions and the food industry; and
- Enhance laboratory capability to rapidly and accurately identify chemicals and radiological agents contaminating food, water and the environment in disasters and terrorist attacks.

According to the DHS, funding for chemical and radiological terrorism preparedness has focused traditionally on first responders. **The DHS notes that federal funds received from the federal Centers for Disease Control and other agencies have *not* provided funding to cover planning, preparing, training, and exercising in response to chemical or radiological terrorism.** As such, the DHS believes that resources are needed to establish minimum capabilities for preparedness and response to chemical or radiological attacks.

Additional Background—Other Funding Sources Availability. As noted by the LAO, the DHS already inspects, surveys and oversees food processors and manufacturers for food contaminants on a fee-supported basis. In addition, Proposition 50 bond funds, as well as other special funds and federal funds are used to protect and monitor water facilities.

Legislative Analyst's Office Recommendation. The LAO makes the following recommendation regarding the three aspects of this proposal:

- *Environmental ($1.2 million and 4 positions).* The LAO recommends approval of this component as proposed.
- *Food ($1.6 million General Fund and 6 positions).* The LAO recommends shifting these expenditures from General Fund support to fee supported.
- *Water* ($1.4 million General Fund and 5 positions). The LAO recommends denying this proposal because water security activities likely are eligible for funding from the federal bioterrorism grant provided to the state by the federal CDC, as well as Proposition 50 bond funds.

Subcommittee Staff Recommendation. It is recommended to adopt the LAO recommendation. **These positions would provide an initial framework to commence more comprehensive work in this area.**

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

1. DHS, Please provide a brief summary of the request.

2. LAO, Please present your recommendation.

LAST PAGE OF AGENDA.

Diane Van Maren(w) 651-4103 and (h) 399-17656
Senate Budget & Fiscal Review

Subcommittee No. 3: Monday, March 13th   OUTCOMES
(This corresponds to the Subcommittee Agenda for the day)

A.   ISSUES FOR "VOTE ONLY" (Items 1)   (Page 2)

- **Action:** Approved as budgeted.
- **Vote:** 3-0

B.   ITEMS FOR DISCUSSION   *(Page 6)*

1.   Local Health Department Preparedness for Pandemic Influenza *(Page 6)*

- **Action:** **(1) Approved the $9.150 million** (General Fund) for local assistance which is to be allocated equally to all 61 local health jurisdictions ($150,000 minimum per jurisdiction), **(2) Eliminated 2 of the positions** (Associate Governmental Program Analysts) and approved the remaining three positions, **(3)** eliminated $400,000 (General Fund) from the consultant costs (i.e., providing a total of $1 million), **and (4)** Adopted trailer bill language to require local public health jurisdictions to provide expenditure information and performance outcome information to the DHS (to be worked out with interested parties). The remaining amount of $6.850 million (General Fund) proposed for local assistance shall remain "open" pending May Revision. **(DOF—Please do this as two pinks—one for local and one for state support, not multiple.)**
- **Vote: 3-0**

2.   Managing Antivirals for Pandemic Influenza *(Page 8)*

- **Action:** Approved as proposed.
- **Vote: 3-0**

3.   Infectious Disease Laboratory Infrastructure *(Page 10)*

- **Action:** Approved appropriation and adopted Budget Bill Language regarding reporting (to be provided).
- **Vote: 3-0**

4. Expansion of Local & Statewide Disease Surveillance *(Page 14)*

- **Action:** Approved as proposed.
- **Vote: 3-0**

5. Developing Workforce Capacity for Outbreak Response *(Page 16)*

- **Action:** Appropriated $350,000 in federal funds (new pandemic flu funds) in lieu of General Fund support.
- **Vote: 3-0**

6. Pandemic Influenza & Disease Outbreak Preparedness & Response *(Page 17)*

- Held Open.

7. Pandemic Influenza—Media Campaign *(Page 19)*

- **Action** Rejected the proposal.
- **Vote: 3-0**

8. Health Care and Community Infection Control Program *(Page 20)*

- **Action:** Rejected the proposal without prejudice. This is a **policy bill** and Senator Speier has legislation (SB 739).
- **Vote: 3-0**

9. Preparedness for Chemical and Radiological Disasters & Attacks *(Page 23)*

- Held Open.

Senate Budget and Fiscal Review—Wesley Chesbro, Chair

SUBCOMMITTEE NO. 3 Agenda

Chair, Senator Denise Moreno Ducheny
Senator Dave Cox
Senator Wesley Chesbro

Thursday, March 23, 2006
10 am or Upon Adjournment of Session
John L. Burton Hearing Room (4203)
Consultant, Anastasia Dodson

Discussion Agenda

Due to the volume of issues testimony will be limited. Please be direct and brief in your comments so that others may have the opportunity to testify. Written testimony is also welcome and appreciated. Thank you for your consideration.

4140 Office of Statewide Health Planning and Development (OSHPD)

The Office of Statewide Health Planning and Development (OSHPD) develops plans, policies, and programs to assist health care delivery systems. OSHPD has four major program areas: (1) healthcare cost and quality analysis; (2) healthcare workforce development; (3) facility/hospital development; and (4) health care information.

OSHPD Issue 1: Review of Hospital Plans for Seismic Safety

Description: OSHPD's Facilities Development Division (FDD) regulates the design and construction of healthcare facilities to ensure they are safe and capable of providing services to the public, particularly after earthquakes or other disasters. Concerns have been raised about the timeliness of FDD's review process for hospital construction plans. Due to construction cost increases in recent years, delays in plan review may result in significant cost increases for hospitals.

Background:

- **Hospital Seismic Safety Act:** Prior to 1971, local building officials regulated hospital construction standards. After the 1971 Sylmar earthquake, when four hospitals collapsed and killed 52 people, the Legislature passed the Alfred E. Alquist Hospital Seismic Safety Act. This Act required acute care hospitals to be designed and constructed to withstand a major earthquake and remain operational immediately after the quake. The Act set safe building standards which new hospital construction would be required to meet, but grandfathered in older buildings. The Act also shifted authority for hospital construction review and seismic safety certification to OSHPD.

- **Seismic Safety Deadlines:** After the 1994 Northridge earthquake, in which many older (pre-1973) hospital buildings performed poorly and sustained considerable damage, the Legislature adopted SB 1953 (Alquist) to set deadlines for all buildings to meet Seismic Safety Act standards.

  - **2008 Deadline:** By 2008, hospitals must ensure that buildings do not pose a significant risk of collapse/danger to the public after a strong earthquake. Some hospitals may delay compliance until 2013 under certain circumstances and with OSHPD's approval.

  - **2030 Deadline:** By 2030, all hospital buildings must fully meet all structural and non-structural requirements of the Seismic Safety Act. Communication, emergency power supplies, bulk medical gas, fire alarms, and emergency lighting must continue to function after a strong earthquake.

2001 Safety Evaluation Results

Hospitals rated and evaluated their buildings according to how they would perform in a strong earthquake. Structural Ratings ranged from SPC-1 (significant risk of collapse) to SPC-5 (reasonably capable of providing services to the public following strong ground motion). Non-Structural Ratings ranged from NPC-1 (basic systems essential to life safety and patient care are inadequately anchored to resist earthquake forces) to NPC-5 (systems are adequately braced, and facility can provide radiological services and has sufficient water and wastewater tanks and onsite fuel supply for 72 hours after major quake).

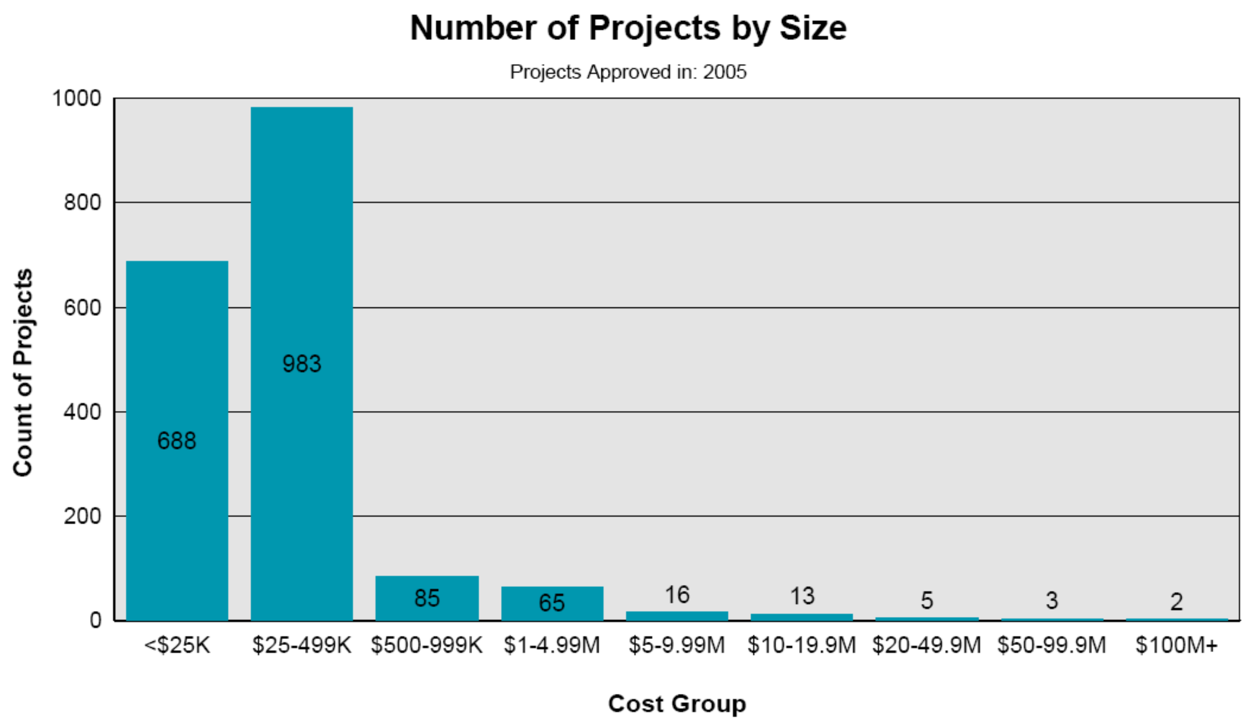
- **Buildings Rated SPC-1.** 973 (37 percent) of California's hospital buildings did not meet the 1973 standards, and are at risk for collapse in a major earthquake. These buildings must be retrofitted, replaced, or removed from acute care services by January 1, 2008 (or 2013 under certain circumstances).

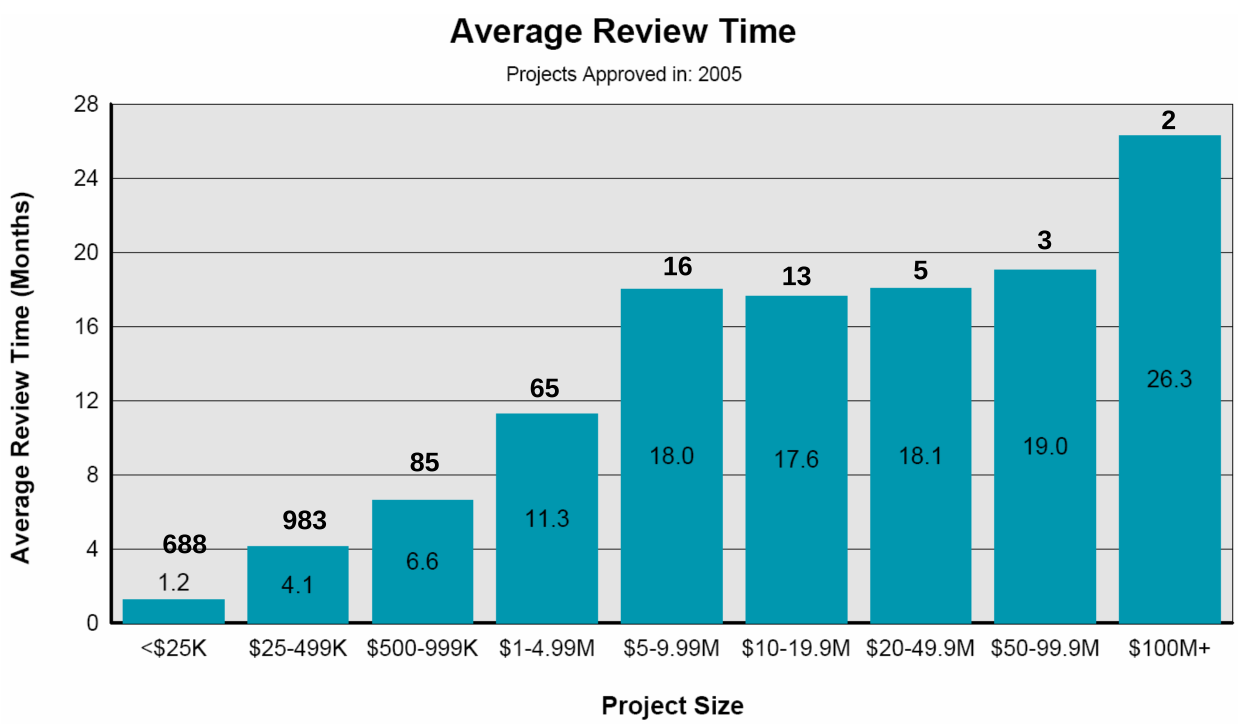
- **Buildings Rated SPC-2.** 175 buildings (7 percent) do not significantly jeopardize life but may not be repairable or functional following a strong quake. These buildings must be brought into compliance with the Alquist Act by 2030, or be removed from acute care service.

- **Buildings Rated SPC-3, -4, or -5.** Over 1,400 buildings (56 percent) are considered capable of providing services following a strong quake and may be used without restriction to 2030 and beyond.

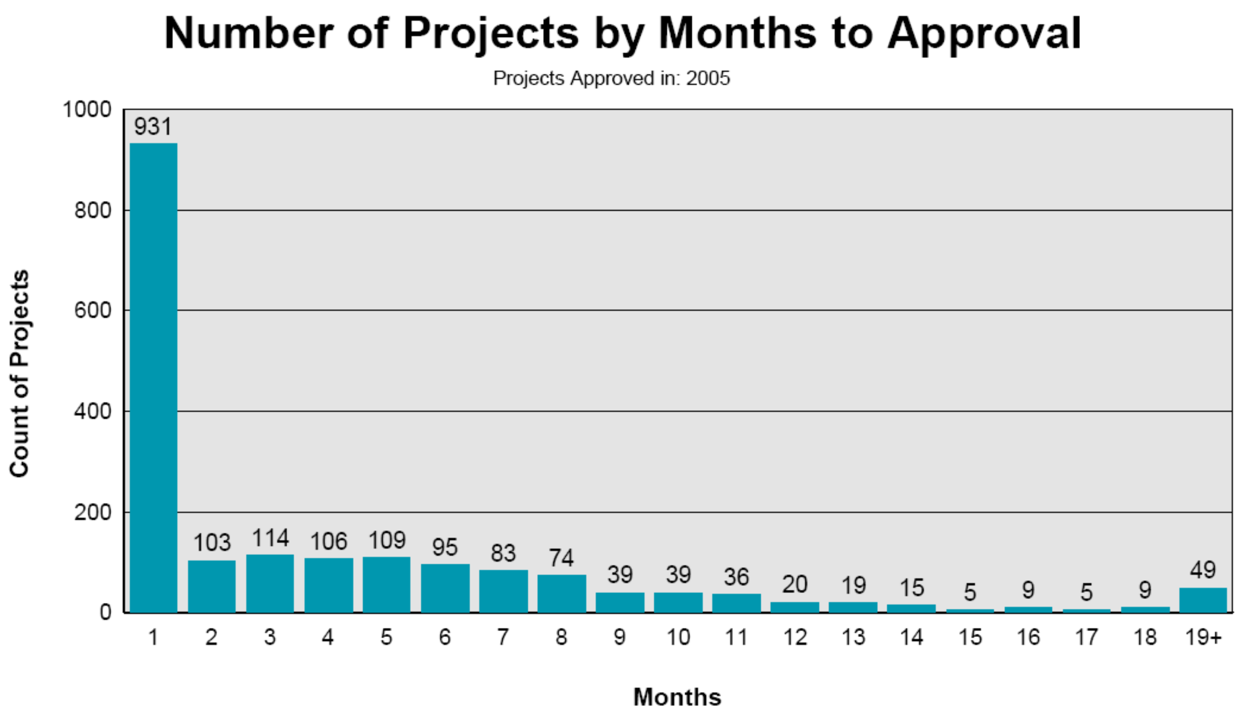
Facilities Development Division (FDD) Workload and Timelines: FDD began 2005 with 784 projects in plan review. During the year, they received 1109 projects and approved 970 projects in the office. The remaining 210 projects were closed due to inactivity or cancelled by the client. At the end of 2005, 713 projects were in plan review. Projects are also received, reviewed and approved in the field. During 2005, the field staff approved 890 projects.

The three charts below describe the attributes of the 1,860 projects approved in 2005. OSHPD indicates that the majority of its workload is approved in six months or less.

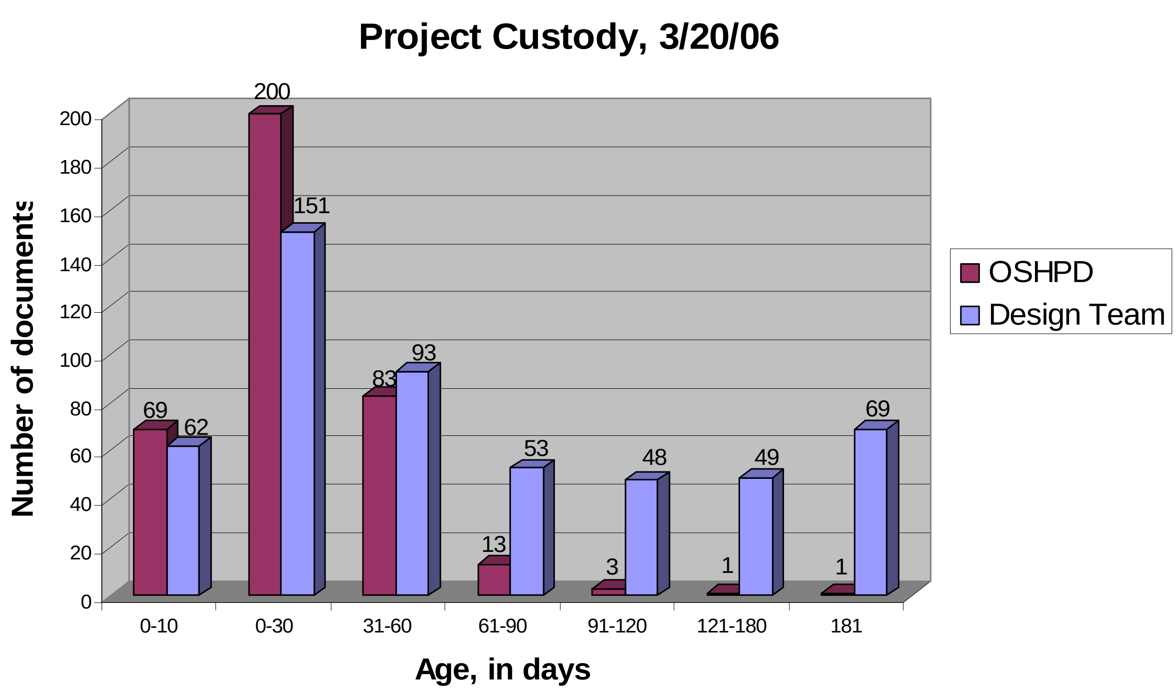




Numbers above the columns indicate number of projects per group



OSHPD is currently reviewing 756 major and minor construction projects, of which, 465 have been returned to the hospital design teams. In accordance with Title 24, Part 1, the design teams can take up to 6 months to complete the revisions and return them to OSHPD. The project custody chart provides a graphic of who has custody of the project and how long they have had it.



FDD's goal for project turnaround time for most projects is 60 days for initial review. If code deficiencies are found, however, FDD must return the plans to the designer for correction and resubmittal. FDD's goal for subsequent review or back check of corrected plans is to complete the review within 30 days of resubmittal and 30 days for post approval documents (change orders). For those projects with a primary structural component, which includes an addition or new hospital, turnaround time varies depending on the size, but generally goals are 90 days for initial review, 40 days for back checks, and 30 days for post approval documents.

Percent of FDD Plan Review Turnaround Targets Met

	Initial Review	**Back Check**	**Post Approval**
Small and Medium Projects	86.8%	89.5%	92.0%
Large Projects	74.1%	69.0%	82.0%

- **OSHPD Review Functions:** OSHPD's Facilities Development Division (FDD) includes Plan Review Teams, which review construction plans and inspect construction sites to ensure seismic safety compliance. Plan Review Teams include the following staff:

Discipline	**Number of Positions**	**Vacancies As Of 3/15/06**
Mechanical Engineer	7	0
Electrical Engineer	6	0
Fire and Life Safety Officers	9	2
Structural Engineers	34	1
Architects	15	2
Total	71	5

The entire FDD includes 201 positions, 13 (6.47 percent) of which are currently vacant.

- **Hospital Building Fund:** All costs for the FDD are funded by the Hospital Building Fund, which is funded by a 1.64 percent fee on estimated hospital construction costs, and a 1.5 percent fee on estimated skilled nursing facility construction costs. Fee rates are set by OSHPD and approved by the Department of Finance.

Hospital Building Fund
(dollars in millions)

	2001-02	**2002-03**	**2003-04**	**2004-05**	**2005-06**	**2006-07**
Beginning Balance	$5	$5	$42	$47	$56	$56
Revenues & Income	$20	**$59**	$32	$36	$31	$31
Expenditures	$20	$22	$24	$27	$31	$34
Ending Balance	**$5**	**$42**	**$49**	**$56**	**$56**	**$53**

The Governor's Budget estimates that the Hospital Building Fund will have an unexpended balance of $53.1 million by the end of 2006-07. This balance is the result of an increase in the amount and cost of hospital construction, beginning in 2002-03, as hospitals began construction to meet the 2008 deadline established by SB 1953. The value of construction plans received by FDD is expected to significantly increase in the coming years, due to the upcoming 2008 and 2013 deadlines.

Value of Construction Plans Reviewed by FDD

2000-01	$1 billion
2001-02	$1.2 billion
2002-03	$2.4 billion
2003-04	$2.1 billion
2004-05	$2.8 billion
2005-06	$1.4 billion*

*as of 3/06

- **Recent Efforts to Improve FDD Review Process:**

  - **Ombudsman Hotline:** In 2005 OSHPD established a hotline for general questions regarding hospital construction and unresolved issues or complaints about FDD.

  - **Reduced Nonstructural Bracing Regulations:** In December 2005 the California Building Standards Commission approved emergency regulations proposed by OSHPD to reduce the anchorage and bracing requirements for nonstructural components in critical care areas of general acute care hospitals that are slated for replacement or removal from service before 2030.

  - **Additional Plan Review Staff and Mid-Year Funding Authority:** The 2004 Budget Act established 37 new plan review positions in FDD. These positions have reduced the average plan review turnaround time from 32.2 days to 22.2 days. The 2004 Budget Act also included budget bill language to provide the Department of Finance with flexibility to increase Hospital Building Fund expenditures in mid-year, for costs associated with hospital building plan review.

  - **Analysis of FDD Review Process:** The FDD has hired a consultant to analyze its business processes. The results of this report are due by June 2006.

  - **Logbook Database Redesign:** The Governor's Budget proposes $2.8 million Hospital Building Fund and 1 new position to procure a replacement automation system for its Logbook Database System. The department indicates implementation of the new system will improve plan review timelines by 5 percent, and will improve construction oversight productivity by 25 percent.

    The existing Logbook system is used by OSHPD to track health facility construction projects, track compliance with SB 1953, and facilitate emergency operations in the event of a natural disaster. OSHPD indicates that maintenance and enhancements for this system are difficult to implement, and that the system is unstable and prone to errors, especially when operating systems on user PCs are upgraded. Total project costs for the new Logbook system are estimated to be $11.5 million, including $8 million in one-time development costs, and $3.5 million in ongoing costs over the five-year project period. The existing logbook system was developed in 1988, with adjustments made annually as needed.

OSHPD expects to award the contract for the new system between March and June 2007, begin implementation in May 2008, and complete implementation by December 2008.

- **Hospital Concerns About Review Timelines:** The California Hospital Association (CHA) has expressed concern about the length of review time needed for hospital construction projects. A recent report indicates that hospital construction costs have risen 66 percent over the past three years. This means that for a $100 million hospital project, a one month delay can add up to $2 million in costs. The CHA indicates that this cost escalation has required some hospitals to downsize, modify, delay, or eliminate some of their projects. The CHA also indicates that barriers to OSHPD hiring and retaining staff should be removed, including the elimination of any future hiring freezes and vacancy requirements, and an increase in the pay scale for OSHPD structural engineers and fire and life safety officers.

  The CHA also indicates that expediting the implementation of the OSHPD Logbook program would expedite the plan review process by creating efficiencies and providing improved communication between OSHPD and designers/hospitals.

  The CHA also indicates that a number of hospitals have seen recent improvements in the OSHPD process. CHA also appreciates OSHPD participating in bi-monthly meetings of the CHA/OSHPD Task Force to enhance the plan review and area compliance process. However, with hospital projects currently being designed at $600/$700 per square foot or approximately $2 million per bed, CHA believes that there needs to be a lot of "out of the box" changes to meet the intent of the Seismic Safety Act while keeping costs under control.

- **Budget Options to Reduce Review Time and Maintain Review Quality:** Note that policy options may be considered by other Legislative committees.

  - **Fire and Life Safety Staff Training Program:** OSHPD and CHA agree that a key bottleneck in the review of hospital construction is the shortage of qualified staff to serve as Fire and Life Safety Officers. OSHPD currently has 23 Fire and Life Safety Officer positions (9 in Plan Review and 14 in Field Review), of which 19 are filled (7 in Plan Review and 12 in Field Review). Many of these staff are close to retirement and the loss of those staff, in conjunction with the shortage of qualified applicants, may increase construction review times.

The Subcommittee may wish to consider the establishment of a Fire and Life Safety Officer training program, in conjunction with the establishment of additional Fire and Life Safety Officer positions. Such a program would allow existing staff to train new staff, and increase OSHPD's ability to respond to increased construction volume. In addition, an increase in FDD staffing allows staff to spend more time on-site reviewing facilities, which may allow the department to maintain the quality of its field work.

- **Contract Out Other Review Functions:** The department indicates that it has contracted out for structural engineering review activities during peak workload periods. The Subcommittee may wish to discuss the feasibility of contracting out for other key positions.

- **Pay Scale Review:** The Subcommittee may wish to discuss the feasibility of adjusting pay scales for Fire and Life Safety Officers, or other positions that are key to a timely and consistent review process.

Questions:

1. OSHPD, please describe the activities, funding, and staffing for the Facilities Development Division.

2. OSHPD, please discuss the feasibility of developing a staff training program for Fire and Life Safety or other positions.

Recommendation: Hold open.

5180 Department of Social Services (DSS)

DSS Issue 1: Cash Assistance Program for Immigrants (CAPI)

Description: The Governor's Budget proposes to extend the deeming period for the Cash Assistance Program for Immigrants (CAPI) from ten to fifteen years for immigrants who entered the country on or after August 22, 1996. This five year extension results in General Fund savings (cost avoidance) of $12.5 million in 2006-07 and $40 million in 2007-08, and is expected to prevent 2,500 applicants from qualifying for CAPI in 2006-07, and 3,000 applicants from qualifying in 2007-08. Advocates have expressed concern that this proposal would deny CAPI eligibility for low-income elderly and disabled immigrants that

Background:

- **CAPI Program Description:** The CAPI program was established in 1998 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 DSS and administered locally by counties. CAPI grants are $10 less than SSI/SSP grants for individuals and $20 less than SSI/SSP grants for couples. CAPI caseload is projected to decrease by 2.8 percent in 2006-07, to 7,817 average monthly recipients. Total funding for the CAPI program is estimated to be $77.3 million General Fund in 2005-06 and $75.5 million General Fund in 2006-07.

- **CAPI Program Eligibility:** Federal law generally limits SSI/SSP benefits for legal immigrants to refugees for seven years, aged and/or disabled persons who were on aid before August 22, 1996, or who were legally residing in the country on August 22, 1996 and subsequently become disabled. In response, California created the CAPI program in 1998 to provide state-only benefits to low-income elderly legal immigrants who meet specified criteria. Eligibility for the CAPI program is limited to:

  1. Low-income primarily elderly legal immigrants who entered the US prior to August 1996. Federal law established a three-year deeming period for these persons.

  2. Low-income elderly and disabled legal immigrants who entered the US after August 1996 and whose sponsors are dead, disabled or abusive. According to state and federal law, the deeming period is waived for those with a deceased or abusive sponsor. Those with a disabled sponsor are subject to federal deeming rules, which are generally three years.

  3. Low-income elderly and disabled legal immigrants who entered the US after August 1996 with no sponsor or with a low-income sponsor. State law currently establishes a ten year deeming period, which the Governor's Budget proposes to extend to fifteen years.

- **Deeming Period:** CAPI applicants who entered the US on or after August 22, 1996 are currently subject to a ten year deeming period, which means for ten years after entering the country, both the applicant and sponsor's income and resources are counted when determining CAPI eligibility (unless the sponsor is dead, disabled or abusive, or another deeming exception can be applied). The ten year deeming period will begin to expire for some CAPI beneficiaries and applicants as soon as August 22, 2006. Under current law, DSS estimates that an additional 250 individuals would become eligible for CAPI each month beginning in September 2006.

- **Governor's Budget:** Due to the state's fiscal challenges, the Governor's Budget would require a sponsor's income and resources to continue to be considered for another five years, preventing an estimated 2,500 applicants from qualifying for CAPI in 2006-07, and 3,000 applicants from qualifying in 2007-08. The total deeming period would be fifteen years.

- **Impact of the Governor's Budget for CAPI Applicants:** The people prevented from qualifying for CAPI under this proposal are low-income elderly or disabled legal immigrants who have lived in the US for at least ten years. While many immigrants who have lived in the US for that length of time have become citizens, for elderly or disabled immigrants the citizenship process can be far more difficult due to language, transportation, and other barriers. In addition, after ten years some sponsors have stopped providing assistance due to their own age or infirmity, leaving some CAPI applicants with no means of support except General Assistance in some counties. A fifteen-year deeming period would increase the risk of homelessness, hunger, and illness among this group of immigrants.

Questions:

1. DOF, please present the Governor's Budget proposal.

Recommendation: Hold open.

DSS Issue 2: Case Management, Information and Payrolling System (CMIPS) II Procurement

Description: The Governor's Budget proposes $25.6 million ($12.8 million General Fund) for a new automation system to replace the existing Case Management, Information and Payrolling System (CMIPS). CMIPS is a 20 year-old system that supports the In-Home Supportive Services (IHSS) program. Development of the new system, known as CMIPS II, is necessary to meet state and federal program requirements for IHSS. Analysis and preparation of the procurement of CMIPS II has been ongoing since 1999-00. Final bidder proposals are due in May 2006, and the contract is expected to be awarded in January 2007.

Background:

- **Office of Systems Integration (OSI):** The Health and Human Services Agency Office of Systems Integration (OSI) manages five major projects for the Department of Social Services (DSS), including procurement of CMIPS II. In 2005-06 and 2006-07 there are 16 OSI and 4 DSS positions for CMIPS II procurement and implementation.

- **Existing CMIPS:** The existing CMIPS provides client case management and provider payrolling functions for the In-Home Supportive Services (IHSS) program. Development of CMIPS began in 1979. Maintenance and operating costs for CMIPS are $11.9 million ($4.1 million General Fund) annually.

- **Justification for CMIPS II:** Development of CMIPS II is necessary to meet state and federal program requirements for IHSS, such as business payroll and tax requirements for prompt and accurate reporting to the IRS, EDD, and SCO. Manual workarounds on the existing CMIPS are currently being performed to meet some state and federal requirements, as CMIPS cannot be enhanced without risk of system failure. In addition, the OSI indicates CMIPS II will be able to connect to the Department of Health Services Medi-Cal automation system, known as CA-MMIS. This connection will allow better Medi-Cal benefits coordination and oversight. Furthermore, the OSI indicates that CMIPS II will improve the efficiency of state and county IHSS business processes.

  Finally, the federal government has indicated concerns with continuing the sole-source maintenance contract for CMIPS, and will withdraw federal matching funds if the state does not conduct a competitive procurement for CMIPS II.

- **Costs and Funding for CMIPS II:** The budget includes $25.6 million ($12.8 million General Fund) for contract planning, procurement, and implementation activities for CMIPS II in 2006-07. Based on OSI cost models, the total estimated cost for the development of CMIPS II is $98 million over three years, and for maintenance and operations is $129 million over seven years. Actual costs are not yet available, as the contract has not been awarded.

- **CMIPS II Procurement Delays:** Contract development and procurement for CMIPS II began in fiscal year 1999-00. Between 1999-00 and 2006-07, a total of $15 million will be spent on procurement planning. Procurement has been delayed due to funding reductions in 2003, major program changes in 2004, and the efforts of OSI and DSS to ensure that competition to build the new system is maximized.

  The CMIPS II request for proposal was released in April 2005. The 2005 Budget Act included $13.2 million ($6.6 million General Fund) in anticipation of a contract award and implementation in 2005-06. However, due to the large number of bidder questions and subsequent discussions and revised contract language, final bidder final proposals are now due in May 2006, with contract award projected for January 2007. The department indicates the primary objectives in conducting the CMIPS II procurement are to:

  - Procure a CMIPS II solution that meets program needs.
  - Ensure best value by maximizing competition and ensuring a level playing field.
  - Maximize federal financial participation in CMIPS II through integration with CA-MMIS, the DHS automation system for the Medi-Cal program.

Questions:

1. OSI, please briefly describe the status of CMIPS II procurement. Are the 2006-07 costs expected to be lower than the Governor's Budget estimate, due to procurement delays?

2. LAO, please present your analysis of the proposal.

Recommendation: Hold open.

DSS Issue 3: In-Home Supportive Services (IHSS) Quality Assurance

Description: The Governor's Budget proposes $4 billion ($1.3 billion General Fund) for the In-Home Supportive Services (IHSS) program in 2006-07. This represents a net increase of $167 million ($51.9 million General Fund) above the current year funding level, primarily due to caseload growth.

Background:

- **IHSS Program Description:** The In-Home Supportive Services (IHSS) program funds personal care services for low-income aged, blind or disabled individuals that are at risk for institutionalization. IHSS services include domestic services (such as meal preparation and laundry), nonmedical personal care services, paramedical 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 consumer, county contracts with service providers, or through welfare staff. County welfare departments visit consumers in their homes to determine authorized hours of service.

- **IHSS Enrollment:** The budget estimates that IHSS caseload will increase to 396,000 in 2006-07, an increase of 6.4 percent over 2005-06 caseload. Approximately half of IHSS consumers are age 65 and older. Persons with developmental disabilities constitute more than 12 percent of the IHSS caseload. Caseload, hours of service by case, and program costs have grown significantly since the mid-1990s.

- **Quality Assurance Implementation:** The 2004-05 Budget Act established an IHSS Quality Assurance program to make county determinations of service hours consistent throughout the state, and to comply with federal waiver requirements. Quality Assurance was not intended to result in an arbitrary loss of hours for consumers. Quality Assurance includes: 1) quality assurance functions in each county, 2) state resources for monitoring and supporting county activities, 3) standardized assessment training for county IHSS workers, and 4) periodic written notices to providers that remind them of their legal obligations to submit accurate timesheets.

- **Quality Assurance Fiscal Effect:** The Governor's Budget reflects $431 million ($140.1 million General Fund) savings in 2006-07 due to reduced provider payments under the Quality Assurance initiative. This savings estimate reflects phased-in implementation as county workers who have completed the training assess new cases or complete reassessments. When fully implemented, DSS estimates that Quality Assurance will ultimately result in program savings of 13 percent. The Governor's Budget reflects savings of 11 percent due to ramp up time needed for quality assurance. The budget also includes $32.6 million ($11.7 million General Fund) for county staffing costs associated with the Quality Assurance Initiative.

  ***Note that the amount of savings for Quality Assurance included in the budget is an estimate, and that current statute authorizes the Department of Finance to adjust funding amounts during the year to reflect actual program costs. Mid-year funding adjustments may include increases or decreases in program funding due to caseload changes.

- **Quality Assurance Workgroups:** The department implemented the quality assurance program through a series of workgroups. The work of two groups, the Hourly Task Guidelines and the Regulations Development workgroups, is still underway. The remaining groups have completed their work.

  1. **Regulations Development:** Review and update current IHSS regulations to comply with statutes; develop new regulatory language for IHSS Plus Waiver and Quality Assurance; develop language to implement variable assessment intervals for determining needs of IHSS recipients; provide findings to DSS; and review and comment on final regulation package. The Regulations Development has met a number of times, and plans to meet again in summer 2006.

  2. **Social Worker Training:** Develop goals, objectives, approach, and scope of training for development of a standardized training curriculum and work aids to operate an ongoing statewide training program for county staff on the supportive services uniformity system. Interview, select, and contract with vendor on training products

developed for standardized training curriculum. Phase 1 of the training was completed in August – December 2005. Phase 2 training will begin soon, and future phases are under development.

3. **State/County Quality Assurance Process:** Develop protocols and procedures for monitoring county QA programs. 58 counties report they have local Quality Assurance programs in place; local QA staffing is reported to be 94 positions statewide; 23 counties will have been reviewed by the state, with the remaining to be reviewed by the end of 2005-06.

4. **Hourly Task Guidelines:** Develop an hourly task guide that will specify an average time range (with exceptions) to perform necessary tasks associated with each assessed need. Draft guidelines were completed in December 2005. These guidelines include definitions of tasks, factors to consider in assessing authorized time, ranges of time for each task and functional rank, and examples of exceptions. The ranges of time for each task are based on interquartile ranges of existing CMIPS data. The interquartile range is the range between the 25^{th} percentile and 75^{th} percentile of authorized hours across the state for a specific task and a specific functional rank. Six counties field tested the guidelines (without the specific time ranges) in January 2006. Results were presented to the Hourly Task Guidelines workgroup on March 15, 2006.

5. **Forms Development (Standard Protective Supervision and Provider Enrollment):** Develop and implement the following forms: 1) Provider Enrollment form to be completed and signed, under penalty of perjury, by all who seek to provide supportive services. The form will include statements that persons convicted or incarcerated following a conviction for certain crimes in the previous 10 years are ineligible for enrollment to provide supportive services or receive payment for supportive services. 2) Protective Supervision Medical Certification form to obtain medical certification from appropriate medical professional regarding a person's need for protective supervision. These forms have been completed and are available online.

6. **Fraud/Data Evaluation:** Develop policies, procedures, and applicable due process requirements to identify and recover overpayments to IHSS providers. Conduct automated data matches and transmit relevant data match to the counties and/or appropriate state entity for action.

   A two-county error rate study (San Diego and Yolo counties) is scheduled to be completed by April 15, 2006. Two additional error rate studies are currently under development: 1) Expansion of the previous error rate study to include four new counties (San Mateo, Ventura, and two others), and 2) A study to review out-of-state payments made to providers. Both are scheduled to be completed by September 30, 2006. Some data matches are currently in place, and future matches are in progress.

- **Continue Quality Assurance State Staffing.** The budget requests $1.6 million ($788,000 General Fund) for a two-year extension of 16 expiring limited-term positions for the IHSS Quality Assurance Initiative. The DSS received 18 two-year limited-term positions for Quality Assurance implementation in 2004-05, and now indicates that continuation of 16 positions is necessary to continue implementation and provide ongoing county support and monitoring.

Questions:

1. DSS, please describe the status of the Quality Assurance initiative.

2. DSS, how will ongoing implementation of Quality Assurance be monitored and evaluated? How will the results be available to stakeholders?

Recommendation: Hold open.

4170 California Department of Aging (CDA)

The California 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 budget proposes $194.7 million for 2006-07, a 0.4 percent increase over the current year.

CDA Issue 1: Health Insurance Counseling and Advocacy Program (HICAP)

Description: The 2005 Budget Act included an increase of $1.8 million federal funds, $2 million special funds, and four CDA positions for the Health Insurance Counseling and Advocacy Program (HICAP). The additional funding and positions would be used to address the increased need for consumer counseling during the initial enrollment period for Medicare Part D Prescription Drug benefits in spring 2006, when over 4 million Medicare beneficiaries in California will need to make enrollment decisions.

Background:

- **Medicare Modernization Act (MMA) Enrollment:** The MMA created a new Part D prescription drug benefit for Medicare beneficiaries. The initial enrollment period will run from November 15, 2005 through May 15, 2006 for most beneficiaries, but only from November 15, 2005 through December 31, 2005 for beneficiaries eligible for both Medicare and Medi-Cal (dual eligibles). Over 4.1 million Californians, including 1.7 million dual eligibles, may enroll in Medicare Part D.

- **Health Insurance Counseling and Advocacy Program (HICAP):** HICAP is a volunteer-supported program that provides consumers with information about Medicare, related health care coverage, and long-term care insurance. In 2004, HICAP fielded 90,000 consumer phone calls, 40,000 of which resulted in insurance counseling appointments. This figure is expected to increase substantially in the last few months of 2005 when 4.1 million Californians receive MMA enrollment information.

Questions:

1. CDA, please provide an update on the disbursement of the additional funding for HICAP in the current year, and how demand for HICAP services has been affected by implementation of Medicare Part D benefits.

Recommendation: Hold open.

CDA Issue 2: Multipurpose Senior Services Program (MSSP)

Description: Annual funding for the Multipurpose Senior Services Program (MSSP) has remained unchanged since 2000, at $46.9 million ($23.5 million General Fund). As with other home- and community-based waivers, MSSP must meet cost-neutrality provisions that require programs costs not exceed the costs of institutional care.

Background: Local MSSP sites provide social and health care management for frail elderly clients who are certifiable for placement in a nursing facility but who wish to remain in the community. The goal of the program is to arrange for and monitor the use of community services to prevent or delay premature institutional placement of these frail clients. The services must be provided at a cost lower than that for nursing facility care. California currently has 41 sites statewide, which serve up to 11,789 clients per month.

Funding for local MSSP sites of $44.5 million ($22.3 million General Fund) is included in the Department of Health Services budget, and administrative funding of $2.4 million ($1.2 million General Fund) is included in the CDA budget.

Due to program cost increases and flat funding since 2000, MSSP providers have had to reduce the number of clients served, hired less experienced staff, and increase care manager client ratios. In response, CDA has allowed MSSP sites to use existing funding with more flexibility. However, .MSSP providers indicate that even with this flexibility, another year of flat funding will result in further reductions in client caseload, longer waiting lists, and the inability for MSSP to meet its contractual standards. The subcommittee may wish to consider additional funding of $6 million ($3 million General Fund) for MSSP to maintain the current level of service in 2006-07.

Questions:

1. CDA, please describe MSSP, and the Governor's Budget funding level.

Recommendation: Hold open.

CDA Issue 3: Senior Legal Hotline

Description: The Senior Legal Hotline provides legal assistance to more than 68,000 seniors each year. Total funding for this program in 2005 was approximately $450,000 in federal grant funds, foundation funds, and donations. However, the federal grant for this program will likely end in the current year, while the volume of calls received by this program continues to grow. The Subcommittee may wish to consider funding of $250,000 General Fund to support the Senior Legal Hotline.

Background: The Senior Legal Hotline provides phone advice, written information, referrals and brief services in all areas of law for persons 65 and older on a variety of topics. Funding for the program totaled $390,000 in 2004 to serve 8,033 new cases. Funding in 2005 totaled $450,000 for 10,000 cases. The federal grant that is ending provided $135,000 per year. The requested funding of $250,000 General Fund would provide a total budget of $565,000 per year, to serve 20,000 cases.

Presenter: David Mandel, Senior Legal Hotline

Recommendation: Hold open.

Hearing Outcomes

Subcommittee No. 3: Thursday, March 23, 2006 (Room 4203) 10:00 am

Discussion Agenda

4140 Office of Statewide Health Planning and Development (OSHPD):

- Review of Hospital Plans for Seismic Safety: Hold Open. Subcommittee requests the Department work with the Legislative Analyst, Finance, and Leg staff to report back in April on 1) an updated survey/inventory of hospital compliance with seismic safety act, and how long it takes to get plans reviewed; 2) development of a training program, with provisions to include retention of trained staff; 3) efficiency improvements that will result from the Logbook System; 4) a copy of the latest draft report on the OSHPD business process analysis. In addition, Senator Cox requests a proposal from the Administration (as part of May Revision) that would make the OSHPD plan review approval process consistently under 6 months for both large and small projects.

5180 Department of Social Services (DSS):

- DSS Issue 1: Cash Assistance Program for Immigrants: Hold Open.

- DSS Issue 2: CMIPS II Procurement: Hold Open.

- DSS Issue 3: IHSS Quality Assurance: Hold Open. Subcommittee requests that the department 1) provide additional analysis and information from the field test to stakeholders, and continue monitoring, evaluating, and sharing QA information with stakeholders on an ongoing basis; 2) look into issues raised about costs to consumers for medical providers to complete IHSS medical forms; 3) provide a detailed description of the exemption process to stakeholders. Subcommittee also requests that stakeholders provide specific information in writing to Legislative staff regarding their concerns with Hourly Task Guidelines, and continue working with the department and Legislative staff to resolve their concerns.

4170 Department of Aging

- CDA Issue 1: HICAP: Hold Open.

- CDA Issue 2: MSSP: Hold Open.

- CDA Issue 3: Senior Legal Hotline: Hold Open.

SUBCOMMITTEE NO. 3 Agenda
Health, Human Services, Labor & Veteran's Affairs

Chair, Senator Denise Ducheny

Senator Wesley Chesbro
Senator Dave Cox

March 27, 2006

2:30 p.m.

Room 3191

(Diane Van Maren)

Item	Department
4120	**Emergency Medical Services Authority—*Selected Issues***
4260	**Department of Health Services—*Selected Issues***

PLEASE NOTE: Only those items contained in this agenda will be discussed at this hearing. *Please* see the Senate File for dates and times of subsequent hearings.

Issues will be discussed in the order as noted in the Agenda unless otherwise directed by the Chair. 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. 4120 Emergency Medical Services Authority

A. Overall Background

Background. The overall responsibilities and goals of the Emergency Medical Services Authority (EMS Authority) 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.

Summary of Funding. The budget proposes total expenditures of $26 million ($12.2 million General Fund) for the EMS Authority. **This reflects a *net* decrease of $10.5 million ($10.1 million General Fund) primarily due to (1) the elimination of one-time only funds of $10 million (General Fund) provided to certain Trauma Care Centers, and (2) an augmentation of $2.3 million ($1.6 million General Fund) to provide personal protective equipment for private ambulance providers.**

EMSA Summary of Expenditures

Summary of Expenditures (dollars in thousands)	**2005-06**	**2006-07**	**$ Change**	**% Change**
Program Source				
Emergency Medical Services	$36,525	$26,041	-$10,484	-28.7
Funding Sources				
General Fund	$22,393	$12,245	-$10,148	-45.3
Federal Funds	$3,038	$2,688	-$350	-11.5
Reimbursements	$9,506	$9,300	-$206	-2.2
Other Funds	$1,588	$1,808	$220	13.8
Total Expenditures	**$36,525**	**$26,041**	**-$10,484**	**-28.7**

During an emergency, the role of the EMS Authority is to respond to any medical disaster by mobilizing and coordinating emergency medical services' mutual aid resources to mitigate health problems.

B. ITEMS FOR DISCUSSION –*Emergency Medical Services Authority*

1. California Medical Assistance Teams (CalMAT) –*New State-Operated Teams*

Issue. The **EMS Authority requests an increase of $1.750 million** (Reimbursements from the DHS and Office of Homeland Security which are federal grants) **to implement and administer three new medical disaster response teams for California which would be known as CalMAT (all professionally-trained volunteers)**. Presently, California relies solely on federal Disaster Medical Teams (DMAT's) for assistance. The CalMAT's would be designed after the existing federal DMA Teams which have proven to be a model program. It is noted that some states—such as Illinois and North Carolina—have also established their own state teams.

Of the requested amount, (1) $1.320 million would be used for special caches, as discussed below, and **(2)** $430,000 would be used to fund two new positions and related operations expenses. Of the total amount, about $1 million would be *one-time only* and $750,000 would be on-going expenditures (i.e., the staff and some cache supply replenishment). **The EMSA states that though federal grant funds are generally declining, out-year expenditures for the CalMATs should be manageable without any General Fund support for several years.**

Under the proposal, two new state positions —a Health Program Manager I and a Health Program Specialist I-- would be used to manage the program, procure and maintain the supplies and equipment, and recruit and train the CalMAT personnel (all volunteers).

A total of $1.320 million (Reimbursements) would be used to purchase special caches for the CalMAT that contain medical supplies, medical equipment, tents and pharmaceuticals. These caches would be used by the CalMAT's to provide for a variety of disaster situations. The cost of these caches is about $450,000 each, including storage costs. These caches would be accessed by the CalMAT when an emergency occurs that requires their assistance.

Each **CalMAT would consist of 120 volunteers drawn from the private, not-for-profit, and existing state government health care delivery sector.** It would consist of various members of the medical profession such as physicians, nurses, pharmacists, medical specialist and support staff.

The three teams would be located geographically throughout the state (i.e., Northern, Central and Southern California). They would be used to respond to catastrophic disasters, augment medical care, and re-establish medical care in areas of the state where hospitals or medical care systems have been damaged or overwhelmed.

<u>Background on the Federal Disaster Medical Assistance Team (DMAT) Program.</u> During a disaster the federal DMAT's are to (1) provide essential medical care at the disaster site, (2) provide triage assistance and medical care at staging and reception sites, and (3) prepare patients for evacuation. **There are presently 50 federal DMAT's with 6 teams located in California.** These teams are comprised of 120 personnel each with the ability to treat up to 1,000 patients per day. However, these federal DMAT's are deployed at the discretion of the federal government and may be committed to an event elsewhere in the country, particularly during hurricane season. **As such, the EMS Authority believes it is critical for California to have CalMAT's available for the state.**

<u>Subcommittee Staff Recommendation.</u> It is **recommended to approve the request.** The federal funds (reimbursements to the EMS Authority) can be used for this purpose and additional medical capacity to respond to disasters, whether it is to assist with fires, floods, earthquakes or infectious disease outbreaks, is warranted. No issues have been raised.

<u>Question.</u> The Subcommittee has requested the EMS Authority to respond to the following question.

1. **EMS Authority**, please provide a brief summary of the request and why it is needed.

<u>2. Changes Proposed for Emergency Medical Services Personnel Preparedness</u>

<u>Issue.</u> The EMS Authority **is seeking to modify three separate programs within this proposal.** Each of these proposed changes are discussed below.

<u>A. New State Licensure of Emergency Medical Technician (EMT) I's and II's.</u> ***First***, the EMS Authority is requesting to establish **a new state licensure process** for EMT I's and II's. **This would require state statutory changes, the development of a new state fee structure, and the hiring of personnel to operate the program.**

The EMS Authority is seeking an increase of $1.5 million (as a General Fund loan) to begin to establish this new program. Under this proposal, the EMS Authority would hire 27 positions (14 investigations, 8 licensing, 3 legal and 2 administrative support positions) to be phased-in over a three year period to proceed with the program.

California is the only state that does not certify EMT-I's and EMT-II's at the state level. Presently, there are 62 certifying and licensing authorities for Emergency Medical Service personnel. This includes 31 local Emergency Medical Services Agencies and 30 public safety agencies (such as the Office of the State Fire Marshal, the Department of Forestry and Fire Protection and the CA Highway Patrol). As such, there are significant inconsistencies in the certifying and licensing process, as well as in the disciplinary processes used for personnel. Often times each jurisdiction has its own unique system. **Due to these inconsistencies, such as not performing criminal background checks in some areas, public safety can be jeopardized.**

Therefore, the Administration is proposing to consolidate licensing and certification for EMT-I's and II's at the state level. This would require statutory change. Among other things, the Administration's statutory changes would include the following:

- Require the state (EMS Authority) to certify EMT-I and EMT-II's in lieu of using a local process as presently done (62 certifying and licensing authorities presently);
- Change how criminal background checks are conducted, *and* establish a core list of crimes that will result in lifetime bans from EMT-I and EMT-II employment, as will as crimes that will result in 5 or 10 year bans;
- Require a proof of citizenship or legal residency; and
- Institute provisional licensure periods (like probationary periods);
- Change how EMT-I's and II's are monitored.

Initially, the Administration proposed spot legislation through the trailer bill process. **However the issue has subsequently been directed to the policy committee process since it is establishing a new program at the state level and many issues need to be discussed through different policy venues (such as issues regarding public safety, as well as health). The Administration notes that SB 1811 (Romero) will be the vehicle for these proposed EMT-I and EMT-II licensing and certification changes.**

B.   Child Care Training Program. ***Second***, the EMS Authority is proposing to make statutory changes to this program. **No fiscal or personnel changes are proposed.**

Among other things, these proposed changes include the following:

- Implement a six-month provisional period for new approvals;
- Impose a two-years waiting period after denial or revocation of a child care training program approval before the applicant could reapply;

Originally the Administration proposed trailer bill legislation to proceed with their proposed changes. However, the issue has subsequently been directed to the policy committee process. Several of the changes proposed in this area correspond with changes proposed in other programs and departments**. As such, AB 2703 (Aghazarian) is to be the vehicle for the Child Care Training Program changes. There were no fiscal or personnel changes proposed by the EMS Authority for this program, only the initial trailer bill language.**

C.   Paramedic Licensing and Enforcement Program. ***Third,*** the EMS Authority is requesting **an increase of $177,000 (Emergency Medical Services Personnel Fund) to hire three staff (i.e., two Investigative Assistants and a Program Technician III) to address concerns with the monitoring of Paramedics.** These positions would be supported with revenues collected from fees which are placed into a special fund. No fee increases are proposed.

Specifically, these positions would be used to do the following:

- Investigate cases as necessary;
- Monitor paramedics who have been placed on probation to ensure compliance with the terms and conditions of the probation;
- Provide assistance to the paramedic on probation in locating educational courses and related assistance regarding a paramedic's practical skills; and
- Review reports and track progress on paramedic's probation progress and status;

The EMS Authority is authorized to place paramedic licenses on probation and is generally responsible for the monitoring of their probation. The EMS Authority contends that these positions are necessary due to the increased number of licensed paramedics (7,000 in 1994 to 15,000 in 2005) and the increased investigations which are being conducted that lead to probation. **Presently part-time contract student assistants are being used to provide assistance in less serious criminal paramedic misconduct cases. However as the cases have become more complex, as well as the need to avoid potential privacy issues, the EMS Authority believes it is necessary to employ full-time professional staff.**

With respect to issues regarding criminal background checks for the above programs, the Administration had also initially proposed trailer bill language to address these issues. **However it has now been agreed that SB 1759 (Ashburn) will be used in lieu of trailer bill legislation.**

Subcommittee Staff Recommendation. It is recommended to: **(1)** Reject without prejudice the $1.5 million General Fund loan for the new state licensure of emergency medical technician (EMT) I's and II's since resource needs (both staff and fee support requirements) will be incorporated into the policy legislation; **(2)** Reject without prejudice all of the trailer bill language initially proposed for these programs since separate policy legislation is proceeding; and **(3)** Approve the $177,000 (Emergency Medical Services Personnel Fund) for the three positions for the Paramedic Licensing and Enforcement Program for the purposes specified.

Question. The Subcommittee has requested the EMS Authority to respond to the following question.

1. **EMS Authority**, Please provide a **brief summary** of the request.

II. 4260 Department of Health Services: *Selected Public Health Issues*

A. VOTE ONLY CALENDAR *(Items 1 through 3) (Pages 8 through 11)*

1. Child Health Disability Prevention (CHDP) Program

Issue. The budget proposes an increase of $946,000 (General Fund) over the current-year for total expenditures of $3.7 million ($3.6 million General Fund) for the CHDP Program. **This adjustment reflects the standard methodology used for the program.** Specifically, the estimate uses a base projection that uses data from the latest five years to forecast average monthly screens and cost per screen. **No policy changes are proposed.**

The increase is primarily due to two factors. First, the 2005-06 fiscal year reflected a savings due to a one-time only adjustment which shifted the program's accounting system from an accrual basis to a cash basis. As such, the savings of $830,000 which were achieved from this shift are not available for the budget year (i.e., it was one-time only savings).

Second, the cost for the health screenings conducted under the program has increased from $59.60 per screen to $61.87 per screen, or by 3.7 percent, for 2006-07. The number of screens to be conducted is assumed to remain fairly constant.

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).

Children in families with incomes at or below 200 percent of poverty can pre-enroll in fee-for-service Medi-Cal under the presumptive eligibility for children provisions of the Medi-Cal and Healthy Families programs. This pre-enrollment takes place electronically at CHDP provider offices at the time the children receive health assessments. This process, known as the CHDP Gateway, shifts most CHDP costs to the Medi-Cal Program and to Healthy Families. As such, CHDP Program funding needs to continue only to cover services for children who are eligible for limited-scope Medi-Cal benefits (such as immunizations).

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. 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.

Subcommittee Staff Recommendation. No issues have been raised regarding this proposal. It is recommended to approve as proposed.

<u>2. CA Electronic Death Registration System –Statewide Training</u>

<u>Issue.</u> The DHS is requesting **an increase of $543,000 (Health Statistics Fund) on a one-time only basis to hire consultants to provide training on the implementation and rollout of the CA Electronic Death Registration System (CA-EDRS). Contract staff has been used under the program for similar purposes.**

Specifically, the funds will be used as follows:

- To host 15 to 24 multiple day training workshops for funeral home directors and physicians;
- Work with counties and Local Registrars on CA-EDRS implementation into their existing systems;
- Prepare and deliver training and promotion presentations to stakeholder groups;
- Assist users via phone consultation and onsite as needed; and
- Develop and distribute tutorials to be distributed on-line.

<u>Additional Background on CA-EDRS.</u> AB 2550, Statutes of 2002 requires the development and operation of an automated death registration process throughout the state. The legislation was part of a package of bills to improve vital records administration and to combat identify theft and fraud. In addition, the legislation provided a funding source through certain fee payments (disposition of human remains). A Feasibility Study Report and initial financing were subsequently provided. **No new positions were provided for the program, and contract staff has been used to complete most of the work.**

According to the DHS, the CA-EDRS has been constructed to meet nationwide standards with functionality to support more efficient interaction with the Social Security Administration and the National Center for Health Statistics.

The DHS estimates that 50 percent of the state's death certificates will be registered using this new system by June 30, 2006. The remaining 50 percent will require additional sustained effort over the next two years.

When the majority of the stakeholders are using CA-EDRS, the system will provide timely death data, timely cross matching with birth certificates for anti-fraud purposes, allow online verification of decedent's social security number and allow online access to fact-of-death information.

<u>Subcommittee Staff Recommendation.</u> The request is consistent with implementation of the CA-EDRS. No issues have been raised.

3. Processed Food Registration Program

Issue. The DHS is **requesting an increase of $1.327 million (Food Safety Fund) and a *decrease* of $1.4 million to implement AB 1081 (Mathews), Statutes of 2005 for a *net* reduction of $73,000 (General Fund).** It should be noted that the enacted legislation enables special fund moneys to be used for this purpose, in lieu of General Fund support.

Among other things, the legislation contained the following key provisions:

- Extended the sunset date of the Food Safety Industry Education and Training Program for another five-years;
- Shifted the deposit of license fees for bottled and vended water from the General Fund to the Food Safety special fund;
- Increased by 15 percent the registration fees for processed food entities, and initiated a new additional fee of $250 annually for any seafood or juice firm that meets certain requirements and needs re-inspections by the DHS; and
- Provides for the DHS to collect costs of any re-inspection within a 12-month period to verify that critical violations have been corrected.

The DHS states that due to limited resources, they have not been able to maintain the minimum staffing needed to conduct inspections of food processors. Further, they needed to realign positions within the Food and Drug Branch to address certain aspects of the enacted legislation.

As such, the DHS is proposing the following adjustments in this budget request:

- *Food Processing Inspections (Total of 6 positions—one is new).* The DHS is *redirecting* 5 existing Food and Drug Investigator positions to conduct more inspections of food processing facilities to reduce the existing backlog in these inspections. In addition, a *new* Senior Food and Drug Investigator position is requested to conduct re-inspections of food processors with critical violations.
- *Bottled and Vended Water Program (Fund Shift).* As provided for in the legislation, a total of 6 positions will be shifted from General Fund support to the Food Safety special fund. No new positions are proposed.
- *Minor Equipment.* Of the total amount requested, $20,000 is proposed to be used for peace officer equipment such as protective vests, firearms and related safety equipment. This equipment is standard issue for investigator positions (i.e., classified as Peace Officers).
- *Food Safety Industry Education and Training Program.* There are three Food and Drug Investigators currently doing this work which includes education on food sanitation, good manufacturing practices, employee training and related items. This program will now continue for another five years. There is no fiscal impact to this change.

General Background on the Food and Drug Branch at the DHS. This branch at the DHS has regulatory authority for processed food manufacturers and warehousers in California. They are responsible for inspecting and ensuring that safe foods are manufactured, packaged, or warehoused in over 5,200 food processing facilities in the state. **Specifically, this branch has primary responsibility for food, bottled water and vended water safety and is the source of health information, training, education, food safety inspections, technical assistance, scientific and processing evaluations, and communications for industry and consumers.**

Though the U.S. Food and Drug Administration conduct food inspections, about 40 percent of the food manufacturing facilities in California fall outside the jurisdiction of the federal FDA.

Subcommittee Staff Recommendation. The proposal is consistent with the enacted legislation. No issues have been raised. It is recommended to approve the proposal.

B. ITEMS FOR DISCUSSION—Department of Health Services

1. Proposition 50—Drinking Water Management Program

Issue. The DHS **requests to extend 15.5 positions, which presently expire as of June 30, 2006, for two-years until June 30, 2008 at a cost of $1.6 million** (Water Security, Clean Drinking Water, Coastal and Beach Protection Fund).

The existing 15.5 positions (all presently filled) are responsible for administering the Proposition 50 grants including engineering review, financial and accounting functions, and activities associated with the CA Environmental Quality Act.

The DHS anticipates receiving as much as $528 million over the course of the bond measure. The DHS notes that various work activities will likely continue for seven to ten years since the appropriations for the first two years of the Proposition 50 funds have not been fully utilized primarily due to insufficient staffing during this period (Governor imposed a hiring freeze in 2003).

Specifically, the DHS positions would continue to do the following *key* functions:

- Review "pre-applications" and supporting documents received from applicants and rank the projects;
- Conduct full engineering review of applications and provide consultation as needed;
- Review environmental documentation and CEQA process;
- Develop contract conditions, notice and certify project;
- Monitor progress and compliance with deadlines;
- Review and approve design plans and specifications;
- Review loan contract;
- Review and approve invoices for payment;
- Conduct final project inspection and certify completion; and
- Conduct program fiscal management and administration.

Summary of "Round 1" (2005) Proposition 50 Funds ("Funding Commitments"). The DHS has provided the following summary table which displays funding commitments (i.e., full applications approved).

Title/Focus Proposition 50	Disadvantaged Communities (Projects & Dollars)	Non-Disadvantaged Communities (Projects & Dollars)	Total Proposition 50
Water Security (Chapter 3)	3 and $587,000	7 and $30.7 million	$31.3 million
Small Community Systems	8 and $5.9 million	3 and $438,000	$6.4 million
Monitoring	4 and $180,000	1 and $1 million	$1.2 million
Source Water Protection	1 and $1.6 million	1 and $115,000	$1.7 million
Disinfection Byproducts	2 and $591,000	3 and $800,000	$1.4 million
Southern California	2 and $3 million	8 and $41.8 million	$44.8 million
Total (rounded)	**20 and $11.8 million**	**23 and $74.9 million**	**$86.7 million**

The DHS states that the "Round 2" Proposition 50 "full applications" are due to the DHS in April and May 2006 (different dates for various grants). The DHS has already received 127 "pre-applications" for Round 2 and it is anticipated that from $75 million to $90 million will be awarded through this process. As such, the continuation of the 15.5 existing staff will be needed to process these applications, as well as to continue work on the "Round 1"-related activities.

Overall Background on DHS Drinking Water Program and Use of Proposition 50. 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 (including both small and large water systems) that serve more than 34 million Californians.

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 for California. Under the federal Safe Drinking Water Act, California receives funding to finance low-interest loans and grants for public water system infrastructure improvements. In order to draw down these federal capitalization grants, the state must provide a 20 percent match. Proposition 13 bond funds had been used as the state match for this purpose in previous years. **However, the state match for future capitalization grants is now provided by Proposition 50, as contained in the Proposition.**

Proposition 50 bond funds are also used for additional purposes as discussed below.

Background on Proposition 50 and Chapters Applicable to the DHS Drinking Water Program. Proposition 50 was approved by the voters in 2002 to provide $3.4 billion in funds to a consortium of state agencies and departments to address a wide continuum of water quality issues.

Several chapters within the Proposition 50 bond measure pertain to functions conducted by the DHS as it pertains to the overall Drinking Water Program, including Chapter 3 and Chapter 4 of the Proposition. The DHS anticipates receiving as much as $528 million over the course of the bond measure.

- Chapter 3—Water Security ($50 million). Proposition 50 provides a total of $50 million for functions pertaining 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, (7) other projects designed to prevent damage to water treatment, distribution and supply facilities**. It is anticipated that this total amount will be utilized over a four-year period.**

- Chapter 4—Safe Drinking Water ($435 million total for DHS). Proposition 50 provides $435 million to the DHS for expenditure for grants and loans for infrastructure improvements and related actions to meet safe drinking water standards. A portion of these funds will be used as the state's match to access federal capitalization grants (as discussed above).

With respect to the other projects, the Proposition states that the funds can be used for 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 drinking water source protection; **(6)** grants for treatment facilities necessary to meet disinfectant by-product safe drinking water standards; and **(7)** loans pursuant to the Safe Drinking Water State Revolving Fund (i.e., where by the state draws down 80 percent federal match). In addition, it is required that not less than 60 percent of the Chapter 4 funds be available for grants to Southern California water agencies to assist in meeting the state's commitment to reduce Colorado River water use.

Subcommittee Staff Recommendation. It is **recommended to approve** the request to extend the 15.5 positions. No issues have been raised and the workload is justified.

Questions. The Subcommittee has requested the DHS to respond to the following question.

1. **DHS,** Please provide a brief update on Proposition 50 implementation and why the positions need to be extended.

<u>2. Drinking Water—Technical Assistance to "Small Water Systems"</u>

<u>Issue:</u> The DHS **requests to extend 10.5 positions, which presently expire as of June 30, 2006, for two-years until June 30, 2008 at a cost of $1.1 million** (Small System Technical Assistance Account). **The DHS states that the existing 10.5 positions are presently filled and their extension is needed to address workload needs.**

The DHS states that the objectives of the 10.5 staff are to provide assistance to Small Water Systems (systems that serve less than 3,300 persons daily) to:

- Reduce the instances of non-compliance among water systems with drinking water standards and requirements;
- Establish and assure safe and dependable water supplies for the public;
- Improve the operational capability of the water systems;
- Improve the financial, technical and managerial capability of water systems; and
- Assist Small Water Systems in the preparation of applications for Safe Drinking Water loans and grants.

Key activities performed to meet these objectives include:

- Providing assistance to Small Water Systems to enable them to complete applications to obtain loan funding, including submittal of required capacity documentation and development of source capacity assessments, technical evaluations, and operations plans;
- Directing technical assistance to Small Water Systems with significant violations or other deficiencies that could lead to failures; and
- Providing assistance in achieving technical, managerial and financial capacity, including submittal of required capacity documentation and development of source capacity assessments, technical evaluations, operations plans, emergency plans and budget projections;

<u>Overall Background on DHS Drinking Water Program—Separate Special Fund Accounts.</u> 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 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. Since 1999 California has received eight federal grants each of which averaged $85 million (federal funds) annually. Proposition 50 bond funds are used as a state match (requires a 20 percent state match).

Federal law enables states to set-aside up to two percent of the total annual federal capitalization grants to provide technical assistance to Small Water Systems (serve less than 3,300 persons daily).

Existing state law establishes *four separate funds* for Administration, Small Water System Technical Assistance, Public Water System Supervision, and Water System Reliability.

The Small Water System Technical Assistance Account solely consists of the two percent federal set aside amount from the federal capitalization grants. Therefore, the use of this special account to fund the requested DHS positions is appropriate.

Subcommittee Staff Recommendation. It is **recommended to approve** the request to extend the 10.5 positions. No issues have been raised and the workload is justified.

Questions. The Subcommittee has requested the DHS to respond to the following question.

1. **DHS**, Please provide a brief summary of the proposal.

3. Safe Drinking Water Account—Request for Staffing for Large Water Systems *(See Hand Out)*

Issue: The DHS **is requesting an increase of $1.1 million (Safe Drinking Water Account Funds) to hire 11 new Sanitary Engineers on a permanent basis to assist in ensuring that certain oversight activities are conducted for large drinking water systems**.

The Safe Drinking Water Account is completely fee supported through collections from large drinking water systems.

In addition, the Administration is seeking trailer bill legislation to (1) reduce the regulatory oversight of large water systems by the DHS by changing the existing inspection timeframes, and (2) provide the DHS with broad authority to deny, revoke, suspend, or restrict, a water operator's license.

With respect to the proposed trailer bill language, the DHS contends there are insufficient resources to provide the level of oversight on large drinking water systems as presently required in existing state statute (as established in 1991 by AB 2995). **The Administration states that a fee increase on large drinking water systems to support existing statute is not desirable; in addition, no General Fund support has been proposed by the Administration for this purpose.** Therefore, the Administration is proposing trailer bill legislation to reduce the regulatory oversight of large drinking water systems.

According to the DHS, 20 new positions are actually needed to address the workload issues associated with meeting existing statutory requirements. However the existing fee structure will only sustain 11 new positions. The addition of these 11 new positions (Sanitary Engineers) would provide a total of 52 engineering positions (currently 41) to provide oversight and inspections of large drinking water systems (who serve about 90 percent of the population).

Under this proposed structure, inspections of large drinking water systems would be based on the following factors: (1) the sources of drinking water used by the water system, **(2)** potential sources of contamination, **(3)** water treatment technologies employed by the water systems and, **(4)** the population served. **Water systems that are not subject to these factors will not be inspected by the DHS as frequently.**

Based on these factors, the DHS states that large drinking water systems would be inspected according to the following proposed schedule:

- Systems with **surface water sources** would be inspected **annually**;
- Systems with **groundwater sources with treatment** would be inspected every **two years**; and
- Systems with **groundwater sources with no treatment** would be inspected every **three years**.

Based on information provided by the DHS, if 9 more Sanitary Engineers were provided (i.e., provide the 20 additional positions, not just the 11 requested positions), an increased cost of about $900,000 would be incurred in addition to the DHS budget request. At this time, there are not sufficient funds within the Safe Drinking Water Account to this additional level of need.

<u>Background on Safe Drinking Water Program.</u> California's Safe Drinking Water Program was established in 1991 and **uses a fee-for-service approach** for larger drinking water systems with 1,000 or more service connections. Except for certain activities such as enforcement, the fee amount is capped for these systems. The cap is allowed to increase annually by five percent. According to the DHS, the last time the fee schedule was reviewed was in 1996 when the original sunset provisions within the enabling legislation were removed.

The DHS provides for ongoing surveillance and inspection of these systems, issues operational permits to the water systems, ensues water quality monitoring is conducted, and takes enforcement actions when violations occur.

<u>Subcommittee Staff Recommendation.</u> It is recommended to **(1)** approve the request for 11 new Sanitary Engineers, and **(2)** reject both pieces of the proposed trailer bill language. **First,** the 11 new positions to conduct increased inspections is warranted. Existing law establishes a threshold for inspections of these systems and the DHS has justified the workload in its supporting documents. These positions are sustainable within the existing fee structure.

Second, approval of the 11 new positions would provide the DHS with a total of 52 engineering positions (41 existing positions plus the new 11 positions). According to the DHS' own figures, that would leave them just 9 positions short of conducting annual inspections as required by law. This is not a substantial difference is staffing and as such, the DHS should consider how it can take action to improve and increase its ability to conduct annual inspections and to more fully utilize the staff that it employs, rather than lowering an existing standard to ensure safe drinking water.

Third, the proposed trailer bill language represents a considerable change from existing policy and therefore, should be reviewed within the policy committee context. These proposed changes have never been discussed in the policy venue and the proposed changes do not directly affect implementation of the Budget Bill. The DHS should see how the new positions, as well as any program efficiency improvements, progress in meeting existing statute prior to changing the existing standard. If the standard is to be changed, it should be discussed in a public forum whereby technical water quality expertise can be obtained to better discern what factors should serve as the measurements for the less than annual inspections.

Fourth, the proposed trailer bill language regarding the DHS taking action against certified water treatment and distribution system operators is very broad and does not provide for a comprehensive form of due process. As such, this too should be discussed in a policy committee venue as well.

<u>Questions.</u> The Subcommittee has requested the DHS to respond to the following questions.

1. **DHS,** Please briefly describe the proposal, including the proposed trailer bill language.
2. **DHS**, Will large drinking water systems be inspected less frequently?

<u>4. Radiation Control Program *(See Hand Out)*</u>

<u>Issue.</u> The DHS requests **to hire 8 new, permanent positions (Associate Health Physicist) within existing appropriation authority.** In addition, the DHS is proposing trailer bill language to **(1)** recover the additional costs of follow-up inspections when entities or individuals fail to correct violations of radiation safety laws and regulations, and **(2)** correct for a spelling error in existing statute.

The DHS states that the additional staff will assist in meeting necessary federal and state mandates and will decrease the public's risk of excessive and improver exposure to radiation. **The positions would be used as follows:**

- **Three Health Physicists would primarily be used to perform X-ray machine inspections.** It is assumed that each position can conduct 300 inspections annually. The DHS states there are about 73,000 X-ray machines in the state and that over 3,000 X-ray machines have not been inspected annually as required by law. The program presently has 15 inspectors.

- **Five Health Physicists would primarily be used to review and evaluate applications for license approval to use radioactive material for industrial, academic, medical, veterinary or research purposes.** The DHS states that these positions are needed in order to meet certain Nuclear Regulatory Commission (NRC) concerns as discussed below.

  These positions would also: (1) perform inspections of users of radioactive material including incident response, investigation and legal actions; (2) review issued licenses and inspection reports to ensure consistent and uniform application lf laws, regulations and quality of work; and (3) research and develop radiation safety regulations for compatibility with federal requirements and compliance with state law.

This program is funded through the Radiation Control Fund, a special fund into which the regulated community pays fees. Through the DHS' administrative authority, fees were increased effective September 1, 2005. The fees had not been increased since 1997 and the DHS contended that the program was no longer able to sustain itself and meet program requirements.

<u>Nuclear Regulatory Commission (NRS) Concerns.</u> The NRC conducts performance evaluations as part of its statutory mission to ensure adequate and consistent nationwide health and safety protection from the hazards of radioactive material.

In 2004, the NRC evaluated the DHS' program and found that it needed improvement. As a result, California has been placed on "heightened oversight and monitoring" status. According to the DHS, the NRC specifically identified lack of staff resources as an unsatisfactory finding that must be addressed.

The NRC issued California a "Program Improvement Plan" (PIP) to track the actions the DHS must address to meet the recommendations of the 2004 program review. Some of the NRC's recommendations include the following:

- Implement procedures to ensure inspection findings are issued to licensees within 30 days of the completion of routine inspections;
- Improve the system to track incident and allegation investigations to ensure timeliness, proper documentation, appropriate follow-up, and closure;
- Establish and implement (1) processes to identify defects and incidents involving California approved devices containing radioactive material, and (2) procedures for investigating reports of defects and incidents for root cause and generic implications for possible subsequent re-evaluation; and
- Ensure adequate funding and staffing resources are devoted to the Radiation Control Program and that the state's fee system be updated reflect actual program costs.

Overall Background on the Radiation Control Program. The purpose of this program is to protect public health and safety by decreasing excessive and unnecessary exposure to radiation, and reducing the release of radioactive material into the environment. This is accomplished through **(1)** licensing users of radioactive material, including medical, academic and industrial facilities, **(2)** registration of radiation producing (X-Ray) machines, **(3)** certification of individuals using radiation sources, **(4)** inspection of facilities using radiation sources, and **(5)** conducting enforcement actions.

California, along with 32 other states, has an agreement with the NRC by which the federal government does not have regulatory authority over certain types of radioactive material. Instead, the state has the authority for oversight but the NRC conducts performance evaluations as part of its function. This state-federal relationship is known as "Agreement State Program". Therefore, the Radiation Control Program licenses and inspects users of radioactive materials that are subject to both federal and state law.

Subcommittee Staff Recommendation. It is recommended to approve the positions and that portion of the trailer bill language regarding the collection of fees for re-inspections. Due to the concerns captured in the NRC report, as well as the need to conduct the inspections, the workload standard appears reasonable. The portion of the trailer bill language to correct the existing spelling error is recommended to be denied since it is not necessary to enact the Budget Bill.

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

1. **DHS,** Please provide a brief summary of the need for the 8 new positions.
2. **DHS,** Please provide an update on the status of implementing the NRC's recommendations.

5. Medical Waste Management Program—Staff and Fee Increase *(See Hand Out)*

Issue. The DHS **is requesting an increase of $642,000 (Medical Waste Management Fund) to hire 6 new Environmental Scientists for the Medical Waste Management Program.** The approval of these positions *is contingent* upon adoption of trailer bill language to increase the fees paid into the special fund designated for this purpose. **The fees for the program have never been increased since the inception of the program which was enacted in 1991.**

Specifically, the DHS is proposing trailer bill language to (1) increase the fees paid by "off-site" medical waste treatment facilities, and (2) recover the costs of follow-up inspections of large quantity medical waste generators.

The DHS contends that the Medical Waste Management Program is critically understaffed and has *not completed* 600, or 86 percent, of its current-year inspections of medical waste generator facilities. **The program currently operates using 7 positions.** There are 837 large quantity medical waste facilities in California that the DHS is required to inspect annually. The DHS notes that the lack of inspections increases the probability of improper storage and disposal of medical waste.

The DHS says the 6 new positions (Environmental Scientists) are needed to: (1) conduct statutorily required inspections of medical waste generators in 25 counties and 2 cities where the state serves as the local enforcement agency; **(2)** respond to complaints of illegal disposal of medical waste; and **(3)** audit local medical waste programs where the state has the responsibility of assuring uniform enforcement of the Medical Waste Management Act. **Specific functions would include the following:**

- Prepare for the inspection, conduct the inspection and document findings;
- Conduct complaint investigations by doing field visits and interviewing persons who filed the complaint. Evaluate any illegal waste from the complain and follow up with enforcement actions.
- Proceed with escalated enforcement actions when applicable, including gathering documentation for evidence and meeting with applicable law enforcement agencies.
- Prepare for court proceedings or settlement negotiations as applicable.

Administration's Proposed Trailer Bill Language to Increase Fees (See Hand Out). Existing state statute sets fees for medical waste "generators" (primarily hospitals) and for the treatment of medical waste. **The proposed trailer bill language would increase the fee to be paid to "off-site" medical waste treatment facilities and will be passed on to their customers (such as hospitals). Fees have not been increased since the inception of the program in 1991.**

The DHS is *not* proposing to increase the fee paid by "generators" because that in essence would be a double fee increase (i.e., pay as a generator and have increased payments from off-site treatment facilities due to the treatment facilities fee increase).

The current fee paid by "off-site" treatment facilities is two-tenths of a cent ($0.002) per pound of waste treated or $10,000, whichever is greater. This fee was effective as of April 1, 1991 and has never been increased. **The proposed fees would be increased to one hundred twenty-seven of a cent ($0127) per pound of waste treated or $12,000, whichever is greater. This new fee would be effective as of July 1, 2006.**

The table below displays the effect of the Administration's proposed adjustment.

Table—Display of Administration's Proposed Fee Increase for "Off-Site" Treatment Facilities

Name	Pounds Treated in 2004	Current Fee	Estimated Amount with Proposed Fee	Percent Increase
Arrowhead Medical	NA-new in 2004	$10,000	$12,000	20%
California Medical	2,984,126	$10,000	$37,898	279%
Medical Waste Environmental.	161,526	$10,000	$12,000	20%
Medical Disposal Services	915,740	$10,000	$12,000	20%
North State Specialty Waste	1,368,723	$10,000	$17,382	74%
Sanitec USA	1,174,862	$10,000	$14,920	49%
Stericycle—Fresno	4,817,383	$10,000	$61,180	512%
Stericycle—San Diego	6,979,973	$13,959	$88,645	535%
Stericycle—San Leandro	18,111,995	$36,223	$230,022	535%
Stericycle--Vernon	38,197,194	$76,394	$485,104	535%
Thermal Combustion	7,979,761	$15,959	$101,342	535%
University of CA at Davis	1,872,250	$10,000	$23,777	138%

(The DHS states that Stericycle is the largest operation and has contracts with about 85 percent of California's market.)

In total, the increased fee is anticipated to generate about $923,000 in new revenue in 2006-07. DHS states that this new fee structure is necessary to support the requested 6 new positions and to maintain a prudent reserve.

The Subcommittee is in receipt of a letter from Stericycle, Incorporated, address to Governor Schwarzenegger which is in support of the proposed fee increase. They express the need for more oversight by the DHS and note the need for increased resources for this to occur.

Overall Background on Medical Waste Management Program. This program was enacted in 1991 to provide regulatory oversight to ensure the proper handling of medical waste. **The program provides oversight of all offsite treatment facilities, large quantity medical waste generators such as hospitals, medical waste transfer stations, medical waste haulers and small quantity medical waste generators in the 25 counties and 2 cities where the state operates these programs.** The DHS' regulatory activities include inspections, training, consultation, enforcement and investigation of complaints.

The public benefits from having medical waste properly handled and treated by avoiding exposure to infectious wastes that may cause illness and death. Further, proper handling of medical waste ensures the waste doesn't end up in garbage dumpsters, on beaches, or along public thoroughfares.

The DHS notes that the most common complaint is untreated medical waste arriving at solid waste transfer stations or landfills. These incidents are normally the result of non-compliance at a generator's facility, such as a hospital. Other complaint calls may deal with unregistered medical waste generators and haulers, the clean up and disposal of trauma scene waste and un-permitted medical waste transfer stations or treatment facilities.

Subcommittee Staff Recommendation. It is recommended to approve the request, including the 6 new positions and the trailer bill language. The proposed adjustments appear to be warranted based on the need for inspections.

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

1. **DHS,** Please provide a brief summary of the request, including a discussion of the trailer bill language.

6. Drug and Medical Device Manufacturer Program—Staff and Trailer Legislation *(See Hand Out)*

Issue. The DHS **is requesting an increase of $815,000 (Drug and Device Safety Fund) to fund 7 new, permanent positions *and* to purchase vehicles for the program.**

In addition, the DHS is proposing trailer bill language to change the licensing *fee* collection from annually to every two years (i.e., biennially). Therefore the fees paid by drug and medical device manufacturers would be paid upfront for a two-year period, versus a one-year period as now done.

The DHS states that the requested 7 new, permanent positions (6 Senior Food and Drug Investigators and a Management Services Technician) are needed to conduct new licensing inspections, conduct renewal licensing inspections, and to process various information and reports related to these inspections. **The DHS notes that there is a backlog of 167 new licensing inspections. Once this backlog is addressed, the positions would be used to manage renewal licensing inspections of facilities as required.**

Specifically, the following key activities would be conducted:

- Complete *new* licensing inspections of compliance, including all aspects of the business, from the facility to the product line (procedures, ingredients or components and labeling);
- Complete renewal licensing inspections;
- Check quality control at the facilities;

- Complete written reports of inspections and make recommendations to license the facility or to do other actions;
- Prepare draft regulatory notices; and
- Prepare criminal or civil cases when applicable.

There are presently seven *existing* staff conducting inspections and related activities for the Drug and Medical Device Manufacturer Programs. These existing staff—6 Senior Food and Drug Investigators and one Supervising Food and Drug Investigator—annually inspect about 240 firms requiring licensing inspections (i.e., about 40 inspections annually per investigator).

The DHS contends that their existing understaffing prevents the programs from conducting all of the statutorily mandated annual facility license renewal inspections and has resulted in the following *concerns:*

- Firms are experiencing an average delay of 275 days until licensure with corresponding delays in opening and commencing business in California;
- Increased risk of patients being exposed to injuries and illness associated with unregulated, unsafe, defective or fraudulent drugs and medical devices; and
- Unfair and potentially illegal business practices because businesses may operate without valid licensure.

Of the requested increase, $115,000 (Drug and Device Safety Fund) is designated by the DHS to purchase 6 vehicles which would be used by the investigators. The DHS states that since inspections are conducted independently, it is essential that each investigator and the supervising investigator have a vehicle to transport their equipment (laptop computer, firearms and safety equipment, lab equipment, video equipment and related items).

Of the amount requested, about $65,000 would be one-time costs (purchasing) and $50,000 would be on-going (maintenance and to replace vehicles and other equipment). The DHS assumes that an investigator travels 150 miles per day for 20 days per month or 36,000 miles a year.

The DHS contends that it would be more cost-beneficial for them to purchase vehicles than to rent vehicles from the Department of General Services. The DHS analysis, as shown below, depicts an annual savings of $90,000.

Department of Health Services Yearly Vehicle Cost Comparison

Component	**General Services Vehicle**	**Health Services Vehicle**
Monthly Rental Fee	$260 per month x 12= $3,120	Not applicable
Mileage Charge	$0.22 x $36,000=$7,920	Not applicable
Purchase Price	Not applicable	$5,000 ($20,000/4 years)
Gasoline	Included in monthly rate charge	$2,950
Insurance	Included in monthly rate charge	$1,000
Maintenance	Included in monthly rate charge	$2,000
Total (As computed by the DHS)	**$11,040 annually**	**$10,950 annually (Difference of $90,000)**

Overall Background on the Drug and Medical Device Manufacturer Programs. These programs provide consumer protection from unsafe, contaminated, mislabeled, and fraudulent drugs (blood pressure medications, injectable drugs, antibiotics). New drug and medical device manufacturers are required to be inspected and licensed by the DHS prior to distributing products. In addition, AB 1496 (Olberg), Statutes of 2000, requires biennial inspections of existing licensed drug and medical device manufacturers. **All licensing fees from drug and medical device manufacturers and all enforcement fines and penalties are deposited in the Drug and Device Safety Fund.** The existing licensing fees are shown in the table below.

Drug or Medical Device Manufacturer	License Fee (as of July 2005)
New license	$1,600
Renewal license	1,300
Special or small (as defined)	$850
Prescription drug marketing act	$100

Note: The licensing fee shown above will double if the state proceeds with a biennial licensing process, versus the existing annual process. The fee of course would only be paid once every two-years under the proposed trailer bill legislation.

The Administration raised the fees for this program by about 25 percent effective as of July 1, 2005. According to the "Fund Condition Statement" provided in the Governor's Budget for 2006-07, the DHS is projecting a Drug and Device Safety Fund surplus of $7.9 million, including the expenditures for this request.

Role of the U.S. Food and Drug Administration. It should also be noted that the U.S. Food and Drug Administration (FDA) requires drug and medical device manufacturers to register, but the DHS contends that the federal FDA may not inspect the firm for two or more years after they have registered and initiated manufacturing. Therefore the federal FDA has partnered with the DHS to share inspection information. It is assumed that the federal FDA will conduct 318 inspections on a biennial basis. (The DHS says that they have taken this relationship into consideration in calculating their workload level.)

Subcommittee Staff Recommendation. It is recommended to approve the increase of $642,000 (Medical Waste Management Fund) and the requested positions. With respect to the purchase of the vehicles, the LAO notes that when there is heavy vehicle use by a program, it is reasonable for the program to purchase in lieu of using the DGS rental service. As such, it is also recommended to approve their purchase.

With respect to the proposed trailer bill language to enable the DHS to collect fees on a biennial basis instead of an annual basis, it is recommended to deny the proposal. It is unclear what real efficiencies the DHS will achieve since the fee collection process is not labor intensive. Further, industry may view this change in fee collection as a fee increase since they would need to pay up front for two years commencing with when their licensing expiration date occurs.

Questions.

1. **DHS,** Please provide a brief summary of the proposal, including the proposed trailer bill.

7. Implementation of the California Safe Cosmetics Act

Issue. The DHS **is requesting an increase of $495,000 (General Fund) to hire four positions and purchase equipment to proceed with the implementation of SB 484 (Migden), Statutes of 2005.**

Generally, the CA Safe Cosmetics Act requires manufacturers of cosmetics sold in California to provide specified information to the DHS regarding their products. Among many things, the DHS is responsible for determining the potential health effects of exposure to the ingredients contained in the cosmetics sold in California, to conduct certain investigations if necessary and to maintain specified data cosmetic ingredients and provide reports on this information.

These funds would be used as described below.

- ***Request for DHS Staff (Four Positions).*** The DHS is requesting to hire four permanent staff—a Food and Drug Program Specialist, an Associate Governmental Program Analyst, a Research Specialist II, and an Office Technician—to begin implementation of the CA Safe Cosmetics Act (Act). **Key functions for this proposed staff include the following:**
    - Establish and maintain a system for monitoring compliance with the Act's reporting requirements;
    - Establish and update electronic data base of cosmetic products lists submitted by manufacturers;
    - Maintain listing of chemical ingredients required to be reported;
    - Collect samples to determine accuracy of reporting by the manufacturers;
    - Identify, investigate and review violations of the Act;
    - Perform data analysis on violations and coordinate findings;
    - Conduct outreach and training to the cosmetic industry;
    - Plan and design new analytical approaches to identify toxic chemicals known to cause cancer or reproductive toxicity in cosmetics products; and
    - Develop and implement methods for disseminating summaries of collected data to the public.

- ***Equipment.*** A total of $78,300 (General Fund) would be used to purchase laptop computers (for field personnel), laboratory equipment and supplies, and other related supplies. Of this amount, $32,300 is one-time only.

Subcommittee Staff Recommendation. The budget request is consistent with implementation of the legislation. It is recommended to approve the request as proposed.

Question. The Subcommittee has requested the DHS to respond to the following question.

1. **DHS,** Please provide a brief summary of the request.

8. Genetically Handicapped Persons Program (GHPP)

Issue. The budget **requests an increase of $14.6 million ($2.2 million General Fund and $12.4 million federal Health Care Support Fund) compared to the revised current-year as shown in the Table 2, below.** The DHS assumes that an average of 1,173 individuals will access GHPP services in 2006-07. It is assumed that these individuals will **generally** have program expenditures as follows:

Table 1: GHPP Assumptions for Budgeting Purposes

Diagnosis/Condition	Average Caseload	Average Annual Cost/Case	Program Expenditures
Hemophilia	326	$153,600	$50.1 million
Cystic Fibrosis	320	13,100	$4.2 million
Sickle Cell	284	2,400	$669,000
Huntington's	163	2,800	$461,000
Metabolic	80	1,800	$143,000
TOTALS	**1,173**	**$47,400**	**$55.6 million**

The overall budget for the GHPP is based on the last five years of actual GHPP caseload and expenditure data. Independent regressions are run on each diagnosis category (i.e., Hemophilia, Cystic Fibrosis, Sickle Cell, Huntington's Disease, and Metabolic conditions. Adjustments to this baseline—identified as "policy changes"-- are then made as appropriate.

The key changes proposed for the GHPP are as follows:

- *Accrual to Cash.* Elimination of the one-time only savings of $14.1 million (General Fund) attributed from shifting the GHPP from an accrual basis to a cash basis in 2005-06 to correspond with the shift which occurred in the Medi-Cal Program;
- *Increased Utilization.* Per case expenditures for both Metabolic conditions (13.5 percent) and hemophilia (1.5 percent) are increasing as compared to the current-year;
- *Shift from General Fund to Federal Fund Support.* SB 1100, Statutes of 2005 provides for the state to utilize a portion of the federal Health Care Support Fund in lieu of General Fund support for certain programs, including the GHPP. Table 2, below displays this amount ($8.9 million in 2005-06 and $21.3 million in 2006-07).

Table 2: GHPP—Summary of Funding

Summary of Funding	Revised 2005-06	Proposed 2006-07	Difference
General Fund	$28.7 million	$30.9 million	$2.2 million
Enrollment Fees	$340,000	$340,000	--
Children's Medical Services Rebate Fund	$3 million	$3 million	--
Federal—Health Care Support Fund	$8.9 million	$21.3 million	$12.4 million
TOTALS	**$40.9 million**	**$55.6 million**	**$14.6 million**

Overall Background of the GHPP. The Genetically Handicapped Persons Program (GHPP) provides comprehensive health care coverage for persons with specified genetic diseases including Cystic Fibrosis, Hemophilia, Sickle Cell Disease, Huntington's Disease, Joseph's

Disease, metabolic diseases and others. GHPP also provides access to social support services that may help ameliorate the physical, psychological, and economic problems attendant to genetically handicapping conditions. Persons eligible for GHPP must reside in California, have a qualifying genetic disease, and be otherwise financially ineligible for the CCS Program. GHPP clients with adjusted gross income above 200 percent of poverty pay enrollment fee and treatment costs based on a sliding fee scale for family size and income.

Use of Health Care Support Fund for Public Health Programs. SB 1100 (Ducheny and Perata), Statutes of 2005, provides the framework to implement the state's Hospital Financing Waiver in the Medi-Cal Program. Among other things, it articulates how the Health Care Support Fund (federal funds received under the Waiver) can be utilized by hospitals, as well as by specified state programs.

Among other things, Section 14166.22 of Welfare and Institutions Code provides for how the Health Care Support Fund can be accessed for specified state programs, including the GHPP. This section also says that the DHS can claim federal dollars (i.e., the Health Care Support Fund) for these specified state programs **only to the extent these state programs are needed to maximize available federal funds under the Waiver.** Specifically, the state programs were placed into the legislation to enable California to recognize increased "certified public expenditures" (CPE's) in order to fully draw down the federal funds within the Safety Net Care Pool (i.e., as contained within the Health Care Support Fund). **Since the Safety Net Care Pool is a capped fund, the level for which the state could access it were intentionally limited.** Further, the General Fund savings achieved from the state accessing the Safety Net Care Pool funds for the specified state programs must be used in support of safety net care hospitals (Section 14166.22 (b) of Welfare and Institutions Code). **The Administration's proposal for the GHPP is consistent with the provisions of SB 1100, Statutes of 2005.**

Rebates for Blood Factor Product and Related Items. The GHPP presently has in place a rebate program for Blood Factor Product. This existing rebate program structure needs to be modified now that the GHPP is receiving federal funds (as referenced above under the Hospital Financing Waiver). This change is required due to complex federal laws related to public rebate programs and pharmaceutical products.

However, since the state's Medi-Cal Program has an extensive rebate program, the GHPP can be added to that program's rebate structure to ensure General Fund savings. This outcome requires state statutory change. Without this change about $3 million in General Fund savings is at risk. It is likely that adjustments will need to be made at the May Revision due to this rebate issue. However, the DHS believes that retroactive rebate payments can be obtained by no later than February 2007.

Subcommittee Recommendation. It is recommended to **(1)** approve the GHPP budget as proposed by the Administration, *and* **(2)** adopt place holder trailer bill legislation to have the GHPP included within the Medi-Cal supplemental rebate process.

Questions. The Subcommittee has requested the DHS to respond to the following question.

1. **DHS**, Please provide a brief summary of the budget request.
2. **DHS,** Please comment on the need for trailer bill legislation for using the Medi-Cal Supplemental Rebate Program for the GHPP

9. California Children's Services (CCS) Program—*Base Program*

Issue. The budget **proposes expenditures of $196.2 million for the CCS Program which reflects an increase of $15.3 million** (*decrease* of $9.6 million General Fund and an increase of $24.9 million in federal funds from two sources). The proposed increase in federal funds is from the federal Health Care Support Fund (i.e., Safety Net Care Pool) and Title XXI (the federal State Children's Health Insurance Program—known as Healthy Families in California.).

Of the proposed increase, about $14.1 million (total funds) is due to the increase in costs associated with children who are enrolled in the Healthy Families Program and the Access for Infants and Mothers (AIM) Program who require treatment services through the CCS Program (i.e., special medical treatment needs). Existing state statute provides for this in order to ensure appropriate medical treatment for children with extensive medical needs.

The remaining amount is attributable to a combination of minor adjustments. **No new policy changes are proposed except for the use of the Health Care Support Fund, which is crafted in the same manner as described under the GHPP, above. Specifically, the $15.1 million (Health Care Support Fund) is being expended for the CCS Program, as allowed under SB 1100 (Ducheny and Perata), Statutes of 2005.**

Overall Background on 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.

The CCS is the oldest managed health care program in the state and the only one focused specifically on children with special health care needs. It depends on a network of specialty physicians, therapists and hospitals to provide this medical care. By law, CCS services are provided as a separate and distinct medical treatment (i.e., carved-out service). CCS was included in the State-Local Realignment of 1991 and 1992. As such, counties utilize a portion of their County Realignment Funds for this program.

CCS enrollment consists of children enrolled as: **(1)** CCS-only (not eligible for Medi-Cal or the Healthy Families Program), **(2)** CCS and Medi-Cal eligible, and **(3)** CCS and Healthy Families eligible. Where applicable, the state draws down a federal funding match and off-sets this match against state funds as well as county funds.

Subcommittee Staff Recommendation. It is recommended to approve the CCS Program budget as proposed by the Administration.

10. CCS Program—Adjustment for Children's Medical Services Network

Issue. The DHS is proposing an overall net reduction of $145,000 (increase of $105,000 General Fund and decrease of $40,000 in federal funds) by deleting contract staff and hiring 4 new state positions to address the continuing workload associated with the Children's Medical Services Network (CMS Net).

The DHS has been using contract staff from the Electronic Data Systems (EDS) to complete work on the CMS Net because key enhancements for this system entailed interactions with the Medi-Cal information system. This core work has been completed and the DHS states they can no longer use this contract staff for ongoing CMS Net support. As such, they are proposing to delete the funds for the contract staff and to hire 4 positions within the Children's Medical Services Branch (who operate the CCS Program).

Specifically, the 4 positions—two Associate Information Systems Analyst's, on Senior Information Systems Analyst and one Assistant Information Systems Analyst—would be used for key functions as follows:

- Perform research and resolution of problems encountered by counties and state Regional Office users who call the Help Desk for CMS Net assistance;
- Research and complete data repairs for Eligibility segments in CMS Net for county and state Regional Office users;
- Review, analyze and respond to incoming change requests for the CMS Net from county, state Regional Office and the DHS;
- Executes all phases of the system development life cycle regarding any changes. This includes development design specifications, creating test scenarios and test scripts, and test end product in the production environment.
- Assist with new users and ongoing training which includes training documentation updates; and
- Monitors and balances the maintenance and operations budget.

Summary Background on the CMS Net. The CMS Net is the automation system used by the CCS county programs and the state regional CCS offices to perform a wide variety of functions, including CCS case management, comprehensive tracking (i.e., medical, financial, residential determinations), and the authorization for services.

Currently 55 counties use the system and by July 1, 2006, all 58 counties will be users. The last three counties—Sacramento, Los Angeles, and Orange—represent about 40 percent of the total statewide users. CMS Net has an electronic interface with the Medi-Cal Eligibility Data System (MEDS), as well as other DHS systems to ensure that CCS Program claims are paid appropropriately in order to capture full federal financial participation.

The CMS Net has undergone several enhancements including expanded functionality and reporting. For example, the system can now interact with California Dental Management

Information System (Medi-Cal Dental Program), as well as some other Medi-Cal Program interfaces. According to the DHS, all enhancements are presently operational.

<u>Subcommittee Staff Recommendation.</u> It is recommended to approve three of the requested four positions. **Specifically it is recommended to eliminate one of the two requested Associate Information Systems Analysts for a reduction of $99,000 (total funds)**

This would provide for a total of three positions (i.e., a Senior Information Systems Analyst, an Associate Information Systems Analyst and an Assistant Information Systems Analyst) which seems more consistent with the workload need.

<u>Questions.</u> The Subcommittee has requested the DHS to respond to the following questions.

1. **DHS,** Please provide a brief summary of the request, including why permanent DHS staff are desired in lieu of contract staff

Last Page of Agenda.

Diane Van Maren (w) 651-4103
Senate Budget & Fiscal Review

Subcommittee No. 3: Monday, March 27th
(This corresponds to the Subcommittee Agenda for the day)

I. 4120 Emergency Medical Services Authority

1. California Medical Assistance Teams (CalMAT) –*(Page 3)*

- **Action:** Approved as requested.
- **Vote:** 3-0

2. Changes Proposed for Emergency Medical Services Personnel –*(Page 5)*

- **Action:** **(1)** Approved $177,000 (Emergency Medical Services Personnel Fund) for the three positions for the Paramedic Licensing and Enforcement Program, and **(2)** Rejected all other aspects of the proposal, including the proposed General Fund loan, since policy legislation needs to proceed through the process.
- **Vote:** 3-0

II. Item 4260--Department of Health Services—Selected Public Health Issues

A. VOTE ONLY CALENDAR *(Items 1 through 3) (Pages 8 through 11)*

- **Action** Approved items 1 through 3 (from pages 8 through 11).
- **Vote:** 2-1 (Senator Cox) on all of these items.

B. ITEMS FOR DISCUSSION—Department of Health Services (Page 12)

1. Proposition 50—Drinking Water Management Program (Page 12)

- **Action** Approved as requested.
- **Vote:** 3-0

2. Drinking Water—Technical Assistance to "Small Water Systems" (Page 15)

- **Action** Approved as requested.
- **Vote:** 3-0

3. Safe Drinking Water Account—Request for Staffing for Large Water (Page 17)

- **Action: (1)** Approved the requested 11 positions, *and* **(2)** Deleted the proposed trailer bill language because it should be discussed in policy committee.
- **Vote:** 3-0

4. Radiation Control Program *(See Hand Out)* (Page 19)

- **Action** Approved as requested, including the trailer bill language.
- **Vote:** 2-1 (Senator Cox)

5. Medical Waste Management Program—Staff and Fee Increase (Page 21)

- **Action:** Approved as requested, including the trailer bill language.
- **Vote:** 3-0

6. Drug and Medical Device Manufacturer Program—Staff and Trailer (Page 23)

- **Action: (1)** Approved the increase of $642,000 (Medical Waste Management Fund) and the requested positions, *and* **(2)** Held "open" the proposed trailer bill language.
- **Vote:** 3-0

7. Implementation of the California Safe Cosmetics Act (Page 26)

- **Action:** Approved as requested.
- **Vote:** 2-1 (Senator Cox)

8. Genetically Handicapped Persons Program (GHPP) (Page 27)

- **Action: (1)** Approved the budget adjustments, and **(2)** adopted placeholder trailer bill language to enable the GHPP to collect supplemental Medi-Cal Program pharmaceutical rebates (since the SAP is no longer available due to the "federalization" of the program from the Hospital Wavier).
- **Vote:** 3-0

9. California Children's Services (CCS) Program—*Base Program* (Page 29)

- **Action:** Approved as requested.
- **Vote:** 3-0

10. CCS Program—Adjustment for Children's Medical Services Network (Page 31)

- **Action:** Deleted one of the Associate Information Systems Analyst positions for savings of $99,000 (total funds). (This provides a total of three positions in lieu of the requested 4 positions).
- **Vote:** 3-0

Senate Budget and Fiscal Review—Wesley Chesbro, Chair

SUBCOMMITTEE NO. 3 Agenda

Chair, Senator Denise Moreno Ducheny
Senator Dave Cox
Senator Wesley Chesbro

Thursday, March 30, 2006
(Upon Adjournment)
John L. Burton Hearing Room (4203)
Consultant, Anastasia Dodson

Discussion Agenda

Due to the volume of issues testimony will be limited. Please be direct and brief in your comments so that others may have the opportunity to testify. Written testimony is also welcome and appreciated. Thank you for your consideration.

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.

5175 Department of Child Support Services (DCSS)

The Department of Child Support Services (DCSS) works together with local child support agencies (LCSAs) to operate the state's child support program. The state and local agencies assure that child support funds are collected and distributed to families, including securing child and spousal support, medical support, and determining paternity.

The budget anticipates total collections of $2.4 billion in the budget year, an increase of 2.4 percent above the current year. The department's overall budget expenditures are proposed to increase by $9 million, or 0.6 percent, to $1.4 billion. The budget includes 534.2 positions for DCSS, a net increase of 19.1 positions.

DCSS Issue 1: California Child Support Automation System (CCSAS) Project Overview – Information Only

Description: The Department and LCSAs are currently in the process of implementing federally-required changes to the state's child support system. These changes include a statewide database and centralized payment processing system, and a significant expansion in the number of families whose payments must be processed by the state.

Background:

- **CCSAS Requirement.** The federal Personal Responsibility Work Opportunity Reconciliation Act of 1996 (PRWORA) required states to have a single statewide database and a statewide disbursement unit for child support payments. California is meeting these federal requirements by implementing the California Child Support Automated System (CCSAS). CCSAS includes the State Disbursement Unit (SDU) and Child Support Enforcement (CSE) components.
  - The **CSE** will provide a statewide central database for case management, financial management, and interstate communication.
  - The **SDU** is responsible for collection and disbursement of all child support payments previously processed by the state's 52 local child support agencies, plus all wage assignment payments for private child support orders not currently processed by local child support agencies.

- **Federal Penalty.** The budget includes $220 million General Fund for the anticipated September 2006 payment of the federal child support automation penalty for federal fiscal year 2006. The state has been required to pay an increasing penalty each year since 1997 due to its failure to implement a single statewide child support automation system. When certified by the federal government, CCSAS would allow the state to avoid future penalties. The September 2006 payment is anticipated to be the last payment the state will make. The DCSS will then request certification that the automation system is sufficiently operational to qualify for penalty relief in future federal fiscal years. The cumulative federal penalty from 1998 through 2006 is expected to be over $1.2 billion General Fund.

Child Support Case Categories

Title IV-D of the Social Security Act, established by Congress in 1975, required states to operate child support enforcement agencies, known as IV-D programs. The primary focus of these programs was to recover welfare costs and provide child support enforcement services. The federal Personal Responsibility Work Opportunity Reconciliation Act of 1996 (PRWORA) required the establishment of a state case registry and a single state entity to collect and process child support payments (SDU), including payments for cases that were not previously affiliated with state/local child support offices (Non IV-D cases).

- **Title IV-D Cases.** Includes families that use the state's child support program services, including non-custodial parent locate services, paternity establishment, support order establishment and enforcement, payment processing, and reimbursement to the state and federal government for families receiving CalWORKs.
  - **Assistance Cases.** Families receive CalWORKs or Foster Care, and a child support order has or is being established.
  - **Non-Assistance Cases.** Families request IV-D services, but do not receive CalWORKS or Foster Care benefits. Includes former CalWORKs beneficiaries.
- **Non IV-D Cases.** Families not using IV-D services, but with support orders issued on or after January 1, 1994, in which the income of the non-custodial parent is subject to withholding. PRWORA requires that payments for these cases be collected and distributed by the Statewide Disbursement Unit (SDU). **Beginning in August 2006, payments for Non IV-D cases in California will processed by the state's SDU.**

- **CCSAS Implementation.** CCSAS began daily operations in November 2005 when counties first had access to the statewide database and when the SDU began collection and disbursement operations. SDU implementation is being phased in statewide in a series of waves. During SDU transition, LCSAs forward child support payments daily via express mail services to the SDU for processing. This extra step during system transition adds a few days to when families usually receive their child support payments. Outreach in transitioning counties is being jointly provided by DCSS and local child support agencies.

    - Currently the statewide system and SDU are processing payments from 53 counties, which comprise 65 percent of the state's total child support caseload.

    - Wave 5 counties, representing approximately 9 percent of the state's caseload or approximately 171,000 cases, will transition in April 2006. Wave 5 counties are San Mateo, San Francisco, Alameda, and Sacramento.

    - Wave 6, Los Angeles County—representing approximately 26 percent of the state's caseload or approximately 475,000 cases—will transition in May 2006.

  Four significant milestones lie ahead:

  1. **Implementation of Statewide Allocation (July, 2006).** Currently, the SDU processes payments that are received by the counties and forwarded to the SDU. Allocation of payments among cases is currently performed within each county based on payments received and reported by the SDU. In July 2006, payments will be mailed directly to the SDU, and allocation of those payments among counties will be performed by the statewide system.

  2. **Initiation of Non-IV-D Payment Processing (August 2006).** Current SDU processing is limited to payments for families whose support orders are being enforced by local child support agencies (LCSAs) under the requirements of Title IV-D. Federal law also requires the SDU to process child support payments for all families when support is being paid through wage withholding. These are referred to as Non IV-D payments. California will begin processing payments for these private orders in August, 2006. The department indicates that of the estimated 23 million SDU transactions in 2007-08, an estimated 7 million will be Non IV-D, and 16 million will be IV-D transactions. State fiscal year 2007-08 is the first full 12 month period of complete SDU operations.

  3. **Submission of State Plan Amendment (September 2006).** California will formally communicate its compliance with the federal child support automation requirements by submitting a state plan amendment and requesting a formal federal review of the system. This means that California will not be required to pay additional automation penalties while the review is in process. Once the review confirms that the system meets federal requirements, the state will receive a refund of 90 percent of penalty payments made during the year certification was requested, in California's case federal fiscal year 2006.

4. **Initiation of CCSAS Version 2 (October 2006).** California is currently developing centralized case management functions called Version 2 that will eventually replace the system used by LCSAs. DCSS/FTB will begin a two-year rollout of Version 2 in October 2006.

Questions:

1. DCSS, please provide a brief overview of CCSAS implementation, and the current status of the SDU and CSE components.

2. DCSS, in what year does the Administration expect to make the final federal penalty payment?

DCSS Issue 2: CCSAS Budget Changes

Description: The Governor's Budget proposes $210 million ($71 million General Fund) at both DCSS and the Franchise Tax Board (FTB) to support continued project development and implementation of the CSE component, and $37.7 million ($13.5 million General Fund) for the SDU. The FTB acts as DCSS' agent for the procurement, development and maintenance of the CCSAS project. The Administration has also submitted Spring Finance Letters requesting an additional $15 million ($5.5 million General Fund) for the CSE and $11 million ($3.8 million General Fund) for the SDU in 2006-07.

Background: In an effort to avoid additional federal penalties of $220 million in 2007-08, the state has undertaken an aggressive timeline to allow an application for federal certification of compliance to be submitted by September 30, 2006. As a result of lessons learned from system testing and initial SDU roll-out in the current year, a number of project and funding changes are being proposed.

- **Governor's Budget CSE Component**. The CSE component of CCSAS will provide a statewide central database for case management, financial management, and interstate communication. Total funding for the CSE component is estimated to be $210 million in 2006-07. The budget requests changes that result in a total 10-year cost increase of $12.5 million. The budget also requests 3 new positions at DCSS, and the redirection of 10 existing DCSS positions to continue development of this system. Total positions for the CSE in 2006-07 would be 73 DCSS positions and 142 FTB positions. Total costs for the CSE are projected to be $1.3 billion ($466 million General Fund) from 2003-04 through 2012-13. This component is scheduled to be completed by September 2008.

- **CSE March 14, 2006 Spring Finance Letter.** The Administration has submitted a Spring Finance Letter requesting $16.1 million ($5.5 million General Fund) in 2006-07 redirected from unspent 2004-05 and 2005-06 funds for the CSE. This funding is requested to meet federal certification requirements, ensure proper system operation, and maintain existing local functionality. The Department indicates that major components of this request include $2 million to change data identifiers for Non IV-D cases, $4.3 million to incorporate bar coding on child support documents, $2 million for conversion of outstanding disbursements, and $1.5 million for interfaces and report functions for connections to welfare automation systems. The Administration has also requested expedited review of a Section 11.00 request, dated March 14, 2006, to sign an additional contract with the CSE vendor for $16 million, effective March 31, 2006.

The Finance Letter also requests Budget Bill Language to increase the authority of the Administration in 2006-07 to use unspent prior year and current year funding to address unanticipated project needs and to accommodate very short project timelines. More specifically, the requested language would: 1) reappropriate unspent 2004-05 and 2005-06 DCSS funds to 2006-07, and allow the Department of Finance to authorize the expenditure of the funds; 2) allow the Department of Finance to transfer reappropriated funds among the DCSS budget items; 3) authorize reappropriated funding to be transferred between DCSS and FTB. The proposed language does not include any notification to the Legislature.

- **Governor's Budget SDU Component.** The SDU component of CCSAS will provide statewide collections and electronic disbursement of child support payments. Total funding for the SDU component is estimated to be $37.7 million in 2006-07. The budget requests $2.1 million in 2005-06 and $3.1 million in 2006-07 due to implementation schedule changes. The department indicates these cost increases are offset by cost savings, due to schedule changes. Total project costs between 2004-05 and 2011-12 are anticipated to be $223.5 million. This component is scheduled to be completed by September 2006.

- **SDU March 27, 2006 Spring Finance Letter.** The Administration has submitted a Spring Finance Letter requesting an additional $11 million ($3.7 million General Fund) to ensure sufficient outreach and instruction to employers of non IV-D cases, proper allocation and processing of non IV-D payments, and sufficient resources are available for call center and help desk support for program participants, employers, and state and local child support staff. The Administration has also notified the Legislature through a Section 11.00 notification of a pending contract amendment with the SDU vendor to increase the contract by $11.8 million.

  The Finance Letter also requests Budget Bill Language to allow the Department of Finance to augment General Fund spending for CCSAS above the amount included in the 2006-07 Budget. The language provides that "if the Director of Finance deems that the augmentation is in the critical path to meet federal certification requirements and therefore necessitates immediate action or immediately necessary for system functionality, the Director may approve the augmentation. Any changes for these purposes would be excluded from the reporting requirements of Section 11.00." In such a case, written notification would be required to the Legislature within 10 days after Finance approval of the contract. If those conditions are not met, project augmentations would be authorized after a 30 day advance notice to the Legislature. Language is also requested to allow $132 million General Fund in the 2006-07 budget to be available for expenditure through 2007-08.

- **Centralized Financial Management Team.** The Governor's Budget requests $530,000 ($180,000 General Fund) for 5.5 new positions, and 4.5 redirected positions, to establish a Centralized Financial Management Team to resolve exceptions for non-assistance child support cases that will be added to the SDU as it becomes operational. These exceptions include multiple county collection adjustments and holds, and other issues that would not be resolved by local child support agencies. DCSS indicates the establishment of central payment processing and new Non IV-D customers requires the ability for the state to resolve financial issues attributed to the new customers never before handled by the state. The requested staff would resolve exceptions and suspended payments for these new customers.

- **Customer Support Service Center.** The Governor's Budget requests $824,000 ($280,000 General Fund) for 13.1 new positions, and 3.5 redirected positions, to establish a statewide Customer Service Support Center. This Center would respond to telephone inquiries regarding child support cases that will be added to the SDU as it becomes operational. DCSS indicates that during the implementation of the Non IV-D population, the SDU contractor will provide customer service response to parents inquiring about the status of their payments. After implementation of the Non IV-D payment processing and once the CCSAS Version 2 system customer service functions are available, state staff will assume responsibility for handling these inquiries. The department indicates that of the estimated 23 million SDU transactions in 2007-08, an estimated 7 million will be Non IV-D, and 16 million will be IV-D transactions. State fiscal year 2007-08 is the first full 12 month period of complete SDU operations.

Questions:

1. DCSS, please describe the proposals for a customer support service center and the centralized financial management team.

2. DCSS, how much unspent 2004-05 and 2005-06 funding is proposed to be carried forward to 2006-07 for CSE costs, and for what purpose was this funding originally appropriated?

3. DCSS, what security measures are being taken to protect client data in the SDU and CSE?

Recommendation:

1. **Governor's Budget CSE Component:** Approve as budgeted, to ensure customer needs are met for IV-D and Non IV-D cases, to meet federal child support system requirements, and avoid additional penalties in federal fiscal year 2007. (DCSS only – FTB request will be considered by Subcommittee Number 4.)

2. **CSE March 14, 2006 Spring Finance Letter:** Approve the requested funding increase in 2006-07. Amend the Budget Bill Language to require Legislative notification. (DCSS only).

3. **Governor's Budget SDU Component:** Approve as budgeted, to ensure customer needs are met for IV-D and Non IV-D cases, to meet federal child support system requirements, and avoid additional penalties in federal fiscal year 2007. (DCSS only)

4. **SDU March 27, 2006 Spring Finance Letter:** As this request was only recently provided to the Subcommittee, hold open pending further analysis by the April 20th hearing. Note that the Subcommittee may wish to consider modification of the proposed Budget Bill Language to ensure Legislative oversight prior to mid-year increases in General Fund spending for automation projects above the 2006-07 Budget Act funding level. (DCSS)

5. **Centralized Financial Management Team:** Approve as budgeted, to ensure customer needs are met for IV-D and Non IV-D cases, to meet federal child support system requirements, and avoid additional penalties in federal fiscal year 2007. (DCSS only)

6. **Customer Support Service Center:** Approve as budgeted, to ensure customer needs are met for IV-D and Non IV-D cases, to meet federal child support system requirements, and avoid additional penalties in federal fiscal year 2007. (DCSS only)

DCSS Issue 3: California Child Support Performance

Description: The state receives federal financial incentives and penalties based on five child support performance measures. In FFY 2003 California's average score ranked 38th among 54 states and territories, and scored lower than the national average on three out of five measures. The budget estimates only a 2.4 percent increase in collections in 2006-07.

In addition, approximately $19 billion in child support arrears is currently owed to families in the state. An analysis conducted by the Urban Institute found that approximately $4.8 billion of the state's arrears is collectable, including $2.3 billion of which is owed to the state for CalWORKs reimbursements.

Background:

Federal Performance Measure	National Ave FFY 2004	California FFY 2005	Federal Minimum Standard
IV-D Paternity Establishment	81%	**86%**	50%
Support Orders Established	74%	**80%**	50%
Collections on Current Support	59%	**49%**	40%
Collections on Arrears	60%	**56%**	40%
Cost-Effectiveness Ratio	$4.38	**$2.15**	$2.00

Cost-Effectiveness: California's child support system collected $2.15 in revenue for every $1.00 spent on collection efforts in FFY 2005. This is significantly lower than the national average of $4.38 in revenue per dollar spent. Among 54 states and territories, California ranks 52nd in cost-effectiveness in FFY 2004.

DCSS Performance Goals: The department recognizes the need to continue to improve statewide performance, and indicates it is focusing its performance improvements efforts on the lowest performing LCSAs. Multi-discriplinary teams have been formed to conduct targeted planning, identify best practices in high-performing LCSAs, and provide technical assistance to 11 LCSAs that scored low on two measures in FFY 2005: Collections on Current Support, and Cases with Collections on Arrears. The 11 LCSAs are: Los Angeles, Riverside, Sacramento, Imperial, Kern, Lake, San Bernardino, San Diego, Santa Clara, Yolo, and Yuba. These counties represent 61 percent of state caseload.

- **Collections on Current Support:** This performance standard measures the amount of current support collected as compared to the total amount of current support owed. The DCSS identified a range of improvement goals for FFY 2006, from a 0.5 percentage point increase for LCSAs performing at 50 percent or higher, to an increase of 3.9 percentage points for LCSAs performing at less than 45 percent.

- **Arrearage Collections Performance:** This performance standard measures cases with child support arrearage collections as compared to cases owing arrearages. For LCSAs performing below 50 percent in FFY 2005, the goal is to attain a level of 50 percent. For those that performed between 50 and 55 percent the goal is to increase 2 percentage points. For those that exceeded 55 percent in FFY 2005, the goal is an improvement of 0.5 percentage points.

The California Child Support Directors Association indicates that the following factors contribute to the state's relatively poor cost-effectiveness ratio:

- **Automation Projects Still in Development:** California is still spending significant resources on CCSAS development and legacy automation costs. All but two other states no longer have major automation development costs.

- **Judicial Child Support Model:** California has a court-based child support system that that Association indicates is more expensive than the administratively based systems used in many other states.

- **Uncollectable Arrears:** Much of the child support arrears is owed by low-income non-custodial parents. Seventy percent of the outstanding arrears in the state is owed by debtors with annual reported net income of $10,000 or less. Only 5 percent of the arrears is owed by debtors with annual reported net income of $30,000 or less. Further, 73 percent of arrears are at least 2 ½ years overdue. In addition, California has a disproportionate share of the nation's child support arrears – 12 percent of the nation's child support caseload, vs. 20 percent of the nation's arrears. In September 2005, the DCSS sponsored an Arrears Management Roundtable, which looked at the performance of California compared to other States and examined options to reduce arrearages and increase child support collections.

- **Caseload Composition (CalWORKs vs. non-CalWORKs cases):** Child support collections are generally lower for families that have or are currently receiving CalWORKs, as the non-custodial parent is more likely to be low-income. California has a higher proportion of child support families that are current or former CalWORKs recipients than other states.

- **Lack of Universal Caseload Model:** Three states require all parents to make child support payments through the state's child support system. The Association indicates that states with universal caseloads are more cost-effective because they have more cases with higher orders that are more likely to pay voluntarily or via wage assignment.

Assistance Collections Declining. Although the budget anticipates that total collections will increase by 2.4 percent, assistance collections are expected to decline by 6.7 percent. Assistance collections, which have been declining since 2000-01, reflect payments from non-custodial parents that are redirected to the state and federal government to repay past welfare costs. The department indicates it does not yet know why assistance collections are declining.

Extend the Compromise of Arrears Program (COAP). The Compromise of Arrears Program (COAP) was established in 2003-04 to offer reduced lump sum settlements to parents in exchange for their commitment to make ongoing payments. This program is also intended to reconnect families estranged due to unresolved child support payments. The budget proposes $520,000 ($177,000 General Fund) to maintain 6.5 of 9 expiring limited-term positions for the COAP, and trailer bill language to extend the sunset date for COAP from June 30, 2006 to January 1, 2008. During the first six months of 2005-06, $8.9 million in arrears was approved for a COAP plan, $1.9 million was agreed to be repaid, and $905,000 was collected.

Questions:

1. DCSS, please explain why the state's performance is significantly lower than the national average. How does the Administration propose to improve the state's performance?

Recommendation: Approve the extension of the Compromise of Arrears Program.

DCSS Issue 4: Reports Due to the Legislature

Description: Two reports from the department that were due to the Legislature on January 10, 2006 have not been submitted.

Background: The 2005 Budget Act requested two reports from DCSS:

1. **Local Child Support Agency Administrative Cost Reporting.** As a result of 2005 Subcommittee discussions regarding LCSA funding and categorization of costs, the Legislative Analyst's Office recommended supplemental report language to require DCSS to report to the Legislature by January 10, 2006 on how local child support agency costs should be classified as program costs or administrative costs.

2. **Full Collections Program Cost Effectiveness.** In 2005 the Administration proposed to shift 168.5 positions from the FTB Full Collections program to DCSS. The Full Collection Program locates non-custodial parents who are delinquent in their child

support payments and locates and intercepts the assets of these individuals. At the time the department indicated that overall, collections reported by the Full Collections Program (FCP) have declined because local child support agencies have increased their wage attachment efforts. The wage attachment collections formerly reported through the FCP are now captured as basic collections under the Child Support Program Collections. As a result of 2005 Subcommittee concerns about the effectiveness of these positions, the Legislature adopted budget bill language requiring the department to report on the activities and cost-effectiveness of these positions by January 10, 2006.

Questions:

1. DCSS, please present the requested reports.

Recommendation: Eliminate 10.0 DCSS positions, and adopt placeholder budget bill language to restore the positions if the department submits the reports to the Legislature by November 1, 2006.

DCSS Issue 5: Local Child Support Agency Funding

Description: The Governor's Budget proposes to continue holding General Fund support for local child support agencies (LCSAs) flat at $740 million ($192 million General Fund) in 2006-07. Funding has remained at that level for a number of years, and LCSAs indicate that flat funding has reduced the rate of growth in child support collections. The Subcommittee may wish to consider a 5 percent funding increase for LCSAs, particularly as increased collections also result in increased reimbursements to the state for Assistance cases. A 5 percent increase for LCSAs would be $35.5 million ($12.1 million General Fund).

Background:

- **Local Child Support Agency (LCSA) Functions:** 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.

- **LCSA Funding Structure:** California provides baseline compensation to counties, on a statewide basis, at a level comparable to 13.6% of the estimated level of collections adjusted to reflect county expenditures and available General Fund resources. The DCSS 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 formula based on child support collections. Individual county allocations are generally based on historic county expenditures and vary across the state.

- **LCSA Staffing Reductions:** The Child Support Directors Association reports that state and local staffing has declined from 11,070 in 2001-02 to 9,319 in 2003-04, due to the lack of funding increases. Additional local positions may be eliminated or held vacant in 2006-07 as a result of flat funding.

  Funding to support LCSAs has been held flat for the past four years. The Association indicates that flat funding has resulted in an ongoing decline in the rate of growth of child support collections. The rate of growth in distributed collections has dropped from 8.7 percent in FFY 2001 to 1.8 percent in FFY 2005. This represents a 79 percent decline in the rate of growth over the last five years. The Association indicates that chief among the reasons for decline is the loss of approximately 1,800 child support positions over the past three years representing a 17.4 percent reduction in staffing. While automated systems are important, the Association notes that the single most important factor that contributes to the collection of child support is the ability of staff to work directly with a case.

  The Association indicates that LCSAs have also been called upon to provide significant resources to support the state in its effort to develop and implement CCSAS. At last count, nearly 200 child support employees are participating in various capacities to support the project. Only a small number of those staff positions are being reimbursed. Additionally, every county child support department is being required to expend resources around conversion and integration activities that are necessary for the successful implementation of the system. Unlike DCSS or FTB, LCSAs have been largely required to absorb the additional workload demands within their current allocation.

- **Continue Suspension of Health Insurance Incentives and Improved Performance Incentives Programs.** The budget proposes trailer bill language to continue the suspension of two programs, the Health Insurance Incentives and the Improved Performance Incentives programs, through 2006-07. These programs were part of the Child Support reform legislation passed in 1999. The Health Insurance Incentives program paid LCSAs $50 for each case for which they obtained third-party health insurance coverage or insurance for child support applicants or recipients. The Improved Performance Incentives program provided the ten best performing LCSAs with 5 percent of the amount they collected on behalf of the state for public assistance payment recoupments. The funding received by the LCSAs was required to be reinvested back into the Child Support Program. These programs were suspended for four years beginning 2002-03. The Department of Finance notes that LCSAs are required by DCSS regulations to seek third-party health insurance coverage as part of their normal business processes.

Questions:

1 DCSS, please present the Governor’s Budget for local child support funding.

Recommendation: Hold open.

DCSS Issue 6: Deficit Reduction Act of 2005 – Information Only

Description: The federal Deficit Reduction Act of 2005 made significant policy and funding changes for state child support programs. These changes will result in lost federal funds for the state, beginning in 2007-08.

Background: On February 1, 2006, Congress approved the Deficit Reduction Act of 2005, which included a number of policy and funding changes. The effective date of these provisions vary – for those that require state statutory changes, the Legislature must adopt statutory changes by 2007, and the provisions must become effective January 1, 2008.

Major changes that affect the state budget include:

- **Federal Incentive Payments.** Effective October 1, 2007, this Act would prohibit state child support programs from using federal performance incentive payments to draw down matching federal funds. In 2006-07 the budget anticipates $47 million in performance incentive payments from the federal government, plus $94 million in matching federal funds. Should this Act be approved, $47 million in additional General Fund spending would be required to avoid a funding reduction for the state's child support collection program.

  If the state does not backfill the lost funding, the Center for Law and Social Policy (CLASP) estimates that California would lose an estimated $827.1 million in federal funds over the next ten years, and approximately $1.7 billion in child support payments would go uncollected during the same period. Further, CLASP estimates the state could lose as much as $500 million in assistance collections over the next ten years (assistance collections are payments from non-custodial parents that are redirected to the state and federal government to repay past welfare costs).

- **Mandatory Fee for Non-Assistance Cases.** This Act would assess an annual fee on the state equal to $25 for most non-assistance child support cases. This fee would be deducted from the federal funds the state receives for program administration. The LAO estimates that this fee would result in $5 million in lost federal funds annually.

- **CalWORKs Disregard.** This Act would provide federal financial participation in the $50 income disregard for CalWORKs cases receiving child support. The state must currently reimburse the federal government for its 50 percent share of the amount passed through to the family. The LAO estimates this change would result in annual General Fund savings of $15 million.

Questions:

1. DCSS, please describe the provisions of the Deficit Reduction Act that will most significantly affect the state budget.

0530 Health and Human Services Agency, Office of Systems Integration

OSI Issue 1: Statewide Automated Welfare System (SAWS)

Description: The budget includes $257.9 million ($92.6 million General Fund) in 2005-06 and $228.6 million ($82.9 million General Fund) in 2006-07 for the Statewide Automated Welfare System (SAWS), which includes

Background: The Statewide Automated Welfare System (SAWS) automates the eligibility, benefit, case management, and reporting processes for a variety of health and human services programs operated by the counties: CalWORKs, Food Stamps, Foster Care, Medi-Cal, Refugee Assistance, and County Medical Services Program. SAWS includes four primary systems managed by local consortia, a statewide time-on-aid tracking system, and a statewide project management and oversight office.

Statewide Automated Welfare System
(dollars in millions)

		2005-06		2006-07	
Program	**Region**	**Total Funds**	**General Fund**	**Total Funds**	**General Fund**
LEADER	Los Angeles County (39% of caseload)	$24.0	$9.3	$25.5	$9.6
ISAWS	35 counties (13% of caseload)	$37.3	$14.6	$40.6	$16.0
C-IV	4 counties (12% of caseload)	$45.5	$15.9	$48.8	$17.1
CalWIN	18 counties (36% caseload)	$153.8	$56.4	$117.5	$44.0
WDTIP	Statewide time on aid tracking	$3.9	--	$3.9	--
Statewide Project Mgmt	Statewide project management and oversight	$6.2	$2.7	$6.4	$2.8
Total		**$257.9**	**$92.6**	**$228.6**	**$82.9**

LEADER: The Governor's Budget requests $25.5 million ($9.6 million General Fund) for the LEADER system, used by Los Angeles County. LEADER system implementation was completed on April 30, 2001. Due to the need for a more manageable, accountable, and comprehensive automation system, Los Angeles County plans to port the LEADER system to a SAWS-based system. Due to the unique needs of the county, and the difficulty of integrating Los Angeles County's business processes with other counties, the county would not join another county automation system consortium, but would adapt one of the systems used by other counties for Los Angeles County. This is anticipated to occur by April 2010. The Governor's Budget includes $2.8 million ($1.1 million General Fund) in 2006-07 (included in $25.5 million) for transition planning activities. Note that ongoing maintenance and operations costs for LEADER may increase in April 2007, as the current contract with the existing vendor expires at that time, and a new contract will be negotiated for April 2007 to April 2010.

ISAWS: The Governor's Budget requests $37.5 million ($14.7 million General Fund) for ongoing maintenance and operations of the ISAWS system. The budget also includes $3.1 million ($1.4 million General Fund) in 2006-07 for planning costs to migrate the 35 ISAWS counties to C-IV. The ISAWS system was completed in the early 1990's. Due to technology and functionality problems, including manual workarounds and a proprietary mainframe architecture, the ISAWS counties have evaluated options to migrate to another SAWS system. They have chosen to migrate to C-IV. Planning activities for ISAWS migration will begin in March 2006, and will continue through December 2007. One-time transition costs to migrate the ISAWS counties to C-IV are roughly estimated at $136 million. Once the transition to C-IV is complete, ongoing maintenance and operations costs for the 35 ISAWS counties are expected to decline by $10.8 million.

C-IV: The Governor's Budget includes $48.8 million ($17.1 million General Fund) for ongoing maintenance and operations of the C-IV system. C-IV began system development in 2001, and completed implementation in 2004. The budget requests $632,000 in additional maintenance and operations costs in 2006-07 for a vendor inflation adjustment and additional county support resources.

CalWIN: The Governor's Budget requests $117.5 million ($44 million General Fund) to continue implementation and operations of the CalWIN system. Implementation of this system began in Sacramento County in March 2005, and is expected to be completed by July 2006. Funding for 2006-07 includes one-time implementation costs of $60 million, and ongoing maintenance costs of $57 million. The 2006-07 costs are $21.8 million higher than previously anticipated. However, the budget also includes $25.8 million in legacy system savings due to discontinuance of the previously operated legacy system.

County Support Staff	$827,000
Help Desk Staff	$4,376,000
Local Telecommunication	$4,630,000
Print Charges	$10,388,000
Quality Assurance	$1,575,000
Total	**$21,796,000**

Note that the 2005 May Revision also added $25.1 million in additional funding for CalWIN implementation above the $128 million previously anticipated for 2005-06.

LAO Analysis: The LAO indicates no concerns with funding for SAWS except the CalWIN budget:

1. **Help Desk Staff.** The budget proposes to increase total county Help Desk staff from 127 to 195, at a cost of $4.4 million. The LAO notes that the information provided by the department does not reflect workload estimates and metrics, and that the appropriate staffing level cannot be determined without these kinds of metrics. The LAO recommends denial of this funding until real metrics are provided.

2. **Print Charges.** The budget requests $10.4 million for additional print charges, which include printing, sorting, stuffing, folding, and bulk mail charges. Note that some of these print costs are offset by legacy system savings. CalWIN produces significantly more client correspondence than the legacy systems, due to more consistent compliance with client notification requirements. In addition, CalWIN provides forms in 7-8 languages, and uses forms that meet Turner requirements for reading comprehension level and format simplicity. The LAO notes concern with the methodology used to calculate the printing costs, and has requested further justification. Without further justification, the LAO indicates funding may be reduced by $2 million total funds.

County Concerns About Workstation Replacement and Help Desk Staff: County welfare departments have expressed concern that the CalWIN budget does not include funding for a workstation replacement schedule, and does not provide adequate help desk staff to support county eligibility staff. Counties indicate that the Gartner Group, a nationally recognized independent information technology expert, recommends replacing computer workstations every three to five years. A number of workstations were installed in 2001-02 and will be five years old in 2006-07. Counties request $13.5 million ($4.5 million General Fund) in 2006-07 for workstation replacement and additional help desk hours. Note that funding for state operations workstation replacement is included in the standard OE&E funding allowance for state staff.

Questions:

1. OSI, please present the Governor's Budget proposal for CalWIN. What security measures are being taken to protect client data?

2. OSI/DOF, what is the state's policy on funding for workstation replacement?

3. LAO, please present your analysis on the budget for CalWIN.

Recommendation: Approve the Governor's Budget for SAWS, except for CalWIN. Hold CalWIN budget open.

5180 Department of Social Services (DSS)

DSS Issue 1: Community Care Licensing (CCL) Reform Proposal

Description: The budget requests $6.7 million ($6 million General Fund) and 80 new positions that would allow DSS Community Care Licensing (CCL) to complete required licensing workload and increase visits to facilities. Additional staffing is requested primarily to address a backlog of required visits, as well as to increase the number of random sample licensing visits from 10 percent to 20 percent annually. Trailer bill language to Other administrative and statutory reforms are proposed to improve the efficiency of the licensing program and increase client protections.

Background:

- **CCL Budget:** The budget includes $107.3 million ($25.2 million General Fund) and 1,111.9 positions for CCL in 2006-07. This represents a significant increase over the current year funding of $100.6 million ($18 million General Fund) and 1,033.9 positions. Approximately 15 percent of funding is for county licensing activities, and the remaining funding is for state licensing activities.

- **Facility Visits:** CCL licenses over 85,000 community care facilities across the state. These facilities have the capacity to serve over 1.4 million clients requiring different types of care and supervision. Licensees include childcare facilities, certified foster family homes, foster family agencies, residential care facilities for the elderly, residential care facilities for the chronically ill, adoption agencies, transitional housing, and adult day care. Licensing activities are primarily carried out by state staff, although some counties are responsible for licensing child care and foster family homes. CCL staff currently visit a randomly selected 10 percent of facilities annually, and visit all facilities no less than once every five years. At-risk facilities are visited at least annually.

  Historically, CCL was required to make annual visits to most types of facilities, and to visit childcare homes triennially. Budget reductions sustained by CCL during the 1990s significantly reduced the length and thoroughness of the required annual inspections. According to the department, annual inspections had become procedural in nature and focus. The visits were virtually announced as the department solicited information necessary to conduct the visit in the month preceding the inspection.

  Upon additional budget reductions, the department established priorities among its statutorily required activities. It prioritized the investigation of serious incident reports within the required 24-hour period. It also prioritized conducting site visits for complaint investigations within the required 10-day period. Annual or triennial visits became a lower priority. A workload analysis of the CCL conducted by an independent entity confirmed that department resources were insufficient to meet statutory requirements.

  The Budget Act of 2003 and its implementing legislation eliminated the required annual or triennial visits and instead required the department to visit annually the following facilities:

- Facilities owned or operated by a licensee on probation or against whom an accusation is pending;
- Facilities subject to a plan of compliance requiring an annual inspection;
- Facilities subject to an order to remove a person from a facility;
- Facilities that require an annual visit as a condition of federal financial participation such as facilities serving adults with developmental disabilities.

All other facilities are subject to an annual inspection based on a 10 percent random sampling method, **with each facility required to be visited at least once every five years**. The 2003 Budget Act changes also included an escalator clause to trigger annual visits for an additional 10 percent of facilities if citations increase by 10 percent or more.

The 2003-04 funding level for CCL was intended to provide enough staffing to achieve the 10 percent random sampling method, but did not provide sufficient resources to allow CCL to visit facilities at least once every five years – this would have required 20 percent of the facilities to be subject to random inspections, rather than 10 percent.

The Budget Act of 2005 included $1,140,000 General Fund for 14.5 positions to reflect caseload growth in the number of facilities licensed by CCL. In addition, the department began a series of management and operational reforms to improve the efficiency of the program:

- An aggressive hiring campaign to fill longstanding vacancies as a result of hiring freezes and salary savings.

- A new entry level licensing program analyst exam in May 2005, with a list available from which to hire beginning in August. This exam had not been given in over 15 years, and it generated a fresh pool of employees.

- Efficiencies in automation have begun, so that duplicate entry of visit information will no longer be required of field staff, thus freeing up time for more visits.

Facilities Licensed by DSS Community Care Licensing

Facility Type	**2002-03**	**2003-04**	**2004-05**	**2005-06**	**2006-07**
Family Child Care Homes	42,949	44,418	44,802	45,833	45,484
Child Care Centers	14,547	14,690	14,810	14,938	15,151
Child and Adult Residential	18,322	18,827	19,379	19,881	20,145
Certified Family Homes*	13,952	14,525	14,230	14,049	12,378
Total	**89,770**	**92,460**	**93,221**	**94,701**	**93,158**

*Note that Certified Family Homes are licensed by Foster Family Agencies, but complaints are investigated by CCL.

- **Recent Performance:** The department estimates it will complete 15,050 visits, or 112 percent of the required and random visits required in the current year under a 10 percent random sampling method. With the additional staff requested in the Governor's Budget the department estimates it will complete 5,100 visits, or 88 percent of the visits required in the budget year under a 20 percent random sampling method**. Despite the increase in visits, the department indicates it still has a backlog in the number of facilities it must visit in order to ensure that every facility is visited at least once every five years.**

  In addition, the number of citations issued by CCL in 2005-06 is expected to exceed the number of 2004-05 citations by 38 percent. This increase triggers the statutory escalator clause, requiring 20 percent of facilities be inspected in 2006-07.

Citations Issued by DSS Community Care Licensing

	2002-03	**2003-04**	**2004-05**	**2005-06***	**Increase from 2004-05 to 2005-06**
Type A Citations	35,599	27,553	25,574	34,204	33.7%
Type B Citations	30,638	18,037	18,249	26,530	45.4%
Citations Not Coded	466	346	310	266	-14.2%
Total All Citations	**66,703**	**45,936**	**44,133**	**61,000**	**38.2%**

* Estimated

  The overall number of citations may be affected by a variety of factors, including the overall quality of care provided in the state, the number of CCL visits made, the number of complaints, the number and type of facilities, and the number of residents or clients.

- **Caregiver Background Check Bureau:** The Caregiver Background Check Bureau (CBCB) in CCL enforces the requirement that all individuals who are licensed to operate community care facilities, provide care to facility clients, or reside at the facility location, receive a comprehensive background check. The background check is intended to ensure that individuals with criminal histories are thoroughly evaluated and/or investigated before they are allowed to have contact with clients. Approximately 250,000 persons are screened per year by the CBCB.

  Individuals are required to receive a fingerprint-based check of their criminal history from both the Department of Justice (DOJ) and the Federal Bureau of Investigation. The background check for individuals associated with children's facilities also includes a check with the Child Abuse Central Index maintained at the DOJ. If criminal history information indicates a conviction, the CBCB will evaluate the individual's history, the type of conviction received, the frequency and recentness of the convictions, and efforts made toward rehabilitation, to determine if the individual can be involved in a licensed facility. If an arrest is identified, the CBCB will independently investigate the circumstances of the arrest, and determine if the allegations can be substantiated according to licensing standards, to determine if the individual should be allowed to have contact with clients in a facility.

  If an individual is determined to be unsuitable, CCL will deny an associated license application, revoke or suspend an existing license, or exclude the individual. These actions involve the preparation of legal pleadings and the opportunity for the individual to have their case adjudicated before an Administrative Law Judge from the Office of Administrative Hearings. The DSS Legal Division represents DSS in such actions.

- **2006-07 Licensing Reform Proposal.** The budget requests $6.7 million ($6 million General Fund) and 80 new positions to complete required licensing workload and increase visits to facilities. Additional staffing is requested primarily to address a backlog of required visits, as well as to increase the number of random sample licensing visits from 10 percent to 20 percent annually. Other administrative and statutory reforms are proposed to improve the efficiency of the licensing program and increase client protections.

Increase Number and Quality of Facility Visits:

- **Increase Random Visits:** The budget requests 38 permanent positions to increase random visits from 10 percent of facilities to 20 percent each year.

- **Eliminate Backlog:** The budget requests 29 two and a half-year limited-term positions and $110,000 for overtime to eliminate the significant backlog in licensing visits. The department indicates that at the end of 2005-06 they will have a backlog of over 25,000 random visits to facilities. These visits are required by current statute, which requires facilities be visited at least once every five years. The backlog developed because the funding level authorized for CCL since 2003-04 was not sufficient to allow the department to comply with current statute. The Department indicates that the backlog will be eliminated by 2008-09.

	Est. 20% Random Visits Needed	Est. Random Visits Made	Est. Backlog (Diff Needed minus made)	Backlog Visits Made	% Backlog Visits Made
2003-04	13,568	3,392	10,176		
2004-05	13,568	5,427	8,141		
2005-06	13,568	6,783	6,785		
2006-07	13,568	13,568	0	10,041	40.0%
2007-08	13,568	13,568	0	10,041	40.0%
2008-09	13,568	13,568	0	5,020	20.0%
Totals	**81,408**	**56,306**	**25,102**	**25,102**	**100.0%**

- **Hire Staff:** The budget requests 1 one-year limited-term personnel position to assist with hiring the requested licensing positions.

- **Expand Training Academy:** The budget requests 5 permanent positions to operate a training academy to enhance field staff efficiency. The Central Training Section (CTS) is responsible for developing and providing standardized academic and on-the-job training to licensing staff in licensing procedures and program requirements. CTS also trains licensing staff in client-specific subject areas to familiarize them with the special needs of various client populations served. CTS is currently one analyst and one manager, sufficient to provide minimal one-week LPA workshops. Courses are not offered to supervisors and don't have subject specific materials or training on laptops. The enhanced CTS would initially provide training to new analysts, but would eventually also provide training to all analysts to improve statewide consistency. The department indicates it has hired 312 new Licensing Program Analysts since 2004.

Improve Background Check Process:

- **Share DSS Database with other Departments (TBL Issue 36)**: The budget requests 2.5 permanent positions to share the DSS database of excluded or abusive employees with other HHS departments. CCL currently maintains a database of individuals who were the subject of a previous administrative legal action resulting in revocation, denial, exclusion. This flagging system protects the health and safety of the public by ensuring that child molesters, sexual predators, elder abusers and other persons whose licenses have been revoked or who have been excluded from care facilities for serious misconduct do not get the subsequent license for, or obtain employment in, a care facility licensed by the CCL or counties. Because of the added protections this provides, this information should be shared with other HHS licensing programs.

  One of the requested positions would plan and coordinate the interface between the DSS database and other department databases. The remaining 1.5 positions would provide legal support to share information manually in the interim and perform the necessary research of detailed information.

- **Process Arrest Disposition Info from DOJ:** The budget requests 4.5 permanent positions in the Caregiver Background Check Bureau (CBCB) to handle information regarding convictions after arrest provided by the Department of Justice (DOJ). CCL is completing a contract with DOJ to receive information on the disposition of arrest cases. As a result, DSS will receive information on 8,500 individuals who have been convicted of a crime and who require an exemption to remain at a facility. The data link between DOJ and CCL will be tested in April 2006. Prior to the data link, CCL did not always receive full disposition information.

Provider Customer Service Improvements:

- **Integrated Fee Collection:** The budget requests $250,000 to contract for an integrated licensing/certification fee collection process. CCL charges various fees which are paid through the acceptance of personal checks, money orders, or certified bank checks. Apart from the pending acceptance of credit card payments, which is expected to benefit only 20% of consumers, CCL does not leverage technology or accept alternative forms of payments to make the payment process less burdensome for either the licensee or the department. CCL also proposes to integrate fee payments into online processes, such as initial application for licensure and scheduling a required orientation with the fee payment made at the same time.

  The Department's fee collection process consists of multiple processes by program area. With respect to receipts received from CCL, Cashiering and Accounting were staffed to process only 50,000 receipts per year, but receipts grew to 90,000 over the years because of a growth in the number of licensees. Projected receipts are expected to be 122,000 in 2006-07. This growth in transactions has resulted in late deposits, loss of interest revenue for the State, consumers unable to confirm the receipt of payment (especially in cases where their license could be in jeopardy), and audit exceptions.

- **Administrator Certification (TBL Issue 31):** The budget requests $115,000 to contract out administrator certification testing and grading functions. The budget also requests statutory changes to allow administrator certification fees to be adjusted to reflect this cost. CCL currently certifies administrators for Residential Care Facilities for the Elderly (RCFE), Adult Residential Facilities (ARF), and Group Homes (GH). CCL staff reviews and approves courses and instructors supplied by vendors who provide mandated training to initial and renewal applicants. CCL staff also perform on-site audits of courses in progress to ensure that they meet standards for content, length, and duration, and administer examinations, which initial applicants must pass prior to obtaining certificates.

- **No Additional Funding for Technical Support Program or Child Care Advocate**. Note that although many providers have cited the importance of the Child Care Advocate and Technical Support Program, the Governor's licensing reform proposal does not provide additional funding for these activities. Providers have observed that these programs provide preventive education, information, and clarification on licensing requirements, which helps prevent problems and improve compliance and quality of care. In some cases, further education is needed because providers may not know they are violating licensing requirements.

LAO Analysis:

The LAO has no concerns with the proposals to improve various administrative capabilities for CCL. However, the LAO indicates that because of its focus on inspection frequency, the Governor's proposal ignores gaps in the enforcement process, which is designed to ensure that facilities are either safe or if they are not, that they cease operation.

Inspection Frequency Is Only Part of the Picture. During 2005-06, CCL estimates that it will issue over 33,000 citations for violations that present an "immediate risk" to the health and safety of clients in facilities which it licenses. The CCL has the task of assuring the timely correction of these violations and taking enforcement action when necessary. The ability to inspect more frequently, as the Governor proposes, does not by itself improve safety, as discussed below.

Current Enforcement System

Enforcement Model. The CCL follows a progressive enforcement model to achieve compliance with regulations. This model begins with inspections and citation for violations, which must be corrected within a specified amount of time. Current law requires that civil penalties be levied when a provider fails to correct a serious violation. Repeat violations within a 12 month period also result in penalties. In cases where facilities chronically fail to comply with licensing officials, CCL management may initiate a noncompliance conference, where a "plan of compliance" is developed. This is an alternative to immediately pursuing legal action against the provider's license. If the provider does not comply after this, CCL seeks a legal action to either place the provider on probation, or revoke the license. Although progressive enforcement is the typical approach to compliance, a serious, substantiated complaint or incident report, which presents an immediate risk of harm, usually results in a Temporary Suspension Order, which immediately shuts down the facility, pending the results of a hearing.

Figure 5 illustrates the progressive enforcement model. The wide base of the pyramid represents the relatively large number of citations and inspections. The narrow top represents the relatively small number of license revocations. The levels in between are comprised of progressively more intensive enforcement actions designed to achieve compliance with regulation.

Figure 5

Community Care Licensing Enforcement Model

Civil Penalties. As shown in Figure 5, civil penalties are a central step in enforcing compliance with regulations, reflecting the consequences for failure to comply with licensing regulations. The details of civil penalty usage, including the amounts for each type of facility, circumstances and type of violation are defined in current law. Civil penalties are tiered in order to provide an increasing financial incentive to correct serious violations. Normally, penalties are assessed only after a provider has failed to correct a violation within a designated period of time. Penalties increase when serious violations are repeated twice within a 12 month period and again if a violation occurs in a third instance. In most cases, a penalty is levied as an amount per day until correction of the violation is achieved, providing an increasing incentive to correct the licensing violation. In some cases, statute requires that penalties be levied immediately with no correction time allowed. These instances include violation of background check requirements, operation of a facility while unlicensed, or if an individual in care becomes sick, injured or dies as a result of a deficiency.

Figure 6

Community Care Licensing Enforcement Gap

Problems With Enforcement System

As shown in Figure 6 above, the LAO finds that the current enforcement system of CCL contains a gap. This gap is the result of the following problems:

1. Although required by statute, CCL does not appear to fully utilize civil penalties with non-compliant licensed facilities.
2. Current law allows CCL to exempt a large proportion of child care facilities from civil penalties.
3. The licensing division does not collect the information necessary to track the number, type or instances in which civil penalties are used.
4. The nonexpiring license hinders the division's ability to collect penalties, overdue fees or to take action against licensees with a history of serious violations.

Problems 1 and 3 are discussed further by the LAO below. Problems 2 and 4 require further consideration by policy committees of the Legislature, and are not discussed further in this agenda.

Limited Usage of Civil Penalties. Although current law requires that facilities are subject to civil penalty assessment for specified violations, DSS does not have information about the number of civil penalties levied, the types of facilities most frequently penalized, or any data revealing the instances in which the penalties were levied.

In the absence of actual civil penalty data, the LAO developed an estimate of the amount of penalties that would likely be assessed during a year. Using actual data on violations, and conservative assumptions about the requirements for levying penalties, the LAO estimates that approximately $2.4 million would likely be levied in a year. Actual assessments (not collections) were about $1 million in 2004-05. Thus, the LAO believes that CCL is using this enforcement tool less than would be expected. The LAO estimate, along with anecdotal evidence that licensing analysts are inconsistent in applying penalties suggests that there is limited usage of this enforcement tool.

Legislature Needs More Data on Penalties. The LAO believes that data regarding the usage of civil penalties is important management information that DSS should have in order to make the best possible use of a primary enforcement strategy. Like statistics on inspection visits and citations, this information should also be available to the Legislature. Because civil penalties are levied primarily in response to chronic and serious violations, they also provide information about the level of compliance of licensed facilities. The LAO recommends that the CCL report at budget hearings on its plans to collect penalty information, the resources required, and an estimated timeline for such a project.

Currently, licensing fees are deposited in a special fund to allow additional oversight, and tracking of their volume. Given the lack of information about civil penalty assessment and collections, the LAO believes that placing civil penalties in a special fund would be a good first step in improving the availability of this kind of information. This would provide the Legislature with some insight into trends in enforcement and compliance.

LAO Recommendations:

1. Establish a special fund for the deposit of civil penalty collections from all facilities including family child care homes. In the absence of other data on civil penalties, such a fund will assist the Legislature in monitoring the amount of penalties and enforcement actions.

2. Adopt supplemental report language that requires DSS to report on the costs and benefits of developing the capacity to track the following enforcement data: (1) the number of civil penalties issued for noncorrection of violations and for repeated serious violations, (3) the number of noncompliance conferences held and, (4) the number of resulting probationary, and revocation actions taken against facility licenses.

Note: The proposed reporting language will be further discussed in Issue 2 below.

Questions:

1. DSS, please present the 2006-07 licensing reform proposal.

2. DSS, what factors are contributing to the significant (38%) increase in citations?

3. DSS, are other HHS departments also developing fee collection contracts? Could all HHS licensing fee contracts be combined to achieve economies of scale?

4. LAO, please present your analysis.

Recommendation: Approve the licensing reform proposal. In addition, adopt placeholder trailer bill language to clarify that the department shall conduct unannounced visits to at least 20 percent of facilities per year. This 20 percent requirement is consistent with the funding and staffing proposed in the Governor's Budget, as well as existing statute that requires facilities to be visited at least once every five years.

DSS Issue 2: Facility Information on the Internet

Description: Unlike skilled nursing facilities, information on the number and types of complaints and citations for community care facilities is not available to consumers on the internet, and reports comparing the performance of facilities are not available to the public or policymakers. The Subcommittee may wish to discuss the feasibility of making this information available to the public.

Background: Information on the number and types of complaints and citations for CCL facilities is available to the public, but generally only through an in-person visit or telephone call to a CCL district office. CCL staff must manually review a case file to determine the compliance history of a facility.

The department indicates that licensing data is contained within a number of connected data systems. These systems are connected, but not in such a way as to easily allow all data to be combined or queried.

California Advocates for Nursing Home Reform (CANHR) worked with the Department of Health Services to put nursing home facility compliance data on the internet. This effort took a number of years, and required extensive collaboration between the state, CANHR, and other organizations, but resulted in a database for consumers that has become a national model: http://www.nursinghomeguide.org/NHG/nhg_txt_home.lasso

CANHR has indicated a strong interest in working with DSS to put compliance information for Residential Care Facilities for the Elderly (RCFE) on the internet for consumers. Once the process is developed to put RCFE data on the internet, the department could work with other provider organizations to put the remaining facility compliance data on the internet.

As discussed in Issue 1 above, the LAO recommends that the Legislature adopt supplemental report language that requires DSS to report on the costs and benefits of developing the capacity to track the following enforcement data: (1) the number of civil penalties issued for noncorrection of violations and for repeated serious violations, (3) the number of noncompliance conferences held and, (4) the number of resulting probationary, and revocation actions taken against facility licenses.

Questions:

1. DSS, please describe what facility compliance information is currently available to consumers. Could this information be made available to consumers on the internet?

2. California Advocates for Nursing Home Reform, please describe how nursing home compliance data was put on the internet, and the feasibility of putting RCFE data on the internet.

Recommendation: Adopt placeholder trailer bill language requiring the department to submit a written plan to the Legislature by March 1, 2007 that outlines the system changes and options to provide compliance history and civil penalty information for CCL facilities to the public via the internet.

DSS Issue 3: Unallocated Reductions

Description: The 2005-06 Budget included an $8.7 million General Fund ongoing unallocated reduction for the Department of Social Services. The 2006-07 Governor's Budget proposes additional one-time unallocated reductions, although the DSS share of those reductions has not yet been provided.

Background: The 2005-06 Governor's Budget proposed a total of $150 million General Fund savings due to unallocated reductions in state operations budgets. This amount included $8.7 million General Fund unallocated reduction for DSS, a reduction of over 13 percent of their General Fund budget, and the largest percentage of any department. Although the Legislature restored $1.4 million, the Community Care Licensing portion of the reduction, the Governor vetoed that restoration, indicating that DSS had a significant number of positions to fill, and that achieving this savings would not adversely impact the critical services the department provides to our children and families. The total amount of unallocated reduction achieved in 2005-06 was $97 million statewide, including $8.7 million in DSS. The 2005-06 reduction for DSS was achieved by foregoing the price increase provided to all departments, reducing OE&E, and managing position vacancies.

The 2006-07 Governor's Budget proposes a one-time $50 million unallocated reduction in 2005-06 (in addition to the $97 million already achieved), and a one-time $100 million unallocated reduction in 2006-07. The Governor's Budget also proposes to reduce 2006-07 General Fund spending by $58 million, an amount equivalent to one percent of 2005-06 General Fund salaries and wages budget. The Administration proposes to achieve this savings primarily through vacancies. In addition, the Governor's Budget does not include funding for state employee health care cost increases. This would result in an estimated $2.4 million (total funds) in unfunded costs for DSS in 2006-07.

If the department must hold additional positions vacant in 2006-07 and future years to meet unallocated reductions, it is unclear how it will meet its statutory mandates. In addition, position vacancies make it more difficult for the department to provide sufficient oversight and leadership for complex, dynamic programs such as child welfare, foster care, IHSS, CalWORKs, Food Stamps, and Community Care Licensing, particularly during periods of significant risk of federal penalties for program performance in some programs.

Questions:

1. DSS, how have previous reductions been allocated, and how would future reductions be allocated?

Recommendation: Hold open.

SUBCOMMITTEE NO. 3 Agenda
Health, Human Services, Labor & Veteran's Affairs

Chair, Senator Denise Ducheny

Senator Wesley Chesbro
Senator Dave Cox

April 3rd, 2006

10:00 AM

Room 4203
(John L. Burton Hearing Room)

(Diane Van Maren)

Item	**Department**
4300	**Department of Developmental Services—*Selected Issues***

- **State Developmental Centers *(Selected Issues)***
- **Community-Based Services *(Selected Issues)***

PLEASE NOTE:

Only those items contained in this agenda will be discussed at this hearing. *Please* see the Senate File for dates and times of subsequent hearings.

Issues will be discussed in the order as noted in the Agenda unless otherwise directed by the Chair. 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.

Item 4300 Department of Developmental Services

A. OVERALL BACKGROUND

Purpose and Description of Department

The Department of Developmental Services (DDS) administers services in the community through 21 Regional Centers (RC) and in state Developmental Centers (DC) for persons with developmental disabilities as defined by 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 annually produces a Fact Book which contains pertinent data about persons served by the department. The eighth annual edition, released in November 2005 contains some interesting data, including the following facts:

Department of Developmental Services—Demographics Data from 2004

Table 1 **Age**	**Number of Persons**	**Percent of Total**	***Table 2*** **Residence Type**	**Number of Persons**	**Percent of Total in Residence**
Birth to 2 Yrs.	22,601	11.2%	Own Home-Parent	144,023	71.6 %
3 to 13 Yrs.	57,793	28.7%	Community Care	26,442	13.1%
14 to 21 Yrs.	33,697	16.8%	Independent Living /Supported Living	17,333	8.7%
22 to 31 Yrs.	28,365	14.1%	Skilled Nursing/ICF	8,783	4.4%
32 to 41 Yrs.	22,812	11.3%	Developmental Center	3,231	1.6%
42 to 51 Yrs.	20,298	10.1%	Other	1,239	0.6%
52 to 61 Yrs.	10,635	5.3%			
62 and Older	4,850	2.4%			
Totals	***201,051***	***100%***		***201,051***	***100%***

Summary of Governor's Proposed Budget Overall

The budget proposes total expenditures of $3.8 billion ($2.4 billion General Fund), for a *net* increase of $208.7 million ($155.6 million General Fund) over the revised current year. The proposed augmentation represents an increase of 5.7 percent over the revised current year.

Of the total amount, $3.1 billion ($2 billion General Fund) is for services provided in the community, $706.6 million ($383.4 million General Fund) is for support of the state Developmental Centers, and $37.3 million ($24.7 million General Fund) is for state headquarters administration.

Summary of Department of Developmental Services Proposed Budget

Summary of Expenditures (dollars in thousands)	**2005-06**	**2006-07**	**$ Change**	**% Change**
Program Source				
Community Services Program	$2,882,730	$3,098,476	$215,746	7.5
Developmental Centers	$713,295	$706,611	-$6,684	-0.9
State Administration	$37,659	$37,324	-$335	-0.9
Total, Program Source	$3,633,684	$3,842,411	$208,727	5.7
Funding Source				
General Fund	$2,250,684	$2,406,249	$155,565	6.9
Federal Funds	$56,377	$54,943	-$1,434	-2.5
Program Development Fund	$2,000	$2,003	$3	0.2
Lottery Education Fund	$489	$489	0	0
Developmental Disabilities Services	$232	$40	-$192	-82.8
Reimbursements: including Medicaid Waiver, Title XX federal block grant and Targeted Case Management	$1,323,902	$1,378,687	$54,785	4.1
Total Expenditures	$3,633,684	$3,842,411	$208,727	5.7

A. ITEMS FOR VOTE ONLY

1. Continuation of Habilitation Services Program Implementation & Monitoring

Issue. The DDS **is requesting to permanently establish a Community Program Specialist II position for expenditures of $87,000 ($70,000 General Fund).** The purpose of this position is to continue implementation and monitoring of habilitation services provided to consumers with developmental disabilities and to ensure that services are of high quality.

Specifically, the position will do the following:

- Providing consultation and technical assistance to 450 habilitation service providers in the areas of time studies, wage and hour requirements for both state and federal Commission on Accreditation of Rehabilitation Facilities (CARF) Accreditation, setting piece rates, job coaching, grant writing, and marketing;
- Monitoring service utilization and caseload accountability;
- Refining and maintaining habilitation services best practices protocols and training materials, as needed, for consumers and families, providers and Regional Center staff;
- Overseeing fiscal management and federal billing; and
- Coordinating with the 21 Regional Centers regarding habilitation services protocols and monitoring requirements.

Additional Background—Habilitation Services Program. Effective July 1, 2004, the Habilitation Program was transferred to the DDS from the Department of Rehabilitation. The Habilitation Services Program consists of (1) the Work Activity Programs (WAP) and Supported Employment Programs (SEP), both of which are entitlement services for people with developmental disabilities.

The DDS received a total of 14 positions to operate the program when the Department of Rehabilitation had used 29 staff (these positions were eliminated). The DDS was able to administer the Habilitation Services Program with fewer staff due to their ability to automate processes that DOR performed manually.

Included in the 14 positions the DDS received was a two-year limited-term attorney for legal assistance in writing and implementing regulations. However, the regulations were in process and the administration of the program needed less legal assistance and more development and implementation of monitoring processes. **As such, the attorney position was redirected to a Community Program Specialist II position to develop, manage and monitor quality assurance functions. This is the position which is being requested to be permanently established.**

In the transfer of the program, DDS developed and implemented a new billing and payment methodology for habilitation services. This included measuring outcomes from the delivery of habilitation services. **The ongoing implementation of this process is necessary to meet statutory and regulatory requirements.**

Subcommittee Staff Recommendation. It is recommended to approve as proposed. No issues have been raised.

B. ITEMS FOR DISCUSSION

State Developmental Centers

Summary of Background, Funding and Resident Caseload

Background. State Developmental Centers (DCs) are licensed and federally certified as Medicaid providers via the California Department of Health Services. They provide direct services which include the care and supervision of all residents on a 24-hour basis, supplemented with appropriate medical and dental care, health maintenance activities, assistance with activities of daily living and training. Education programs at the DCs are also the responsibility of the DDS.

The DDS operates five Developmental Centers (DCs)—Agnews, Fairview, Lanterman, Porterville and Sonoma. Porterville is unique in that it provides forensic services in a secure setting. In addition, the department leases Sierra Vista, a 54-bed facility located in Yuba City, and Canyon Springs, a 63-bed facility located in Cathedral City. Both facilities provide services to individuals with severe behavioral challenges.

Overall Summary of Funding and Resident Caseload. **The budget proposes expenditures of $706.6 million ($383.7 million General Fund), excluding state Headquarters' support, to serve 2,797 residents who reside in the DC system. This reflects a caseload decrease of 229 residents or 7.6 percent, and a net reduction of $6.7 million ($3.6 million General Fund) as compared to the *revised* current year.**

The net reduction of $6.7 million is *primarily* the result of a reduction in state staff due to the (1) continuing decline in resident population overall, (2) the pending closure of Agnews Developmental Center, and (3) an increase to establish an intensive behavioral treatment residence pilot project at Porterville Developmental Center.

According to recent DDS data, the average cost per person residing at a DC is about $236,000 annually. This figure varies across the DCs due to differences associated with resident medical and behavioral needs, overall resident population size, staffing requirements, fixed facility costs and related factors. In addition, due to the level of fixed costs at the DCs and the need to maintain minimum staffing levels, the cost per resident will continue to increase as the total resident population decreases.

The table below displays the continued transition from the DC model of providing services to a community-based model for providing services.

Developmental Center Residents *(Observed)*

Fiscal Year	DC Residents	Yearly Difference in Residents	Percent Decrease
2000-01	3,723		
2001-02	3,628	-95	-2.6%
2002-03	3,537	-91	-2.5%
2003-04	3,296	-241	-6.8%
2004-05	3,096	-200	-6.1%
2005-06 (Estimated)	3,026	-70	-2.3%
2006-07 (Proposed)	2,797	-229	-8.1%

1. Developmental Centers—*Baseline Adjustments*

Issue. The budget proposes total expenditures of $706.6 million ($383.7 million General Fund) to serve 2,797 residents who reside in the DC system. This reflects a caseload decrease of 229 residents or 7.6 percent, and a net reduction of $6.7 million ($3.6 million General Fund) as compared to the *revised* current year.

The *key* baseline adjustments are as follows:

- A reduction of $17.3 million ($9.6 million General Fund) due to projected caseload decreases (from 3,106 to 2,797 residents as of June 30, 2007). Of this amount, $13.4 million is attributable to a reduction of 175 Level-of-Care positions and $3.9 million is attributable to a reduction of 67 Non-Level-of-Care positions.

- An adjustment of Medi-Cal eligibility rate from 86.43 percent of residents to 85.23 percent of residents results in an increase of $3.8 million General Fund and a decrease of $3.8 million in reimbursements (federal funds received from the DHS for Medi-Cal).

- A decrease of $4.9 million (General Fund) which was a one-time only adjustment provided in 2005-06 to aggressively pursue settlement of existing worker's compensation claims through the compromise and release process thereby reducing the DDS' long-term liability.

The baseline adjustments for the DCs will be revised at the Governor's May Revision to reflect caseload, operating expenses and any adjustments related to the Agnews Developmental Center closure.

Subcommittee Staff Recommendation. It is recommended to adopt the proposed *baseline estimate* for the DCs, pending the receipt of the Governor's May Revision. All significant policy issues are discussed as individual issues below.

Questions. The Subcommittee has requested the DDS to respond to the following question.

1. **DDS,** Please provide a brief summary of the *baseline estimate* for the Developmental Centers.

2. Porterville Intensive Behavioral Treatment Residence

Issue. The DDS **is requesting an increase of $1.225 million (General Fund) and 14 positions at the Porterville DC to staff a new, self-contained Intensive Behavioral Treatment Residence (Residence) *within* the secure treatment area.**

This Residence would provide secure separation for up to 30 consumers who have been identified as the most dangerous to the rest of the secure treatment population. These consumers have extremely challenging and dangerous behaviors and generally require close supervision, including one to one staffing. The residence would provide the consumers an intense infusion of therapies.

There are two components to the proposal. *First,* 13 positions would be used to staff the Residence. The 13 positions would include: (1) ten Level-Of-Care Nursing, **(2)** a Psychologist, **(3)** a Social Worker, and **(4)** a Rehabilitation Therapist. The DDS states that these positions are needed to develop and provide specialized, therapeutic services to address root causes of antisocial or assaultive behaviors. **These staff would provide the following key assistance:**

- Crisis intervention and intensive training in the areas of anger management, medication management, training for court competency, and vocational skills acquisition;
- Escort assistance for consumers going to court and medical appointments;
- Psychological testing, assessments and therapy;
- Psychotherapy group sessions on substance abuse, victim awareness, interpersonal relationships, group socialization, classroom instruction for teaching consequences of behavior and sexual expression; and
- Physical activities, recreational services, and community re-entry skills.

The DDS states that the therapeutic emphasis for the residence would be acute but short-term in nature. The expectation is that a consumer would move back to the general secure treatment program residents within a one-year period of time, but always striving for less time.

Second, **a Clinical Director position is requested to specifically administer the secure treatment program (about 300 consumers)**. This position is requested due to increased workload attributed to the complexity of the secure treatment program overall, and the anticipated 96-bed expansion planned for Porterville. Presently there is only one Clinical Director who oversees both the general treatment area as well as the secure treatment program.

Specifically, the proposed new Clinical Director position would:

- Manage all the operations and activities necessary to open the proposed Intensive Behavioral Treatment Residence, including development of the residence, hiring and training of staff, the selection of the consumers, and development of the treatment services;
- Oversee program improvements, licensing issues, consumer movement between programs and related matters and
- Prepare for the 96-bed expansion of the secure treatment facility program at Porterville.

<u>Additional Background on New Intensive Behavioral Treatment Residence.</u> The proposed new residence would provide for **up to 30 consumers**. These consumers would be those who have been identified as the most dangerous to the rest of the secured treatment program clients and staff. The DDS states that separating this group of clients will provide safety and precautions for the rest of the secure treatment program. The residence to be used for this purpose is physically separated by a fence from the mainstream of residences within the secure treatment program.

<u>Overall Background on Porterville Developmental Center.</u> Through legislation enacted in 1999, Porterville is the designated DC for admissions of individuals with forensic and penal-code related offenses. A specific program—the secure treatment program—was established for this population at the facility.

Since the inception of the secure treatment program by the DDS, Porterville has become a facility with two distinct programs with different policies and procedures and different modes of treatment and operations. The general treatment area has increasingly aging and fragile consumers and has become more driven by medical and nursing issues. The secure treatment program is receiving more violent and dangerous individuals and has become increasingly more focused on complex legal, judicial and security issues.

There are presently about 300 clients in the secure treatment program. Of these individuals, about 146 have multiple charges against them (such as attempted murder, burglary, drug related crimes, sexual assault, grand theft auto, kidnapping and other crimes), and seven clients have spent time in prison. Clients are usually court-ordered to the facility (i.e., the secure treatment program side).

<u>Subcommittee Staff Recommendation.</u> It is recommended to approve the proposal as requested. A therapeutic program focused on amelioration of high-risk and dangerous behaviors, particularly behaviors that can place other consumers or staff at risk of harm or injury, seems reasonable.

<u>Question.</u> The Subcommittee has requested the DDS to respond to the following question.

1. **DDS, Please** provide a brief summary of the request and why it is needed.

3. Update on the U.S. Department of Justice Review of the DCs

Issue. In a January 4, 2006 letter to Governor Schwarzenegger, the U.S. Department of Justice, pursuant to the Civil Rights of Institutionalized Persons Act (CRIPA), notified California of their findings regarding an on-site inspection of Lanterman Developmental Center (Lanterman).

Specifically, the U.S. DOJ identified numerous conditions and practices at Lanterman that violate the constitutional and federal statutory rights of its residents. **In particular, they found that the residents suffer harm and the risk of harm from the facility's failure to: (1) keep them safe; (2) provide them with adequate training and associated behavioral and mental health services; and (3) provide them with adequate health care.**

In addition, they found that the DDS fails to provide services to certain Lanterman residents in the most integrated setting as required by the Americans with Disabilities Act.

Background on Lanterman DC. Lanterman is located in Pomona and has a consumer population of about 550 residents. The residents' diagnoses range from mild to profound mental retardation. Many of the residents have swallowing disorders, seizure disorders, ambulation issues, or other health care needs. A significant portion of the population is medically complex and requires assistance at mealtime and other frequent monitoring. About 30 percent of the residents have a diagnosis of mental illness and most receive one or more psychotropic medications.

The U.S. DOJ conducted their site review in October 2004.

The DDS states that no settlement agreement is in process.

Subcommittee Staff Recommendation. **No action is necessary at this time.** The existing Budget Bill requires the DDS to report to the Legislature on specific outcomes resulting from citations issued by the Department of Health Services, as well as findings of any other government agency authorized to conduct investigations or surveys of state development centers. This includes the U.S. DOJ investigations. As such, the DDS must *formally* report to the Legislature on these issues.

However it is suggested for the DDS to keep the Subcommittee informed of any key U.S. DOJ issues that arise over the next few months, including the results of any settlement negotiations.

Questions. The Subcommittee has requested the DDS to respond to the following questions.

1. **DDS**, Please provide the Subcommittee with a brief update on the status of the U.S. DOJ's findings and requirements.
2. **DDS**, Please discuss the key changes that have been made at Lanterman to address the findings, as well as changes which are still pending implementation, if any.
3. **DDS**, Is it likely that the U.S. DOJ will be reviewing other Developmental Centers?

## <u>4.	Restructuring of the Office of Protective Services--*Headquarters' & DC Items*</u>

<u>Issue.</u> The DDS is proposing **an overall increase of $1.4 million ($832, 000 General Fund) to fund positions at the DDS Headquarters' *and* at the Developmental Centers to continue with a restructuring of the Office of Protective Services (OPS) in order to address safety and security issues identified by the state Attorney General's Office (AG's Office) in a 2001 report.**

The budget also proposes to redirect 65 positions within the DC appropriation in an effort to clarify roles and responsibilities and to meet civil service requirements. The DDS is also seeking trailer bill legislation which is discussed below.

The DDS commenced with a restructuring of the OPS in 2002 based on the AG's Office report which made numerous recommendations on how the police, fire, and investigative services within the DC system should be fundamentally reconfigured. To commence with this restructuring, the DDS placed existing employees in managerial or supervisory roles on a temporary or acting basis. This was done to temporarily mitigate expenditure increases while addressing identified needs to make changes.

However, the DDS now recognizes that due to issues regarding civil service regulations, as well as the need to establish a permanent structure, budgetary changes are now required to formally reflect how positions are being used and to obtain additional resources.

Specifically, the proposal would do the following:

- *<u>Developmental Centers--$660,000 and 16 new Positions.</u>* **An increase of $660,000 ($380,000 General Fund) to support 16 new positions (10 of these are two-year limited-term positions) is requested for the DC system.** The 16 new positions would **include: (1)** 10 two-year limited-term Senior Special Investigators, and **(2)** 6 permanent Senior Special Investigators. In addition to the proposed increase, the budget request recognizes and applies a redirection of $503,000 ($297,000 General Fund) to fund these 16 new positions as shown in the table below.

Table—Summary of Developmental Center Request

Requested Positions	Total Cost	DDS Redirected Funds	Net Budget Request
16 new positions (10 limited-term)	$1.1 million	-$503,000	$660,000
65 redirected positions	$4.0 million	-$4.0 million	0
TOTALS 81 Positions	**$5.1 million**	**-$4.5 million**	**$660,000**

In addition the DDS is **redirecting 65 positions** to formally reflect how these positions are being used. These redirected positions would be from within existing resources. **The DDS states that these redirected positions have historically been redirected from a number of sources that have varied by location (different DCs) and changed over time, but include temporary help, salary savings from difficult-to-recruit classifications, overtime blankets and operating expense savings.**

It should be noted that of these 65 positions, **24 are for security guards at Porterville.**

These two adjustments would identify 81 additional positions for the OPS function at the local level (i.e., five DCs and two community facilities) for total resources of about 233 positions (at the local—"field" level). These 81 positions would be used to establish a Special Investigations Section and to restructure the Law Enforcement and Fire Services Branch *(See DDS Hand Out)*.

- *DDS Headquarters'—$752,000 and 6 new Positions.* **An increase of $752,000 ($452,000 General Fund) is requested to support 6 new, permanent positions.** The requested positions are as follows: **(1)** a Chief of Protective Services, **(2)** a Deputy Chief for Law Enforcement, **(3)** a Supervising Special Investigator II, **(4)** a Staff Services Manager I, and **(5)** two Associate Governmental Program Analysts.

  The AG's Office report stated that DDS needed to maintain its own law enforcement division and centralize OPS leadership at the DDS Headquarters. The prior lack of central command and control had resulted in confusing directives and inadequate oversight of investigations. As such, the DDS previously redirected $503,000 to headquarters for some positions to begin to address these issues. This redirection is proposed to be returned to the DCs (as shown in the table above).

  Key functions of the positions are as follows:

  - *Chief of Protective Services.* This position is responsible for establishing and implementing uniform practices consistent with DDS policies and procedures throughout the state and planning, organizing and directing OPS activities. This position has been temporarily filled using retired or contracted law enforcement personnel. DDS proposes to permanently establish the position at the Career Executive Appointment (CEA) II level which has been approved by the State Personnel Board.

  - *Deputy Chief of Law Enforcement.* This is a new position that would be used for the daily supervision and management of the seven OPS field offices at the DCs and community facilities. This position will make recommendations to the Chief relative to the development of policies, procedures and training involving sensitive criminal or administrative investigations of physical and sexual abuse, serious injuries and deaths of consumers, and safety and security risks.

  - *Supervising Special Investigator II.* This new position would be responsible for the daily supervision and management of the administrative and technical support functions including Internal Affairs investigations, Peace Officer background investigations and compliance with the Commission on Peace Officer Standards Training (POST). This position will also supervise the administrative support functions for the OPS, including labor relations, personnel, contracts and budgets.

  - *Staff Services Manager I.* This position is responsible for coordinating training, personnel, labor relations, budget and contract support for the OPS at the seven field offices. They will directly supervise four Associate Governmental Program Analyst positions and a Staff Services Analyst position.

- *Associate Governmental Program Analysts (two).* One of these AGPA positions would perform a variety of activities associated with personnel, fiscal and contract management. The other position would be used for training and POST compliance functions.

- *Proposed Trailer Bill Legislation (See Hand Out).* The DDS is seeking statutory change to amend Section 830.3 of the Penal Code to authorize the positions of Chief and Deputy Chief as Peace Officers. This change in law would *not* change the DC policy that prohibits staff from carrying firearms on the grounds.

Background—Office of Protective Services. The DDS Office of Protective Services (OPS) provides all law enforcement services in the DCs and in the two community facilities (Sierra Vista and Canyon Springs), including policy, security, fire protection and investigations into crimes against or harm to consumers , and crimes and administrative investigations involving employees.

Historically, the law enforcement functions within the DDS were decentralized within each DC. Investigators and police officers reported to certain managers, while fire services reported to other managers. Further, none of the managers had professional law enforcement training. According to the DDS, this resulted in limited oversight of law enforcement operations and reliance on poorly trained first-line policy supervisors and investigators.

At the request of Senator Chesbro, the AG's Office conducted a review of the DDS law enforcement function and issued a detailed report which among other things, made the following recommendations:

- Implement a professional law enforcement structure;
- Provide appropriate resources and equipment to support the structure;
- Address the backlog of pending investigations;
- Increase the number of trained supervisory personnel to support operations;
- Establish public safety policies and conduct ongoing training; and
- Track and analyze data.

In response to the recommendations, the DDS moved to restructure over 200 existing policy, investigation and fire personnel into a centrally-managed public safety function. **The DDS states that to implement the restructure, existing employees were placed in managerial or supervisory roles on temporary or "acting" basis to perform the duties generated by restructuring the law enforcement function. This continued for three years.**

Legislative Analyst's Office Recommendation. With respect to the 81 positions (i.e., 16 new and 65 redirected) for the DCs, the LAO recommends for the Legislature to not act on this proposal until the Lanterman DC CRIPA investigation has been resolved. The LAO contends that the U.S. DOJ may require the DDS to make changes to the OPS function and as such, this budget request maybe premature. It should be noted that the LAO did *not* take issue with the workload requirements or the level of the staff requested.

Regarding the DDS request for the 6 positions at Headquarters, the LAO recommends approval of only two—the Chief and Deputy Chief positions. The LAO states that the additional four requested positions go beyond what they believe to be necessary to establish a functional chain of command.

<u>Subcommittee Staff Recommendation.</u> The DDS is proposing these changes in order to respond to the AG's Office recommendations, as well as to more comprehensively address concerns regarding data tracking and analysis, the development of public safety policies, and implementation of more comprehensive employee training.

It is recommended to: <u>(1)</u> Approve the 81 positions (i.e., 16 new with 10 being two-year limited-term, and 65 redirected) for the DCs; **<u>(2)</u>** Approve the 6 new positions at DDS Headquarters but to make the two Associate Governmental Program Analyst positions two-year limited-term appointments; and **<u>(3)</u>** Adopt the proposed trailer bill language as provided.

<u>Questions.</u> The Subcommittee has requested the DDS to respond to the following question.

1. **DDS**, Please provide a brief summary of the request including a description of the revised structure to be used for both the DCs and Headquarters' Office of Protective Services.

<u>5. Unfunded Health Care Expenditures Equates to Unallocated Reduction</u>

<u>Issue.</u> Based on information obtained through the Department of Finance (DOF) by Senate Subcommittee No. 4, there are increases in the cost for providing health care services to state employees employed in specific personnel classifications, including many classifications employed at the Developmental Centers.

As part of the decision making process by the DOF, funds were not provided to departments for this increased cost. *Instead*, the DOF provided increased funding for operating expenses and equipment (often referred to as a "price" adjustment).

The estimated *unfunded* cost for the health care expenses is about $6.2 million ($3.1 million General Fund) for the Developmental Centers. The amount of funding provided for the "price" increase is about $3.8 million ($1.9 million General Fund). **Therefore a net decrease of $2.4 million actually occurs. In essence, this becomes an unallocated reduction because the DDS will need to make other adjustments to fund the increased health care costs.**

<u>Subcommittee Staff Comment.</u> Any form of "unallocated" reductions for 24-hour facilities, particularly facilities which serve people with intensive medical and behavioral needs, are simply unconscionable.

Most expenditures at the DCs consist of three core elements—(1) professional staff to provide services and supports to consumers, (2) operating expenses for food, clothing, medications and daily living commodities, and (3) plant operations, including the residences, kitchens and recreational areas. **As such, under funding increased labor expenditures such as health care costs, or not providing cost adjustments for operating expenditures, means that consumers are potentially placed at risk or harm.** Further, the state also places at risk the federal financial participation available through the Medi-Cal Program if a DC cannot meet standard certification requirements (which often pertain to staffing issues or placing consumers at risk).

Questions. The Subcommittee has requested the DOF to respond to the following question.

1. **DOF**, Is any consideration being made by the Administration to fund the increased health care expenditures? What about exempting 24-hour facilities from unallocated reductions?

6. Recruitment and Retention Differentials Effecting Developmental Centers *(Informational)*

Issue. Both the CA Department of Corrections and Rehabilitation (CDCR), and the Department of Mental Health (DMH) have recently received "recruitment and retention ("R & R") pay differentials for physicians and surgeons and specific nursing classifications. **These salary differentials appear to be having a ripple effect on the operations of the Developmental Centers (DCs). Specifically, the DDS is in the process of collecting data regarding increased staff vacancies in regions of the state that have either a State Hospital or state prison in the vicinity of a DC. At this time it appears that Sonoma DC, Porterville DC, and Sierra Vista (located in Yuba City) and possibly Canyon Springs (located in Cathedral City) may be having difficulties recruiting and maintaining staff.**

Background on Recent R & R Actions. In December 2005, the U.S. District Court (*Plata v. Schwarzenegger*) ordered the implementation of R & R differentials for physicians and surgeons and specific nursing classifications at all 33 state prisons to address high vacancy rates for these staff and inadequate health care services.

The Plata court order did not account for any consequences of the ruling upon other state agencies providing 24-hour care, including the DMH, DDS, and the Department of Veteran's Affairs.

As discussed in the Subcommittee's March 6th hearing regarding the DMH's State Hospitals, the Administration requested and the Joint Legislative Budget Committee (JLBC) approved, a current-year adjustment to provide R & R's for the State Hospital employees (i.e., equivalent staff for expenditures of $12.2 million). This was done because the DMH was experiencing an inability to recruit new candidates to fill vacant positions and was losing existing staff to the CDCR due to the level of salary compensation.

Subcommittee Staff Recommendation. The DDS should keep the Subcommittee informed regarding concerns with recruitment and retention issues involving DC staffing needs, and provide more detailed information when it becomes available.

Question. The Subcommittee has requested the DDS to respond to the following question.

1. **DDS,** Please present the information you have available regarding R & R concerns.

COMMUNITY BASED SERVICES

Background on Regional Centers and Consumer Trends

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 DDS notes certain demographics and key factors are appearing in the consumer population which the RCs serve including the following:

- Significant increase in the diagnosed cases of autism, the causes of which are not fully understood.
- Over 57 percent of the RC population is under 22 years of age. It is likely that medical professionals are identifying more developmentally disabled individuals at an earlier age.
- Over 70 percent of consumers now reside in the home of a parent or guardian, as compared to only 64 percent in 1994.
- Decreases continued in the proportion of consumers living in community care settings (i.e., out-of-home placement) and State Developmental Centers. Specifically, about 13 percent of consumers now live in a community care setting compared to 18 percent in 1994.
- Hispanics remain the fastest growing segment of the population increasing from about 24 percent in 1994 to about 32 percent in 2005. Over this same period, the white segment of the population decreased from 49 percent to about 42 percent.
- Improved medical care and technology has increased life expectancies for individuals with developmental disabilities.

Summary of Funding

The budget proposes expenditures of $3.1 billion ($2 billion General Fund) for community-based services, provided via the RCs, to serve a total of 216,565 consumers living in the community. This funding level includes $485.9 million for RC operations and $2.6 billion for the purchase of services, including funds for the Early Start Program and habilitation services.

The budget reflects a *net* overall increase of $215.7 million ($159.8 million General Fund), or 7.5 percent, over the revised current year. The General Fund adjustment represents an increase of 8.7 percent.

Most of the increase is attributable to (1) an increase in the based utilization of services by consumers, **(2)** a three percent rate increase for certain programs, **(3)** an increase of 8,345 consumers for 2006-07, and **(4)** an increase for RC operations**. Of the $215.7 million (total funds) proposed net increase, $115.8 million (total funds) is needed to support population increases and service utilization needs.**

Summary of Key Federal Fund Sources (Waiver and others)

Over the years the DDS has been successful in attaining the receipt of federal funds for community-based services. Unlike the state's Developmental Centers, which receive a 50 percent federal match for every $1 dollar of state General Fund expenditures, community-based services rely primarily on state General Fund support, along with certain limited federal funds, most notably the Home and Community-Based Waiver.

Under the Home and Community-Based (HCB) Waiver, the DDS is able to obtain federal funds for certain eligible consumers who are receiving RC-purchased services. Without these services, these eligible consumers would require the level-of-care provided in an Intermediate Care Facility. Enrollment in this Waiver is capped by the federal government at 75,000 eligible individuals as of October 1, 2006. The budget assumes receipt of about $696 million in federal funds from this source in 2006-07. These federal funds do require a state General Fund match (i.e., the match is 50/50 percent).

The budget also includes $203.9 million in federal Title XX Block Grant funds (i.e., Temporary Assistance for Needy Families) for RC services provided to consumers. These funds are available for RC expenditures for children under age 18 whose family income is less than 200 percent of federal poverty.

Another key area of federal funding is the Targeted Case Management Program. This program provides federal Medicaid (Medi-Cal) matching funds for case management services provided by RCs for specific consumer groups. There are about 133,000 Medi-Cal eligible persons in the RC system. The budget assumes receipt of about $251.7 million (federal funds) for this purpose.

<u>B. ITEMS FOR DISCUSSION</u>

<u>1. Agnews Developmental Center Closure—DC Resources & Community Resources</u> *(See Hand Out)*

<u>Issue.</u> The Governor's budget reflects various adjustments related to the Administration's closure of the Agnews DC. These adjustments are reflected in both the Developmental Center item, as well as in the Regional Center item of the Budget Bill.

The proposed adjustments are consistent with the Administration's updated plan provided to the Legislature on January 10, 2006, as required by statute. The Administration will be updating the Agnews plan at the time of the Governor's May Revision. As such, there will be changes to this January budget proposal. However the principal components of the Agnews plan will remain the same. No new policy proposals are proposed. No trailer bill language is being requested.

As shown in the <u>Hand Out</u> (second page), the budget proposes a *net increase* of $23.5 million ($15.9 million General Fund) over the revised current year for the closure of Agnews. This consists of a *decrease* of $6 million ($4.2 million General Fund) in the Developmental Centers to reflect the decline in the resident population, and an *increase* of $29.5 million ($20.2 million General Fund) for the Regional Centers. The adjustment in the Regional Centers is to provide for the placement and transition of Agnews residents into the community and the use of state employees from Agnews to provide services in the community.

It should be noted that the adjustments in the Developmental Center item *are contingent* upon the development of resources in the community to provide for the transition of consumers. As such, the May Revision will reflect adjustments as needed.

The net increase of $23.5 million ($15.9 million General Fund) for 2006-07 includes the following *key* adjustments:

- Reduces the Agnews Developmental Center baseline budget by $12.6 million (total funds) for total expenditures of $79.8 million in 2006-07.
- Provides $9.2 million (total funds) to fund 100 state employees from Agnews to work with consumers in community-settings. This reflects an increase of $6.9 million (total funds) over the revised current year. This proposal is consistent with statutory changes enacted last year.
- Provides a total of $42.1 million (total funds) for the RCs, including expenditures for the Purchase of Services and Operations, for community placement purposes, including program start-up, and consumer assessment and placement. This reflects an increase of $17.9 million (total funds) over the revised current year.
- Provides a total of $6.6 million (total funds) for other DC staff expenditures related to staff transition and training, consumer escort and assistance, and other related closure activities.
- Reduces by $13.2 million (total funds) to account for placements into the community. Most of these savings are attributable to reduced state staffing costs due to the closure.

- Reduces by $2.2 million (total funds) to capture the difference in costs of consumers living at Agnews and being transferred to another Developmental Center. This reflects the fact that Agnew's residential costs are higher than any other Developmental Center.
- Provides an increase of $365,000 for the preparation of Sonoma Developmental Center to receive up to 50 consumers from Agnews.
- Provides an increase of $525,000 for costs associated with relocating up to 50 consumers to DCs other than Sonoma.

Generally, the <u>RC Operations</u> resources are used for the following purposes:

- *<u>Resource Development:</u>* These are the positions needed to develop community living arrangements for consumers moving from Agnews into the community.
- *<u>Assessment:</u>* These are the positions needed to identify Agnew's residents ready for placement in community living arrangements (proper comprehensive assessment is critical).
- *<u>Placement:</u>* These are the positions used for placement activities (often more complex, unique placements are required).
- *<u>Crisis Service Teams:</u>* These are the positions for crisis services which include a behavioral team, a clinical team and an emergency response team.
- *<u>State Employees in Community:</u>* Clinical and Quality Assurance Teams comprised of Agnew's employees will be established to resolve crises, provide direct care staffing, train and provide technical assistance to new providers, collaborate with Regional Centers on enhanced quality assurance initiatives, and if necessary ("last resort"), directly operate a residential facility until such time as a private provider can be located. These employees have had long-term relationships with the transitioning consumers. These expenditures are being funded in the Developmental Center item.
- *<u>Consultant Services—Housing:</u>* The DDS is using consultant services from the Department of Housing and Community Development, California Housing Finance Agency and others to implement the requirements of AB 2100.

Generally, the <u>RC Purchase of Services (POS)</u> resources are used for the following: purposes:

- *<u>Resource Development:</u>* These expenditures are related to development of new facilities, new programs, and program expansion. This also includes housing corporation costs associated with increasing the stock of affordable Bay Area housing through purchase, rehabilitation or construction of real property.
- *<u>Assessment:</u>* This is individualized and comprehensive identification of consumer supports and services needs for stabilized community living.
- *<u>Placement:</u>* This is the phase-in of consumers to community settings based on consumer-specific information.
- *<u>Deflection:</u>* This is the placement POS for residential expenditures of facilities developed with current-year start-up to deflect admission from Agnews. These facilities are developed based on a comprehensive analysis of Developmental Center admission data, current trends in needed services specific to the Regional Center catchment area, and other local aspects.

Additional Background Information—Agnews DC Closure is Different. The Agnews DC Plan closure is different than the two most recent closures of Developmental Centers—Stockton DC in 1996 and Camarillo DC in 1997—both of which resulted in the transfer of large numbers of individuals to other state-operated facilities. In contrast, the Agnews Plan relies on the development of an improved and expanded community service delivery system in the Bay Area that will enable Agnew's residents to transition and remain in their home communities. The DDS proposes to achieve this by:

- Establishing a permanent stock of housing dedicated to serving individuals with developmental disabilities.
- Establishing new residential service models for the care of developmentally disabled adults.
- Utilizing Agnew's state employees on a transitional basis in community settings to augment and enhance services including health care, clinical services and quality assurance.
- Implementing a Quality Management System (QMS) that focuses on assuring that quality services and supports are available in the community.

The Plan provides for the development of new resources and innovative programs. **Key components are as follows:**

Housing Development: Through the use of $11.1 million (one-time) from the Budget Act of 2004 and the passage of AB 2100, Statutes of 2004, the DDS proposes to authorize the Bay Area RCs to fund predevelopment costs (escrow deposit, environmental impact, various fees and related matters) to establish a permanent stock of housing for individuals with developmental disabilities transitioning from Agnews. The Bay Area RCs will contract with a local non-profit housing coalition to administer the fund. Housing will be developed using a lease/purchase/donate model facilitated by the Bay Area RCs and the local housing coalition.

Family Teaching Home Model: AB 2100, Statutes of 2004, also added a new "Family Teaching Home" model to the list of residential living options. This new model is designed to support up to three adults with developmental disabilities by having a "teaching family" living next door (usually using a duplex). The teaching family manages the individuals' home and provides direct support when needed. Wrap-around services, such as work and day program supports, are also part of this model.

Bay Area Unified Community Placement Plan. The three Bay Area RCs (Golden Gate, San Andreas, and East Bay) have a unified plan for community placement whereby extensive individual assessment and person-centered planning is conducted. A regional approach (i.e., the greater Bay Area) is then taken for the planning and development of services and supports for individuals with developmental disabilities.

Pilot Projects for Adults with Special Health Care Needs. SB 962 (Chesbro), Statutes of 2005, directed DDS to establish a new pilot residential project designed for individuals with special health care needs and intensive support needs. This pilot is a joint venture with the Department of Social Services (DSS) and would serve up to 120 adults, with no more than five adults residing in each facility. This pilot is to be limited to individuals currently residing at Agnews.

Use of State Employees to Facilitate Transition. Existing statute enables the DDS to use up to 200 Agnew's employees to augment and enhance services provided in the community. These state employees will be used to provide direct care, resolve crises, train and provide technical assistance to new providers, and other functions. The employees will operate under special contracts between the state and either an RC or service provider. These arrangements would continue through 2009.

Subcommittee Staff Comment and Recommendation: It is recommended to adopt the Administration's adjustments for the DCs and RCs as proposed, pending receipt of the May Revision. No new policy changes are proposed and the fiscal assumptions are consistent with agreements adopted in the Budget Act of 2005.

Questions. The Subcommittee has requested the DDS to respond to the following questions.

1. **DDS,** Please provide **an update on the progress** of developing the community-based resources, including housing, Family Teaching Homes, the pilot projects for individuals with special health care needs, and the use of state employees in the community. **What key implementation concerns are arising?**
2. **DDS,** Is it likely that the Agnews DC closure date of June 30, 2007 will need to be modified?
3. **DDS,** Please provide a brief summary of the activities commencing at Agnews in preparation of closure, as they pertain to the budget request.

2. Autistic Spectrum Disorder Initiative (ASD) Expansion

Issue. The DDS is proposing to dedicate additional resources within both the Regional Centers and DDS Headquarters to more comprehensively meet the needs of consumers with Autistic Spectrum Disorders (ASD). **The proposed increase is a total of about $2.7 million ($2.660 million General Fund).** The purpose of this proposal is to **(1)** increase system capacity by expanding successful service models for ASD, **(2)** ensure quality of treatment services, and **(3)** disseminate accurate and meaningful information regarding ASD.

Specifically, these funds are proposed to be used as follows:

- *Regional Centers--$2.6 million.* An increase of about $2.6 million (General Fund) is proposed to fund RC Operations to provide staff resources and to fund specified projects. **With respect to RC staff resources, an increase of $1.8 million is proposed to provide two new positions—an ASD Clinical Specialist and an ASD Program Coordinator—at *each* of the 21 RCs. This level of funding assumes that the positions will begin as of January 1, 2007 (i.e., half-year funding is provided).**

  The RC Clinical Specialist position would perform the following key functions:
  - Assist RC case managers with clinical referrals and advise intake units on best practice guidelines for the screening, diagnosis and assessment of individuals with ASD;
  - Coordinate and manage the clinical application of best practice guidelines;
  - Provide technical assistance to local clinicians and service providers specializing in ASD; and
  - Participate in the ASD Learning Collaborative. (This project supports the efforts of RCs—nine presently—to join with other public agencies, service providers and advocacy groups to implement best practice recommendations for the screening and diagnosis of persons with ASD.)

  The RC Program Coordinator would perform the following key functions:
  - Serve as the primary point of contact at the RCs on ASD issues and be the critical link between families, and clinical professionals;
  - Coordinate referrals to local clinicians and service providers specializing in ASD;
  - Create a statewide network and exchange information on best practice and its practical application throughout the RC intake and service coordination process;
  - Provide support to RC case managers;
  - Serve as the liaisons to the local ASD Resource Center; and
  - Advise other local agencies such as schools, mental health agencies, child protective services and local law enforcement on ASD issues to ensure communication and service continuity.

  Of the remaining amount, $780,000 is *one-time only* and would be used as follows: **(1)** $80,000 to provide training to clinicians and other professionals to implement best practice guidelines for screening, diagnosis and treatment; **(2)** $350,000 to develop best practice guidelines for treatment and intervention; **(3)** $250,000 to develop best practice guidelines for interagency collaboration; and **(4)** $100,000 to establish state and regional ASD Resource Centers.

- *DDS Headquarters--$102,000 ($62,000 General Fund).* An increase of $102,000 (total funds) is requested to fund a new Senior Psychologist position who would, among other things, do the following:
  - Serve as a clinical resource to recruit and communicate with ASD experts in the field;
  - Review ASD documents to assure clinical accuracy; and
  - Identify and promote best practices for ASD;
  - Manage clinical materials pertaining to ASD for the field;

Presently the DDS Office of Clinical Services has a Senior Psychologist position. However the DDS contends that due to the need revolving around ASD issues, other work regarding significant system issues surrounding persons with mental retardation, Down Syndrome, and dual diagnosis (mental illness and developmental disabilities), an additional position to solely focus on ASD issues is warranted.

Background on Expansion of the Autistic Spectrum Disorder Initiative. ASD is a lifelong and substantially disabling neurological disorder that typically results in significant behavioral challenges, delays in social and emotional development, and cognitive challenges to the extent that judgment and self-care are limited. Individual treatment and intervention programs, with an array of specific treatments, must be constructed for each person with ASD.

RCs are presently working without the benefit of best practice guidelines for treatment and intervention. **The DDS notes that RCs and other service agencies are in need of these recommendations, as well as training, resource tools, and systematic mechanisms for collaboration to serve consumers with ASD and their families.** The diagnosis and assessment of individuals, and the intervention program management process, necessitates greater expertise and the collaboration of trained and knowledgeable staff.

The DDS states that about $210 million (total funds) is being expended annually to serve consumers with ASD. As the number of families affected by ASD increases, more will be searching for promising approaches to treatment and intervention. Since 1998, California's ASD caseload has doubled and this acceleration is predicted to continue to increase service needs and costs.

The DDS has already completed various activities regarding ASD over the years. These have included the following:

- Initiated a pilot ASD Learning Collaborative for RCs, special education, health providers and community-based professionals that serve the RCs. Nine RCs are now participating. This project supports the collaborative efforts of RCs to join with other public agencies, service providers and advocacy groups to implement best practice recommendations for screening and diagnosis of persons with ASD.
- Released two reports—in 1999 and 2003—regarding Autism in California to better inform families, RCs, researchers and policy-makers about ASD.

- Established a Director's Advisory Committee on ASD in 2001.
- Published a 180-page document regarding Best Practice Guidelines for Screening, Diagnosis and Assessment.
- Joined with UC Davis Medical Center to implement a rural telemedicine project to enhance mental health services for children with ASD in rural areas.

<u>Subcommittee Staff Recommendation.</u> It is recommended to approve the request. Based on the need to identify evidenced based resource development and the dramatic growth in the ASD population for the past several years, the request appears reasonable and warranted.

<u>Questions.</u> The Subcommittee has requested the DDS to respond to the following questions.

1. **DDS,** Please provide a summary of the proposal and why it is needed.

3. CA Developmental Disabilities Information System--$50 million Loss in Federal Funds

Issues: **Significant issues continue to swirl within the Administration regarding the implementation of the California Developmental Disabilities Information System (CADDIS).** The lack of implementation has led to the loss of at least $50 million in federal funds. Additional resources—potentially tens of millions in General Fund support—are likely to be needed to remedy the limitations of CADDIS or to construct an entirely new system. **The ability of the Regional Center system and the DDS to conduct core aspects of program operations, such as case management, provider reimbursement, and overall fiscal monitoring are directly affected by the failure to implement CADDIS or a similar information system.**

Due to continued delays in implementation, **California will lose over $50 million in federal funds over the next two-years (at least $19.9 million in 2005-06 and $31.8 million in 2006-07). The receipt of these federal funds could have been used to off-set General Fund support.**

Transportation services were added to the state's Home and Community-Based Waiver two years ago. Through this Waiver, the state is able to claim federal matching funds (50 percent level) for certain services provided to individuals with developmental disabilities. The loss in federal funds is because CADDIS is not operational. Specifically, CADDIS was supposed to be fully functional to capture this transportation billing information. However since it is unable to, the state continues to fund transportation services at 100 percent General Fund support.

The failure to implement CADDIS is also affecting implementation of the Self-Directed Services Model which was approved for expansion in the Budget Act of 2005. Under this model, consumers can choose services and supports from a comprehensive menu of options using a finite budget (90 percent of historical aggregate expenditures). **However expansion of this program has been linked to the roll-out of CADDIS. As such, the Self-Directed Services Model has been delayed in the current year.**

Department of Finance Required to Report to the Legislature on CADDIS via the Budget Act of 2005. At the request of the Department of Finance, and as agreed to by the Legislature, Budget Act Language was included in the Budget Act of 2005 to require **the DOF to report to the Legislature by October 2005 on its strategy to resolve problems on the CADDIS Project. In addition, a $2 million (General Fund) augmentation was provided to conduct the independent project review (at the request of the Administration).**

The DOF strategy was to include, but not be limited to, (1) identification of problems or issues on the project, and (2) actions, costs and timeframes broken out by budget year and future years to correct those problems or issues. The DOF was also to provide an "independent project review report" (done by a consultant.)

In October 2005 an independent project review report (prepared by "Information Integration Innovation & Associates, Inc.) was provided to the Legislature. However the DOF analysis of the report, as well as a strategy for resolution of problems has not yet been provided and it is unknown at this time when it may be provided.

It should be noted that the independent project review did identify serious concerns about completing CADDIS. The report did however recommend that CADDIS be continued as a project. However, to be successful, CADDIS has many more obstacles to traverse.

Continued Lack of Progress by Administration (See Hand Out) . In the most recent Monthly Status Report provided to the Legislature by the CA Health and Human Services Agency (CHHS), dated March 13, 2006, Equanim Technologies (provides independent project oversight) states that significant activities on the part of the DOF and CHHS Agency are required to determine project direction (page 1 of report). **Specifically, Equanim states that due to the uncertainty of the project direction and the current state of issues, a number of the project deliverables are awaiting approval until resolution or agreement on the issues.**

Page 5 of the report notes that there are presently *three categories* of system design concerns as follows:

- *Out of Scope from Current Contract.* There are **currently 59** of these which were classified in December 2005 as out-of-scope of the current contract (DDS with Deloitte Consulting). These issues are considered "critical to go live" (i.e., to fully operate system). These issues were provided to the DOF as part of a "go-forward plan" submitted by the DDS (which is still being discussed within the Administration).

- *No Cost.* There are **currently 72 issues classified as "no-cost" that Deloitte Consulting has agreed to resolve at no additional cost to the state.** According to the March Report, ten of the issues have been resolved and one of them is a duplicate**. However, the timeframe for resolving the remaining no cost design issues has not been established.**

- *Other Categories.* The remaining design issues represent everything else found to be a design issue. This includes lower priority issues which could be completed as system enhancements at a later date, as well as issues that are still being discussed to determine categorization and responsibility.

In their closing comments, Equanim Technologies offers recommendations to the Administration, including those listed below. It should also be noted that the Equanim contracted hours for certain project oversight responsibilities is ending in mid-March (See page 6 of report).

- Complete review and classification of all reported issues and annotate their classifications.
- DDS and Deloitte need to agree on the classification, definitions, and terminology of the issues in order to reach resolution of the issues.
- Confirm whether the project scope is correctly established and communicate this to the involved parties (the RCs, stakeholders and others).
- Track the progress of the no cost issues and validate that the work is being appropriately handled as "no cost" to the state.

Summary of Key Concerns from RCs. A CADDIS prototype has been in a testing phase at two Regional Centers (i.e., Inland and Valley Mountain). Various issues have been shared with the DDS regarding the testing and potential design changes. **In summary, key concerns are as follows:**

- The ability to pay vendors in a timely manner (system speed, additional processing steps, entry of attendance data) is a key problem;
- Ownership of the source code (not clear at this time if DDS owns or not) is critical for any future enhancements or changes;
- CADDIS is complex and business practices at the RCs will need to change in order to operate appropriately and efficiently;
- The report writer capabilities of CADDIS need to be improved; and
- If CADDIS proceeds, parallel testing (operating CADDIS and the legacy system) needs to be conducted to ensure accurate operations.

Additional Background—What is CADDIS? The California Developmental Disabilities Information System (CADDIS) **is an integrated case management and fiscal accounting system that is intended to replace two existing systems--the Uniform Fiscal System (UFS) and the San Diego Information System (SANDIS). Both of these systems were developed and implemented over 20 years ago.**

CADDIS is needed in order to obtain more accurate and necessary consumer data regarding needs and services, and in order to enhance the receipt of federal funds by meeting federal reporting requirements.

Since March 2002, DDS has contracted with Deloitte Consulting to develop and implement CADDIS. In the Budget Act of 2003, it was assumed that CADDIS would be operational by June 2004. In the Budget Act of 2004, this date was pushed back to December 2004. In the Budget Act of 2005, this date was pushed back to **May 2006. Now it is unknown if CADDIS will ever be implemented.**

The DDS notes that Deloitte has replaced its project management team and is in the process of expediting its work. The DDS is also in negotiations with the DOF (information technology section) and Deloitte regarding what actions can be taken to remedy the delays and improve the overall project.

Subcommittee Staff Comment. Subcommittee staff has requested a critical path chart from the Administration regarding CADDIS implementation, as well as a fiscal summary regarding options for problem resolution. The Legislative Analyst's Office has also made additional requests in an effort to better ascertain what options are available for problem resolution. **However, no comprehensive information has been forthcoming from the Administration, though the DDS has responded to issues regarding system progress and the pilot testing.** We have been advised by the Administration that the status of the CADDIS project is under review. But that is all.

Questions (continue to the next page):

1. DDS, What is the status of CADDIS implementation?

2. **DDS, What alternatives are there to CADDIS implementation and have cost analyses been conducted?**
3. **DDS, When will the Administration be providing information to the Legislature ?**
4. **DDS, Is there any other way that a federal match can be obtained for the transportation services, since these have been approved for reimbursement?**
5. **DDS, Can the expansion of the Self Directed Services Model proceed even though CADDIS is delayed?**

4. Governor Proposes Continuing Cost Containment From Prior Budget Acts
(See Hand Outs)

Issue: The Administration proposes to continue several cost containment actions that were enacted as part of the Budget Acts of 2003, 2004 and 2005. **These actions include the following:**

- *Delay in Assessment (RC operations) (-$4,500,000):* Through the Budget Act of 2002, trailer bill language was adopted to extend the amount of time allowed for the Regional Center's to conduct assessment of new consumers from 60 days to 120 days following the initial intake. **The Governor proposes to continue this extension through 2006-07 through trailer bill language. This is the same language as used in previous years.**

- *Non-Community Placement Start-Up Suspension (-$6 million):* Under this proposal, a Regional Center may not expend any Purchase of Services funds for the startup of any new program unless the expenditure is necessary to protect the consumer's health or safety or because of other extraordinary circumstances, and the DDS has granted authorization for the expenditure. **The Administration's proposed trailer bill language would continue this freeze through 2006-07**.

- *Elimination of Pass Through to Community-Care Facilities (-$4.3 million):* The SSI/SSP cost-of-living-adjustment that is paid to Community Care Facilities by the federal government is being used to off-set General Fund expenditures for these services for savings of $4.3 million ($2.6 million General Fund). (It should be noted that a 3 percent rate increase is being provided to CCFs as discussed below.)

Other cost containment actions which were implemented in prior Budget Acts are in the RC baseline estimate. These include the Family Cost Participation Program, previous unallocated reductions and an adjustment to the case manager to consumer caseload ratio change (i.e., from one manager to 62 consumers to the revised ratio of one manager to 66 consumers which is in effect until June 30, 2007).

Subcommittee Staff Recommendation: It is **recommended to continue the above cost containment items as proposed by the Governor, pending the receipt of the May Revision.** The longer period for the RCs to conduct intake and assessment activities though not ideal, has been manageable.

With respect to the startup of new programs, funding would be provided to protect consumer's health and safety or to provide for other extraordinary circumstances as approved by the DDS. Again, though not ideal, core services and supports have been maintained.

Questions: The Subcommittee has requested the DDS to respond to the following questions.

1. **DDS,** Please briefly describe the proposal and why the Administration wants their continuation into the budget year.

<u>5. Governor's RC Contract Language for Expanded Cost Containment *(See Hand Out)*</u>

<u>Issue.</u> The Governor is proposing substantial policy changes by modifying the state's contract with the Regional Centers (all 21). **This administrative action is being proposed in lieu of statutory changes via trailer bill language since the Legislature has rejected similar proposals for the past four years.**

The budget proposes two adjustments to reflect this proposal. ***First*, the budget proposes an augmentation of $7.6 million General Fund to expand RC Operations related to controlling consumer's Purchase of Services expenditures for services and supports.** Specifically, $6 million of this augmentation would be **used to hire 65 positions**, with the remaining amount being used for administrative purposed, including office rent and mediation services for dispute resolutions (i.e., due to increased disputes).

Second, it assumes a reduction of $14.3 million ($10.6 million General Fund) for the Purchase of Services by having the RCs apply new restrictions on consumers at the time of their Individual Program Plan (IPP) development or scheduled review. An individual's IPP is to be reviewed no less than once every three years. As such, the budget assumes that one-third of the consumer's would have their plans reviewed each year. **As noted in the table below, full implementation would be achieved in 2008-09.**

Table: Summary of Governor's Reduction's to RC Purchase of Services

Fiscal Year and Cumulative Effect	Reduction To Services (Total Funds)	Proposed General Fund Savings
2006-07 One-third of population is reviewed.	$14.3 million	$10.6 million
2007-08 Continue 2006-07 savings and review next one-third of population.	$28.6 million	$21.1 million
2008-09 Continue 2006-07 and 2007-08 savings and review next one-third of population.	$42.9 million	$31.7 million

The Governor's proposed Purchase Of Services requirements and their anticipated component savings are as follows:

- *<u>1. Vendor Selection Based On Lowest Cost:</u>* The cost of providing services by different vendors, if available, would be reviewed by an RC and the least costly vendor who is able to meet the consumer's needs, as identified in the consumer's IPP, would be selected. This provision is assumed to save $25.4 million ($18.4 million General Fund) on an annually basis.
- *<u>2. Statement of RC Services:</u>* RCs would annually provide the consumer or their parent/guardian a statement of RC purchased services and supports. This statement would include the type, unit, and cost of the services and supports. This provision of the guidelines is

intended to serve as a validation that the described services and supports are indeed being provided to the consumer by the designated vendor. This guideline is intended to save $6.4 million ($4.6 million General Fund) annually when fully implemented.

- *3. Directs RCs to Adhere to Existing Laws and Regulations In Purchasing Services:* RCs would be directed to establish internal processes to ensure that (1) their staff is following all laws and regulations when purchasing services and supports for consumers, and (2) other services, such as generic services provided by other agencies in the community, are pursued and used prior to authorizing the expenditure of RC funds for consumers. It is anticipated that $6.4 million ($4.6 million General Fund) in savings would be obtained annually when fully implemented.

- *4. Services to a Minor Child:* Under the Governor's proposal, legislation would be enacted to require RCs to take into account the family's responsibility for providing similar services to a minor child without disabilities when determining which services or supports would be purchased by the RC for the child. It is assumed that $2.7 million ($2.4 million General Fund) would be achieved annually when fully implemented.

- *5. RC Clinical Review:* RCs would be required to have a clinician review all requests for certain services and supports prior to the RC authorizing their purchase for the consumer. This review would pertain to certain supplemental program supports, assistive technology and environmental adaptations, behavioral services, specialized medical or dental services, and therapeutic services. The Administration assumes savings of $1 million ($800,000 General Fund) annually when fully implemented.

- *6. Use of Group Modality:* RCs would be directed to give preference for purchasing a service or support using a group modality, in lieu of an individual intervention, if a consumer's needs, as identified in their IPP, could be met using a group modality for the following services: Behavioral Services, Social and Recreation Activities, and Non-Medical Therapy Services. This provision is assumed to save about $1 million ($885,000 General Fund) annually when fully implemented.

Background—Individualized Program Plan (IPP): The provision of services and supports to consumers is coordinated through the Individualized Program Plan (IPP). The IPP is prepared jointly by an interdisciplinary team consisting of the consumer, parent/guardian/conservator, persons who have important roles in evaluating or assisting the consumer, and representatives from the Regional Center and/or state Developmental Center. Clinicians or others are to be involved in the IPP process when needed to complete the IPP.

Services included in the consumer's IPP are considered to be entitlements (court ruling).

In addition, 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. This is intended to be reflected in the IPP process.

Constituency Concerns: The Subcommittee is in receipt of numerous letters opposing the Governor's additional cost containment strategies. Of particular concern is: **(1)** the "assault" on the IPP process; **(2)** the belief that the proposals violate federal Medicaid "freedom of choice" protections provided under the Home and Community-Based Waiver, and **(3)** the belief that the state's quality assurance obligations under the Home and Community-Based Waiver would be violated.

It is unclear at this time whether the DDS has existing legal authority to administratively enact all of their proposed changes through contract language. As such any administrative action would most likely result in litigation.

Subcommittee Staff Recommendation. It is recommended **to reject the Governor's proposal**. The net General Fund effect of this action would be an increase of about $3 million (i.e., eliminate the augmentation of $7.6 million for RC staff and restore the reduction of $10.6 million (General Fund) to the Purchase Of Services item. **This proposal has been denied by the Legislature for the past four years. Further, it is likely to result in litigation.**

Questions. The Subcommittee has requested the DDS to respond to the following questions.

1. **DDS**, Please provide a brief summary of the proposal.

6. Three Percent Rate Increase for Specified Providers

Issue. The budget proposes **an increase of $67.8 million ($46.1 million General Fund) to provide for a 3 percent rate increase for specified programs for which the DDS sets rates.** These programs include Community Care Facilities, Day Programs, habilitation services programs, respite agencies, voucher respite programs, supported-living, transportation and look-alike Day Programs. These programs have been subject to provider rate freezes for several years.

Services and supports *excluded* from the proposed 3 percent increase are those whose rates are established through the "Schedule of Maximum Allowances" (determined by the DHS under the Medi-Cal Program) and those whose rates are "usual and customary".

The table below displays each of the categories of service that would receive the three percent rate increase. **Further, the DDS is proposing trailer bill language which would limit any rate increase in 2006-07 to only three percent, including those services under direct contract with RCs, unless it is necessary to protect a consumers' health or safety.**

Purchase of Services Provider Category	Total Cost of 3 Percent Rate Increase (2006-07)	General Fund Amount (2006-07)
Community Care Facilities	$23.8 million	$14.1 million
Day Programs	$23.6 million	$14.3 million
Habilitation Services	$3.7 million	$2.9 million
Transportation	$5.4 million	$4.2 million
Supported Living	$7 million	$4.2 million
Look-Alike Day Programs	$4.8 million	$3.5 million
In-Home Respite	$3.6 million	$2.9 million
Total	**$67.8 million**	**$46.1 million**

The DDS believes that a 3 percent rate increase is needed to maintain continuity of services and promote provide stability. It should be noted that a total of 46 programs have recently closed. The DDS notes that a few technical adjustments will need to be made at the May Revision, including the inclusion of Out-of-Home Respite in the rate increase.

Legislative Analyst's Office Comment. The LAO believes that policy legislation should be enacted to require the DDS to incorporate measurements of quality and access to specific services into the rate-setting methodologies that it develops for RC services.

Subcommittee Staff Recommendation. It is **recommended to adopt the three percent rate increase, *pending the May Revision,* and placeholder trailer bill legislation to provide the rate increase and to freeze payments at the increased level (i.e., no program can receive more than a three percent adjustment as provided).** Subcommittee staff is presently working with the Administration to modify the proposed trailer bill language to make it more succinct.

Questions. The Subcommittee has requested the DDS to respond to the following questions.

1. **DDS,** Why was a three percent increase determined (i.e., why not 5 percent or some other percentage)?
2. **DDS**, May additional increases be considered at May Revision?

7. Increased General Fund Costs Due to Delays in ICF-DD Certification by DHS

Issue. Due to delays by the Department of Health Services (DHS) in licensing and certifying Intermediate Care Facilities for the Developmentally Disabled (ICF-DD), the DDS must utilize General Fund resources to fully support these services which are otherwise funded using 50 percent federal funds from the Medi-Cal Program. **As such, an increase of $2 million (General Fund) is proposed to fund the gap in timing until the DHS conducts the necessary surveys in order for the state to then draw federal Medicaid funds.**

The DDS states that the DHS has been taking from 6 months to one year to certify ICF-DD facilities due to DHS staffing shortages. As such, the DDS musts provide funding so individuals with developmental disabilities can remain in new ICF-DD programs pending certification in the Medi-Cal Program. (The ICF-DD programs are state licensed, just not certified for Medi-Cal to receive the federal match.)

Subcommittee Staff Recommendation. It is recommended to **(1)** adopt placeholder trailer bill language to require the DHS to certify ICF-DD facilities as a priority, and **(2)** delete the $2 million (General Fund). The Administration needs to utilize its resources more effectively to ensure that the state is addressing the needs of the Olmstead Decision, the Agnews DC closure, and the prudent use of General Fund resources. Further, the DHS was provided 6 additional positions in 1997 which were suppose to be exclusively dedicated to licensing and certification functions related to facilities that serve consumers.

It should also be noted that the Administration has submitted a proposal to significantly increase the number of staff within the DHS Licensing and Certification Branch. With this proposed increase, it is reasonable to require them to certify ICF-DD facilities as a priority. (This DHS issue will be discussed in a later Subcommittee hearing).

Questions. The Subcommittee has requested the DDS to respond to the following question.

1. **DDS,** Has the DHS provided the department with any further information as to how they can be more responsive in certifying ICF-DD facilities?

LAST PAGE OF AGENDA

Outcomes Subcommittee No. 3: Monday, April 3rd (Department of Developmental Srvs)
(Use this document in tandem with the Subcommittee Agenda for the day.)

A. ITEMS FOR VOTE ONLY

1. Continuation of Habilitation Services Program Implementation & Monitoring

- **Action**. Approved as proposed.
- **Vote**. 3-0

State Developmental Centers

1. Developmental Centers—*Baseline Adjustments* (PAGE 6)

- **Action**. Approved as proposed, pending May Revision.
- **Vote**. 3-0

2. Porterville Intensive Behavioral Treatment Residence (PAGE 7)

- **Action**. Approved as proposed.
- **Vote**. 3-0

3. Update on the U.S. Department of Justice Review of the DCs (PAGE 9)

- **Action**. DDS is to keep the Subcommittee informed.

4. Restructuring of the Office of Protective Services--*Headquarters' & DC Items* (PAGE 10)

- **Action**. Approved as proposed, including the trailer bill language.
- **Vote**. 3-0

5. Unfunded Health Care Expenditures (PAGE 13)

- **Action**. Directed the DOF to consider making adjustments at May Revision because it becomes an unallocated reduction otherwise.

6. Recruitment & Retention Differentials Effecting Developmental Centers (PAGE 14)

- **Action**. Directed the Administration to consider making adjustments at May Revision since CDCR and DMH have already received adjustments and the position classifications are the same.

COMMUNITY BASED SERVICES (and Regional Centers)

B. ITEMS FOR DISCUSSION

1. Agnews Developmental Center Closure (PAGE 17)

- **Action.** Approved as budgeted, pending receipt of May Revision.
- **Vote.** 2-1 (Senator Cox)

2. Autistic Spectrum Disorder Initiative (ASD) Expansion (PAGE 21)

- **Action**. Approved as proposed.
- **Vote**. 3-0

3. CA Developmental Disabilities Information System--$50 million Loss (Page 24)

- **Action.** **(1)** Senator Cox requested specific cost information to be provided. (The Administration needs to provide this information to all Members of the Subcommittee, as well as Subcommittee staff), and **(2)** Senator Ducheny, Chair, directed the Administration to provide information *before* the May Revision and scheduled the DDS to appear before the Subcommittee on April 24th to provide an update on the status of the Administration's options and recommendations.

4. Governor Proposes Continuing Cost Containment From Prior Budgets (Page 28)

- **Action.** Agreed with the budget proposals to continue the delay in assessments (from 60 days to 120 days) and the elimination of the SSI/SSP pass through to Community-Care Facilities. This action included the adoption of the applicable trailer bill language for these two items. The Subcommittee left "open" the elimination of non-community placement start-up funding pending the receipt of the May Revision.
- **Vote:** 3-0

5. Governor's RC Contract Language for Expanded Cost Containment (Page 29)

- **Action.** Rejected the *entire* budget proposal.
- **Vote:** 2-1 (Senator Cox)

6. Three Percent Rate Increase for Specified Providers (Page 32)

- **Action.** Approved the 3 percent rate increase, including *placeholder* trailer bill language, pending receipt of the May Revision.
- **Vote:** 3-0

7. Increased General Fund Costs Due to Delays in ICF-DD Certification by DHS

- **Action.** Deleted the $2 million (General Fund) amount and adopted placeholder trailer bill legislation to require the DHS to certify ICF-DD facilities as a priority.
- **Vote:** 3-0

SUBCOMMITTEE NO. 3 Agenda
Health, Human Services, Labor & Veteran's Affairs

Chair, Senator Denise Ducheny

Senator Wesley Chesbro
Senator Dave Cox

April 17th, 2006

11:00 AM

Room 4203
(John L. Burton Hearing Room)

(Diane Van Maren)

Item	Department
4280	**Managed Risk Medical Insurance Board—*Selected Issues***
4260	**Department of Health Services—*Selected Issues***

- **Medi-Cal Program Issues related to Healthy Families**
- **Medi-Cal State Support Issues**
- **Public Health—Selected Issues**

PLEASE NOTE:

Only those items contained in this agenda will be discussed at this hearing. *Please* see the Senate File for dates and times of subsequent hearings.

Issues will be discussed in the order as noted in the Agenda unless otherwise directed by the Chair. 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. 4280 Managed Risk Medical Insurance Board

A. OVERALL BACKGROUND

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

Overall Governor's Proposed Budget. The budget proposes total expenditures of $1.2 billion ($379.7 million General Fund, $732 million Federal Trust Fund and $105.6 million in other funds) for all programs administered by the Managed Risk Medical Insurance Board. This funding level represents a net increase of $126.9 million ($49.7 million General Fund) over the revised current-year. The net increase is due to changes in the Healthy Families Program as discussed below.

Summary of Expenditures (dollars in thousands)	**2005-06**	**2006-07**	**$ Change**	**% Change**
Program Source				
Major Risk Medical Insurance Program (including state support)	$45,973	$42,003	-$3,970	-8.6
Access for Infants & Mother (including state support)	$118,237	$115,409	-$2,828	-2.4
Healthy Families Program (including state support)	$915,717	$1,055,638	$139,921	15.3
County Health Initiative Program	$10,436	$4,204	-$6,232	59.7
Totals Expenditures	**$1,090,363**	**$1,217,254**	**$126,891**	**11.6**
Fund Sources				
General Fund	$329,972	$379,662	$49,690	15.0
Federal Funds	$643,628	$731,959	$88,331	13.7
Other Funds	$116,763	$105,633	-$11,130	9.5
Total Funds	**$1,090,363**	**$1,217,254**	**$126,891**	**11.6**

B. ITEM FOR "VOTE ONLY"—Managed Risk Medical Insurance Board

1. Access for Infants and Mothers (AIM) Program—Program Estimate

Issue. A total of $114.5 million ($50.5 million Perinatal Insurance Fund and $63.9 million federal funds) is proposed for AIM in 2006-07. This funding level reflects a reduction of $2.9 million (total funds) over the revised current-year. This reduction is due to the transition of the program as referenced below. **No changes to the development of the fiscal calculations are proposed.**

A total of 12,137 women and 8,304 second-year infants are expected to utilize AIM.

Additional Background Information. The Access for Infants and Mothers (AIM) Program provides health insurance coverage to women during pregnancy and up to 60 days postpartum, and covers their infants up to two years of age. Eligibility is limited to families with incomes from 200 to 300 percent of the poverty level. Subscribers pay premiums equal to 2 percent of the family's annual income plus $100 for the infant's second year of coverage.

As of July 1, 2004, infants born to AIM women are automatically enrolled in the Healthy Families Program (HFP) at birth. Infants born during 2004-05 to AIM mothers who enrolled in AIM prior to July 1, 2005 will remain in AIM through two years of age. Therefore, infant enrollment is declining and shifting to the HFP. This is because infants will age out of the AIM Program at two years old while no new infants will be enrolled after July 1, 2004, unless the AIM mother was enrolled prior to that date. **Therefore, the AIM Program is transitioning to focusing only on pregnant women and 60-day post partum health care coverage.**

Subcommittee Staff Recommendation. It is recommended to approve this baseline budget pending receipt of the Governor's May Revision. **No issues have been raised.**

C. ITEMS FOR DISCUSSION—Managed Risk Medical Insurance Board

1. Healthy Families Program—*Baseline Program and Caseload Estimate*

Issue. A total of $1.047 billion ($377.2 million General Fund, $659.6 million Federal Title XXI Funds, $2.2 million Proposition 99 Funds, and $8.1 million in reimbursements) is proposed for the HFP, excluding state administration. This reflects an increase of $138.7 million ($50.5 million General Fund), or 15.3 percent over the revised current-year.

The budget assumes a total enrollment of 933,111 children as of June 30, 2007, an increase of 105,813 children over the revised current year enrollment level or a growth rate of 12.8 percent. This projected enrollment level reflects a higher growth trend primarily attributable to **(1)** proposed modifications to the enrollment process; **(2)** increased funding for outreach; and **(3)** a proposed incentive plan for the Certified Application Assistance Program. **Each of these issues will be discussed below individually.**

Total enrollment is summarized by population segments below:

- Children in families up to 200 percent of poverty: 643,746 children
- Children in families between 201 to 250 percent of poverty: 211,631 children
- Children in families who are legal immigrants: 17,689 children
- Access for Infants and Mothers (AIM)-Linked Infants 14,149 children
- New children due to restoration of Certified Application Assistance 33,496 children
- New children due to modifications in the enrollment process 12,400 children

Overall Background on the HFP. The Healthy Families Program (HFP) provides health, dental and vision coverage through managed care arrangements to uninsured children (through age 18) in families with incomes up to 250 percent of the federal poverty level, who are not eligible for Medi-Cal but meet citizenship or immigration requirements.

The benefit package is modeled after that offered to state employees. Eligibility is conducted on an annual basis.

In addition, infants born to mothers enrolled in the Access for Infants and Mothers (AIM) Program (200 percent of poverty to 300 percent of poverty) are immediately enrolled into the Healthy Families Program and can remain under the HFP until *at least* the age of two. If these AIM to HFP two-year olds have families that exceed the 250 percent income level, then they would no longer be eligible to remain in the HFP.

Table: Summary of Eligibility for Healthy Families Program

Type of Enrollee	Family Income Level	Comment
AIM infants (born to AIM mothers)	200 % to 300 %	Up to 2-years only, if above 250 %. Otherwise, through age18.
Children 1 to 5 years of age	Above 133% to 250%	Children this age who are under 133% are eligible for Medi-Cal.
Children 6 years up through age 18.	101 % to 250%	Children this age who are 100% and below are eligible for Medi-Cal.
Some children enrolled in county "healthy kids" programs. (AB 495 projects)	250% to 300%	State provides federal S-CHIP funds to county projects as approved by MRMIB.

Families pay a monthly premium and copayments as applicable. The amount paid varies according to a family's income and the health plan selected. Families that select a health plan designated as a "community provider plan" receive a $3 discount per child on their monthly premiums.

The Budget Act of 2004 and accompanying trailer bill language increased the premiums paid by higher income families effective as of July 1, 2005. Specifically, as of July 1, 2005, families with incomes between 200 percent and 250 percent of poverty will pay $12 to $15 per child per month (currently it is $4 to $9 per child). The family maximum per month will be $45 (currently it is $27 per family) for these families.

Families below 200 percent of poverty pay premiums ranging from $4 to $9 per child per month, up to a family maximum of $27 per month. This premium level has not changed.

California receives an annual federal *allotment* of Title XXI funds (federal State-Children's Health Insurance Program) for the program for which the state must provide a 35 percent General Fund match. The federal allotment slightly varies contingent upon appropriation by Congress. This is *not* a federal entitlement program.

Legislative Analyst's Office Recommendation—Caseload Estimate is Over Budgeted. The LAO believes that the MRMIB has over estimated the level of funding required to fund the HFP caseload based on recent enrollment data.

In the LAO Analysis released in February, the LAO recommended a reduction of $40 million ($14 million General Fund) from the HFP budget. However since this time, the LAO has received new HFP caseload data and believes the reduction should be even higher. **As such, the LAO will be reviewing the Governor's May Revision estimate for both the current-year and budget-year to see what exact adjustments may be warranted.**

Subcommittee Staff Recommendation. It is **recommended to direct the LAO to review caseload information at the time of the Governor's May Revision when updated caseload information for both the current-year and budget-year will be available.** Therefore, it is recommended for the Subcommittee to adopt the baseline budget pending receipt of the May Revision.

Questions. The Subcommittee has requested the MRMIB to respond to the following questions.

1. MRMIB, Please provide a brief summary of the request, highlighting the caseload aspect.

2. Trailer Bill Language—Eliminate Potential for Duplicative Enrollment
(See Hand Out for Trailer Bill Language)

Issue. The MRMIB is proposing to make several changes regarding the linkage between the Access for Infants and Mothers Program (AIM) and the Healthy Families Program (HFP). **These changes would require a *one-time time* only augmentation, as well as statutory changes proposed through trailer bill legislation.**

First, a *one-time only* increase of $300,000 ($105,000 General Fund) is requested for the Administrative Vendor to make system changes. The purpose of this HFP system change would be to eliminate the potential for AIM-linked infants to be enrolled in either the no-cost Medi-Cal Program or private insurance, as well as in the HFP.

Once implemented the proposal is to result in *annual savings* to the state of about $951,000 ($333,000 General Funds). These savings would come from not enrolling infants into the HFP who are already enrolled in no-cost Medi-Cal or employer supported insurance. It is assumed that system changes would be effective as of July 1, 2007 (i.e., next fiscal year).

The proposal would also expedite HFP enrollment for infants born to AIM mothers by allowing MRMIB to redirect a portion of the AIM subscriber contribution to the HFP account and to apply this money towards the infant's HFP premium for a period of HFP enrollment.

The Administration is proposing trailer bill legislation to amend the HFP and AIM statutes to make the above referenced changes. Specifically, the proposed trailer bill legislation would do the following:

- Identify AIM-linked infants who are enrolled in no-cost Medi-Cal or employer sponsored insurance at the time of registration (and therefore not eligible for the HFP);
- Enable the MRMIB to assess an additional HFP subscriber contribution as part of the AIM subscriber contribution and require that this portion of the AIM subscriber contribution be used as *pre-payment* of the HFP premium for an AIM-linked infant's initial enrollment into the HFP; and
- Provides for the transfer of the above contribution from the mother's AIM account to the child's HFP account.

According to the MRMIB, over 20 infants each month are enrolled in the HFP as AIM-linked infants ***and*** also are enrolled in no-cost Medi-Cal. As such, California and the federal governments may be paying twice for the coverage of these infants. In addition, it is unknown how many AIM-linked infants are enrolled in employer sponsored health care coverage, since the current enrollment process does not require the disclosure of this information. **Therefore, the MRMIB is recommending the Administrative Vendor system changes and trailer bill legislation to prevent dual enrollment (i.e., in the HFP and Medi-Cal or employer sponsored coverage) and to clarify the subscriber payments.**

<u>Additional Background on AIM and HFP Relationship.</u> The Budget Act of 2003, and accompanying trailer bill legislation, provided for the automatic enrollment of infants into the HFP when born to AIM mothers who were enrolled in AIM on or after July 1, 2004 (i.e., AIM-linked infants). This action was proposed by the Administration because the contract costs in AIM were increasing steadily and the cost for providing health care services for the infants would be less in the HFP than in AIM. Prior to this change, AIM infants were eligible for AIM up to the age of two years.

Currently, AIM requires an enrollee to pay 1.5 percent of her household income as the family contribution towards the cost of participation in AIM. To enroll the infant born of this pregnancy in the HFP, an additional $15 premium payment is required. According to the MRMIB, the requirement for a separate HFP premium can lead to delays in enrollment of the infant. Under current law MRMIB does not have the authority to charge an AIM subscriber for care provided to her child in the HFP, which is a separate program.

<u>Subcommittee Staff Recommendation.</u> No issues have been raised by Subcommittee staff or the Legislative Analyst's Office. It is recommended to adopt the trailer bill language.

<u>Questions.</u> The Subcommittee has requested the MRMIB to respond to the following questions.

1. **MRMIB,** Please provide a brief summary of the proposal, including the request for one-time funding and the trailer bill legislation.

3. Proposal to Streamline HFP Enrollment Process *(See Hand Out for Trailer Bill Language)*

Issue. The MRMIB **is proposing trailer bill language and two budget adjustments to modify the HFP enrollment process. Each of these pieces is discussed below. Generally, these proposals do not change any program requirements. Instead they place emphasis on getting applicants enrolled by shifting requirements to *post-enrollment* instead of *pre-enrollment.***

First, trailer bill language and program regulation changes are proposed that would modify the HFP enrollment process to ***discontinue*** requiring applications to **(1)** submit a premium at the time of the HFP application, and **(2)** make a plan selection at the time of initial HFP application. ***Instead*, HFP applicants would pay their premium upon actual enrollment into the program and would have up to three months to choose a health care provider**. Under this new enrollment process if no immediate health plan choice is made, the default would be to place the child into the community-based plan with the option to change to another plan within three months.

Second, **an increase of $9.5 million ($3.4 million General Fund) is proposed for local assistance to support an increased caseload of 12,400 children and the associated costs for children who are anticipated to enroll earlier in the program due to the enrollment processing changes.** This increased amount includes $9.1 million in expenditures for payments to health, dental and vision plans, and about $400,000 for Administrative Vendor processing.

Of the $9.1 million amount for health, dental and vision plan payments, about $3.9 million would be for new enrollments. The remaining $5.6 million is the estimated costs for children who would enroll earlier.

***Third*, an increase of $91,000 ($32,000 General Fund) is requested to hire an Associate Governmental Program Analyst on a *two-year limited-term* basis to implement changes to the HFP processes. Specifically, this position would do the following key activities:**

- Develop regulation changes necessary to implement the changes to health plan selection and premium collection at initial application;
- Make revisions for the auto-assignment of health plans and coordinate system changes and testing;
- Coordinate with the Administration Vendor (presently Maximus), DHS, CHHS Agency and others on the implementation plan and schedule for expanding the use of Health-e-App;
- Develop and implement ad hoc reports for monitoring the effect of changes; and
- Develop and maintain monthly progress reports on implementation activities, prepare Board presentations, attend biweekly progress meetings.

***Fourth*,** the MRMIB proposes to expand the availability of the **"Health-e-App",** a web-based application that is now only available through Certified Application Assistants and some counties. **This action would not involve any additional expenditure since the existing Administrative Vendor contract requires them to absorb any systems costs associated with a Health-e-App expansion.** No statutory changes are required for this action either. The

MRMIB notes that the Health-e-App has been relatively successful in that 64 percent of all initial applications filed using it are successfully enrolled, versus only 50 percent for those sent in using the mail-in application.

Subcommittee Staff Recommendation. It is **recommended to approve the proposal, including the trailer bill language.** The proposed changes will provide for increased enrollment with only minimal administrative costs.

It should be noted that though the Health-e-App is a useful tool, it does not serve as a screening device for the more complex Medi-Cal enrollment categories such as disability-linked Medi-Cal and the 1931 (b) family Medi-Cal program. It does however serve as a useful tool for screening children for the federal poverty level programs (such as the 100 percent program and the 133 percent programs) prior to enrollment into the HFP. (Federal law states that Children's Health Insurance Programs, the Healthy Family Program in California, are to be used for those children not eligible for Medicaid and who are citizens.)

Questions. The Subcommittee has requested the MRMIB to respond to the following questions.

1. **MRMIB**, Please provide a brief summary of the request, including both the proposed trailer bill language and the two components of funding.

4. Certified Application Assistance Fees for the HFP *and* Medi-Cal Program

Issue. The **budget proposes several adjustments regarding the use of Certified Application Assistants (CAA) and the payment of fees for their assistance. Under the CAA approach, a $50 fee is paid for each person successfully enrolled in the HFP or Medi-Cal, and a $25 fee is paid for each annual eligibility redetermination enrollment.** The CAA approach ended in 2001 due to fiscal constraints; however this funding was restored through the Budget Act of 2005.

The budget adjustments include the following proposals:

- ***Continue Baseline CAA's Payment Program.*** The budget proposes **an increase of $11.8 million** ($4.9 million General Fund) to **continue** to provide the $50 fee and $25 fee, as described above, to the CAA's. This represents an increase of $5.4 million (total funds) over the revised current-year. It is assumed that about 59 percent of the new applications, or about 33,496 enrollees, will be completed via the CAA payment program (based on past experiences).

- ***New Incentive Payments for CAA's.*** An **increase of $2.5 million ($1 million General Fund) is proposed to create a new incentive program for CAA's.** To be eligible for an incentive payment, a CAA would need to increase the number of their assisted applications by 20 percent over their prior quarter applications. The incentive payment would be 40 percent of the total payments made in the qualifying quarter.

- ***Increased HFP Enrollees Due to CAA Payments.*** The budget **reflects an increase of $26.7 million ($9.7 million General Fund) to support an additional 33,496 children who are assumed to be enrolled into the HFP due to the continuation of the CAA payment program.** It should be noted that this increased caseload has all been attributed to the continuation of the baseline CAA payment program.

- ***Federal Funds in Medi-Cal.*** CAA payments are also provided under the Medi-Cal Program in the same manner as in the HFP. The General Fund amount for these payments is budgeted under the HFP, as noted above, and a portion of the federal funds for these payments is budgeted within the Medi-Cal Program. **A total of $2.9 million** (federal funds—Title XIX Medicaid) is included for this purpose. **Of this amount, (1)** $1.2 million (federal funds) is for the baseline CAA payment program to provide for 4,032 applications per month, and **(2)** $1.7 million (federal funds) is for the new incentive CAA program to provide for 4,113 applications per month.

The *baseline* CAA payment program has a demonstrated record of effectiveness, in that each payment signifies the successful enrollment of a beneficiary in these programs. The use of CAAs can also reduce state workload for the processing of program applications and appeals of denials of enrollment. According to the MRMIB, there are presently about 1,500 enrollment entities representing about 6,000 active CAAs.

Legislative Analyst's Office Recommendation—Delete New Incentive Proposal. The LAO recommends **denying the portion of the request regarding a new incentive payment program for CAAs for savings of $2.5 million ($1 million General Fund)**. They believe that establishing a new incentive program when the existing CAA payment program was just restored last year is premature. The LAO also states that it is unclear as to why additional incentive payments would be necessary given that the baseline CAA payment program has proven to be effective.

Subcommittee Staff Recommendation. Subcommittee staff concurs with the LAO. The baseline CAA payment program has been effective and was only restored last year. It is recommended to ***delete*** **the new incentive payment program for CAA component of this proposal for savings of $2.5 million ($1 million General Fund).**

Questions. The Subcommittee has requested the MRMIB to respond to the following question.

1. **MRMIB,** Please provide a brief summary of the request, including the baseline CAA payment program, the proposed incentive program and the estimated caseload increases.

<u>5. Proposed Allocations for County Outreach for Medi-Cal *and* Healthy Families</u>
(Local Assistance) (See Hand Out for Trailer Bill Language)

<u>Issue.</u> The budget **proposes two adjustments to local assistance expenditures to implement a county-based outreach, enrollment and retention program (County Allocation Program), including *extensive* trailer bill legislation.**

First, **an increase of $19.7 million ($8.5 million General Fund and $11.2 million federal funds) is proposed for local assistance to allocate to *selected* counties to partner with public and private community organizations for outreach, streamlined enrollment, and retention efforts.**

Under the Administration's proposal, *most* of the $19.7 million (total funds) would be allocated to 20 counties who have the highest weighted value as calculated by the DHS. This weighed value calculation would be based on both the number of eligible but not insured children (to address enrollment) residing in the county and the Medi-Cal/Healthy Families caseload for children (to address utilization and retention) residing in the county. The table below shows this proposed allocation.

Table—DHS Proposed Allocations and Methodology for Top 20 Counties

County	Weighted Value	Allocation Percentage	Allocation Amount (Rounded)
Los Angeles	481,226	36.8%	$6.325 million
Orange	110,371	8.4%	$1.450 million
San Diego	110,226	8.4%	$1.448 million
San Bernardino	98,917	7.6%	$1.300 million
Riverside	86,189	6.6%	$1.132 million
Fresno	51,821	4.0%	$682,000
Sacramento	50,885	3.9%	$669,000
Alameda	40,307	3.0%	$530,000
Kern	38,650	3.0%	$508,000
Santa Clara	36,483	2.8%	$479,000
San Joaquin	29,165	2.2%	$383,000
Tulare	26,852	2.0%	$353,000
Stanislaus	22,428	1.7%	$295,000
Ventura	22,310	1.7%	$293,000
Monterey	19,490	1.5%	$256,000
Contra Costa	18,069	1.4%	$237,000
Santa Barbara	17,788	1.4%	$234,000
Merced	16,481	1.3%	$217,000
San Mateo	15,778	1.2%	$207,000
San Francisco	14,145	1.0%	$186,000
Total	**1,307,590**	**87.3 %**	**$17.185 million**

The remaining amount—about $2.5 million—would be allocated by the DHS to remaining counties who (1) have applied for the funding, and (2) can demonstrate they have an established coalition for children's outreach and enrollment that has been in place for at least 12 months. After reviewing county applications, plans and budgets, the DHS would expect to allocate these funds to about 5 to 10 counties (maximum amount of $250,000 to $300,000).

Under the DHS proposal, counties are to partner with a broad range of public and private community organizations to perform outreach, streamlined enrollment, retention of health care coverage, and appropriate utilization of health care.

Second, extensive trailer bill language is being proposed for implementation of the County Allocation Program. **This language proposes *significant* amendments in the use of medical information under the Child Health and Disabilities Prevention (CHDP) Program and establishes various requirements for counties to meet in order to participate in the program.**

Third, an increase of $250,000 ($125,000 General Fund) is proposed for the existing toll-free telephone line to handle an increased volume of calls generated by the county outreach grants. Total expenditures for the toll-free telephone line would be $1.550 million ($775,000 General Fund), including the proposed increase. No issues have been raised regarding this component.

Legislative Analyst's Office—Reject CHDP Follow-Up. The LAO recommends rejecting the CHDP follow-up component of the proposal because they do not believe it would be cost-beneficial.

Subcommittee Staff Recommendation. It is recommended to **(1)** establish a $3 million pool for those counties who do not meet the threshold to receive a direct allocation from the DHS using their methodology (i.e., not in the top 20 counties), **(2)** approve the remaining dollar amount for the County Allocation Program as proposed, **(3)** adopt placeholder trailer bill legislation, in lieu of the Administration's language, to establish the County Allocation Program, ***and*** **(4)** reject the CHDP follow-up component of trailer bill language regarding the sharing of medical information across wide venues.

Establishing a pool for small counties to access is important since these counties often have difficulties with enrollment and retention of children in programs which require assistance, and do not usually have access to other funding sources. This would still enable the DHS to focus a significant amount of funding in key areas of the state.

The Administrations proposed language for the sharing of medical information provide through the CHDP Program is very problematic. The language is broadly crafted and provides for the use of medical information across venues that are inappropriate for the purposes of enrollment in public health programs. Further, the remaining trailer bill language should be recrafted to make the program more workable for counties to participate in and operate well. **As such, the following key concepts for "placeholder" trailer bill language are offered:**

- Provide for a $3 million set aside for small counties and cap the remaining amount available based on an annual appropriation;
- Require counties to provide the DHS with an outreach and enrollment plan, as well as a proposed budget for expenditure;

- Restrict the use of the funds for outreach and enrollment purposes only and enable the DHS to recoup funds for failure to comply with program requirements;
- Require counties to collaborate with a wide range of organizations such as community-based organizations, schools, clinics and safety-net providers; and
- No changes to existing Health and Safety Code regarding the CHDP Program.

Questions. The Subcommittee has requested the DHS to respond to the following question.

1. DHS, Please provide a brief summary of the request.

6. Proposed Media Campaign for Medi-Cal *and* Healthy Families *(Local Assistance)*

Issue. The Administration is proposing **an increase of $3.4 million ($1.4 million General Fund) for 2006-07 *and* $11.9 million ($4.9 million General Fund) annually thereafter to conduct a new media campaign.** The Administration states that this proposed media campaign would work in coordination with the county outreach grants to target families which have children with no health care coverage and are likely to be eligible for public programs.

It should be noted that neither the HFP nor the Medi-Cal Program are projecting any increase in caseload associated directly with this media campaign.

Additional Background—Past Media Campaigns. From 1998 through 2002, the state conducted a paid media campaign for the HFP and Medi-Cal for children program. **The funding for this media campaign was eliminated in the Budget Act of 2002 due to state fiscal constraints. Based on information obtained regarding these past campaigns, it is unclear as to whether media campaigns are effective at obtaining increased enrollment in either program.**

Legislative Analyst's Office Recommendation. The LAO **recommends denying this proposal** since the approach has not been demonstrated to be effective in the past. There is no evidence to demonstrate that a media campaign would result in increased enrollments.

Subcommittee Staff Recommendation. It is **recommended to delete this proposal** for savings of $3.4 million ($1.4 million General Fund). Based on information obtained regarding these past campaigns, it is unclear as to whether media campaigns are effective at obtaining increased enrollment in either program. In addition, General Fund support is needed in other areas.

Questions. The Subcommittee has requested the DHS to respond to the following question.

1. DHS, Please provide a brief description of the budget request.

7. DHS Staff for County Allocation Program & Media Campaign

Issue. The DHS is requesting **an increase of $932,000 ($466,000 General Fund) to support 10 new permanent positions, and to purchase office automation equipment for these employees.** All of the positions are assumed to be effective as of July 1, 2006.

Specifically, the 10 new permanent positions would include: (1) a Staff Services Manager I, **(2)** seven Associate Governmental Program Analyst's (AGPA); **(3)** a Nurse Consultant III, and **(4)** an Accounting Technician. **Of these total positions, about 4.5 positions are for the County Allocation Program, 3.5 positions are for the media campaign, and two positions are for the CHDP follow-up component.** Key functions of these proposed positions are described below.

- ***Staff Services Manager—one position.*** This position would supervise 6 of the new AGPA's. They would serve as the lead in the development of the minimum standards regarding the county grants and also serve as a lead contact for stakeholders, CHDP, MRMIB and the counties. They would also be responsible for coordination of the media campaign.
- ***Associate Governmental Program Analysts—three positions.*** These positions would be used to perform the activities directly related to the increased workload of administering the County Allocation Program for outreach.
- ***Accountant Technician Position.*** This position would be used to perform activities related to workload associated with the invoicing for the County Allocation Program for outreach.
- ***Associate Governmental Program Analysts—three positions.*** These positions would be used to perform activities associated with administering the media campaign component of the proposal.
- ***Nurse Consultant III and One Associate Governmental Program Analyst.*** These positions would be used to perform activities directly related to the CHDP follow-up process.

Legislative Analyst's Office Recommendation. The LAO **recommends approval of only three positions (Staff Services Manager I and two AGPAs) for a *reduction* of $614,000 ($307,000) from the DHS budget request. This LAO recommendation is consistent with their recommendation to reject the media campaign proposal and the CHDP follow-up portion of the county outreach grants proposal (i.e., as noted in the above Agenda items).**

Further, the LAO contends that other proposed activities for which the DHS is seeking staff appear to be unnecessary, such as the need for the state to develop program guidelines and methods for allocating the county outreach grants. This is because the county outreach grants will be relying on existing local enrollment programs.

Subcommittee Staff Recommendation. Subcommittee staff concurs with the LAO.

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

1. **DHS,** Please provide a brief summary of the budget request for 10 new permanent positions.

8. MRMIB Request for Staff—Ten New Positions for Various Functions

Issue. The **MRMIB is requesting 10 new permanent staff positions for an increase of $983,000** ($248,000 General Fund, $80,000 Proposition 99 Funds—Unallocated Account, $610,000 federal funds, and $45,000 in other funds).

The MRMIB states that these additional staff would be used for five types of activities: (1) supervision of legislation, external affairs, and major policy matters, **(2)** trend analysis of health plan performance, **(3)** processing of application and enrollee complaints and appeals, **(4)** support of legal staff, and **(5)** monitoring and review of the Rural Demonstration Projects.

Specifically, the MRMIB requests the following positions to perform certain activities as noted.

Career Executive Assignment (CEA) I—Legislative Affairs and Policy. This position would be used to oversee policy analysis on emerging issues and work with the Administration and Legislature on health care legislation and policy development.

Research Program Manager II and Research Program Specialist I—Health Plan Research and Quality Unit. These positions would establish a new unit at the MRMIB who would specialize in collecting and compiling data and develop and produce various reports on trend analysis and related information. Presently there are two positions in another unit who perform these functions along with their other duties. As such the MRMIB is seeking additional positions.

Five Associate Governmental Program Analysts—Enrollee Complaints and Appeals. The MRMIB presently has 6 dedicated positions along with two student assistants working on appeals, correspondence and complaints for the HFP. MRMIB believes that additional positions are needed to address issues in the HFP, AIM and Managed Risk Medical Insurance Program.

Executive Assistant—Legal Office. The MRMIB is requesting this position to provide clerical support to the two attorney's at the MRMIB. They contend that the existing general clerical staff in the executive office at the MRMIB are fully occupied and would not be able to address the additional workload or provide specialized analytical work that legal staff may require.

Research Program Specialist I—Rural Health Demonstration Program. A Research Program Specialist I position is requested to (1) take the lead in developing program standards and procedures, (2) provide consultation with stakeholders and others on projects, (3) identify additional and different needs in rural communities, and (4) implement quality improvement projects.

The Rural Health Demonstration Program has been part of the HFP since its inception in 1998. The purpose of this program is to increase access to health care for HFP enrolled children in rural areas, and to provide short-term funding for demonstration projects that can be self-sustaining in the future. This program presently has 36 projects and has total funding of $5.8 million (federal funds and Proposition 99 funds).

The MRMIB presently has 82 state positions and two contracts with Administrative Vendors (i.e., perform enrollment functions and other matters). **In the Budget Act of 2005, MRMIB was provided a total of 14 new state positions, including three for HFP outreach functions.**

Legislative Analyst's Office Recommendation. The **LAO recommends denying 8 of the 10 positions for savings of $796,000 ($248,000 General Fund).** The two positions the LAO recommends to fund are the CEA I for legislation and the Research Program Manager II for the Health Plan Research and Quality Unit.

The LAO states that the MRMIB has *not* justified the positions based on workload need. For example, previous budget actions had at one point eliminated funding for HFP application assistance. Because elimination of these application assistance activities resulted in more problems in the applications which continued to come in for the HFP, this change had the effect of temporarily creating additional workload in the form of a backlog of appeals of denied applications. However, this workload is temporary for two reasons. First, MRMIB has been working through backlog and should have it completed no later than July 2006. Second, with last year's restoration of application assistance support, the number of appeals should be decreasing in the budget year. **Therefore, the LAO sees no justification for the MRMIB to request of 5 positions to address a backlog of work that should be resolved before these new staff could even be hired and begin work.**

The LAO notes there are other MRMIB position requests for which additional workload does appear likely to occur. However the LAO notes the MRMIB should first seek to fill existing vacant positions for which it was previously provided funding, or simply reclassify vacant positions to meet their workload needs.

Subcommittee Staff Recommendation. It is **recommended to delete 6 of the 10 positions**. In addition to the two positions recommended for approval by the LAO, **it is also recommended to fund the Research Program Specialist I to support the Rural Health Demonstration Program and the Executive Assistant for the Legal Office.**

The Rural Health Demonstration Program is a highly effective program which should have a staff person overseeing it. This position was eliminated by the DOF in 2003 since the program contained a sunset provision. The Legislature subsequently eliminated the program's sunset and increased its appropriation due to its efficacy (evaluation reports available). However the staff position was overlooked at the time.

With respect to the Executive Assistant position for the Legal Office, it appears that clerical support is warranted and it would be beneficial to provide it, in lieu of having more costly attorneys complete this type of work.

Questions. The Subcommittee has requested the MRMIB to respond to the following question.

1. **MRMIB,** Please provide a brief summary of the request for 10 new positions.

9. MRMIB Request for Staff for Mental Health Services Oversight-- Healthy Families

Issue. The MRMIB **requests an increase of $432,000** ($151,000 Mental Health Services Fund from Proposition 63 and $281,000 in federal funds) to **(1)** hire two new positions, and **(2)** provide $266,000 in one-time only contract funds to UC San Francisco (UCSF) to do an evaluation of the HFP Program's Mental Health Delivery System and to craft a strategy for monitoring outcomes.

According to the MRMIB, this proposal would provide staff support and funding for an existing project which was initiated using some grant funds obtained from the CA Endowment. Phase I of this evaluation is to be provided to the MRMIB by UCSF in May 2006.

The requested $266,000 in contract funds would be used to conduct Phases II and III of this UCSF evaluation. This evaluation would focus on delivery systems and coordination efforts used to provide mental health and substance abuse treatment services to children enrolled in the HFP, and a strategy for monitoring program outcomes.

The MRMIB states that the key objectives of this proposed evaluation are as follows:

- Assess the extent to which children diagnosed as needing treatment for serious emotional disturbance (SED) are receiving adequate services within the HFP, including the linkage to County Mental Health;
- Assess the effectiveness of the coordination of these children's care between the County Mental Health system and HFP participating health plans;
- Identify other service delivery options for the MRMIB's consideration that would assure accountability, continuity of care, and access to services under the HFP Program for this population; and
- Provide a set of recommendations to improve the HFP Program's delivery system and ensure quality of care.

The MRMIB would hire two positions—a Research Program Specialist I and a Staff Services Analyst--to do the following key activities:

- Provide consultation and information to families to assure they have a thorough understanding of the HFP Mental Health Delivery System;
- Assist families in resolving conflicts they may have with either the HFP health plan or County Mental Health regarding access to mental health services under the HFP;
- Serve as a liaison between the health programs in addressing a variety of issues related to access and coordination of services;
- Provide staff support to the UCSF evaluation;
- Participate in the Department of Mental Health's Proposition 63 workgroup;
- Develop a survey instrument to assess the level of satisfaction of families before and after the implementation of remedies/recommendations resulting from the UCSF evaluation; and

- Oversee the completion of a customer satisfaction survey (before and after) evaluating the impact of new strategies as they are implemented;

Additional Background—The Healthy Families Mental Health Delivery System. Under the HFP, participating health plans are responsible for providing basic mental health services, including inpatient and outpatient services for *most* mental health conditions. **Health plans also provide the first 30-days of inpatient care for children who are diagnosed with serve emotional disturbances (SED). County Mental Health Plans cover all outpatient services and inpatient services *beyond* the first 30-days for SED treatment.**

The delivery of mental health services was established in this manner through the enabling HFP state statute because County Mental Health Plans provided a significant portion of SED treatment in California and had the experience necessary to treat this condition. After the implementation of the HFP, the California Mental Health Parity Law required health plans licensed under the Know Keene Act to provide treatment for serious mental illnesses, including SED treatment for children.

Since a significant amount of effort was invested in establishing a referral and reimbursement system for SED treatment by County Mental Health Plans, the MRMIB directed health plans participating in the HFP to obtain an exemption from the section of the Mental Health Parity Law that requires plans to provide SED treatment. As such health plans participating in the HFP obtain an exemption from the Department of Managed Health Care and are referring potential SED children to County Mental Health Plans for assessment and treatment.

To facilitate the care of SED children enrolled in the HFP, the MRMIB directs health plans to enter into Memorandum of Understandings (MOUs) with County Mental Health whenever feasible. These MOUs define the responsibilities of each party for the coordination of services for children enrolled in the HFP who are diagnosed with SED. Generally, County Mental Health Plans treat HFP enrollees to the extent their resources will allow.

Subcommittee Staff Recommendation. It is recommended **to approve the $266,000 ($93,000 Mental Health Services Fund, Proposition 63) to continue the UCSF evaluation of the HFP Mental Health Delivery System but to *deny* the request for two positions.** In addition, it is recommended to **adopt uncodified trailer bill language**, as shown below, so that the Legislature and public can be assured of receiving the outcomes from the UCSF evaluation.

Continuation of the evaluation would be constructive since an evaluation of the HFP Mental Health Delivery System has not been conducted. Various changes to the mental health system (both public and private) have occurred since enactment of the enabling HFP statute and new strategies may be warranted.

It is recommended to deny the two positions for several reasons. *First*, the use of Proposition 63 funds (Mental Health Services Fund) to support these positions would not be appropriate. Most of the key functions of these positions pertain to supporting the *existing* program structure. As such the use of Proposition 63 funds here could be viewed as a "supplanting" versus a "supplementing" situation. Proposition 63 clearly articulates that funds must be used to further the provision of mental health services and must not be used to fund or replace existing requirements. The operation and oversight of the HFP Mental Health Delivery

System benefit is an ongoing function that was established in the enabling legislation and program. Existing positions should be used to ensure the quality and efficacy of this delivery system.

Second, some of the other key functions the positions are to accomplish pertain to oversight of the evaluation contractor. The contractor was hired using foundation grant funds and is in the process of completing Phase I of the evaluation. As such, the MRMIB has already been providing contractor oversight and chose to do this on their own volition. Existing resources should therefore be available for this activity.

Third, the other key functions of these positions pertain to participating in meetings with the DMH on Proposition 63 issues. This can be done with existing resources.

The recommended uncodified trailer bill language is as follows:

> "The Managed Risk Medical Insurance Board shall provide the fiscal and policy chairs of the Legislature with copies of each of the individual phases of the evaluation being conducted regarding the Healthy Families Program and the provision of mental health and substance abuse treatment services. These copies shall be provided on a flow basis as appropriate when completed by the contractor.

<u>Questions.</u> The Subcommittee has requested the MRMIB to respond to the following questions.

1. MRMIB, Please briefly describe the request.
2. MRMIB, How is the mental health benefit and coordination being monitored now?
3. MRMIB, When will the Phase I evaluation be provided to the Legislature?

10. Request to Exempt MRMIB from Budget Control Language

Issue. The MRMIB is proposing Budget Bill Language to **(1)** exempt MRMIB from existing Budget Control Sections 28 and 28.50, **(2)** allow the Department of Finance to augment reimbursements to General Fund and federal funds, and **(3)** establish permanent positions to the extent that foundation and grant funding are available without advanced notice to the Legislature.

The MRMIB contends that these changes are needed because the existing Budget Control Sections 28 and 28.50 processes jeopardize MRMIB's ability to quickly respond to grant and foundation requirements and delay the receipt of this funding. MRMIB states that it can take from one to four months to process Budget Control Sections within the Administration, depending on coordination with the Department of Finance and CHHS Agency.

Specifically, the proposed Budget Bill Language for Items 4280-001-0001 and 4280-001-0890 is as follows:

> "Augmentations to reimbursements in this Item are exempt from Section 28.50 of this act. The MRMIB shall provide written notification within 30-days to the Joint Legislative Budget Committee describing the nature and planned expenditure of these augmentations when the amount received exceeds $200,000. Federal funds may be increased to allow for the matching augmentations to reimbursements and the Department of Finance may authorize the establishment of positions if the costs are fully offset by the augmentations to reimbursements."

Background on the Current Process for Grant Funds or Foundation Endowments. The current process for accepting grants or foundation endowments involves submitting a request pursuant to Budget Control Section 28 and Budget Control Section 28.5 which require a maximum 30-day notification to the Legislature in the form of a Section Letter to the Joint Legislative Budget Committee, chaired by Senator Chesbro. **The Administration can also request a *waiver* of the 30-day notification in the event of an urgent matter.**

Legislative Analyst's Office Recommendation. The **LAO recommends rejecting this request.** They note that the existing Budget Control Section processes only require 30-days advanced notice to the Legislature and even provide for a waiver of the 30-days advanced notice period if appropriate. **All other delays should be worked out within the Administration.**

Subcommittee Staff Recommendation. It is **recommended to reject this request.** The request would limit the oversight responsibilities of the Legislature. Further, as noted by the LAO, any delays that occur happen due to processes that are within the span of control of the Administration.

Questions. The Subcommittee has requested the MRMIB to respond to the following question.

1. MRMIB, Please provide a brief summary of the request.

D. ITEMS FOR "VOTE ONLY"-- Department of Health Services *(Items 1 through 6)*

1. Trailer Bill Language to Defer General Fund for County Medical Services Program

Issue. The DHS is proposing trailer bill legislation to exempt the state's payment of $20.2 million (General Fund) to the County Medical Services Program (CMSP) for 2006-07. This same trailer bill language has been enacted annually since 2000 due to the state's fiscal situation.

The CMSP primarily uses County Realignment Funds to provide health care services to uninsured individuals who are not otherwise eligible for other public programs for various reasons.

Subcommittee Staff Recommendation. It is **recommended to approve this proposal.** This language has been adopted for the past several years due to the state's fiscal situation and the ability of the CMSP to manage it revenues and expenditures. No issues have been raised.

2. Women, Infant and Children's Supplemental Food—Budget Bill Language & Rebate Fund Increase

Issue. The DHS **is requesting an increase of $35 million (WIC Manufacturer Rebate Fund) and *revised* Budget Bill Language to enable the state to stretch federal food grant dollars to serve more participants and absorb food inflation costs.** With this budget adjustment, the appropriation for the WIC Manufacturer Rebate Fund will be $297 million.

Federal regulations require that states spend rebate funds *before* drawing down federal funds. WIC invoices and receives rebate payments from manufacturers monthly. These rebate funds are used to pay food costs until depleted. The federal WIC funds are then spent to pay for food costs.

The DHS is also proposing Budget Bill Language to enable them to make adjustments to reflect the receipt of rebate funds from manufacturer's in a more timely in order to expend the funds so that the federal funds can then be accessed without any potential for a gap in funding. The original language proposed by the DHS was not workable. As such, compromise language was crafted.

The *revised* Budget Bill Language is as follows:

4260-111-3023 – For local assistance, State Department of Health Services, payment to Item 4260-111-0001, payable from the WIC Manufacturer Rebate Fund

Notwithstanding any other provision of law, if revenues to the WIC Manufacturer Rebate Fund are received in excess of the amount appropriated in this item, the Director of Finance may authorize expenditures for the Department of Health Services in excess of the amount appropriated not sooner than 30 days after notification in writing of the necessity therefore is provided to the chairpersons of the fiscal committees in each house and the Chairperson of the

Joint Legislative Budget Committee, or not sooner than whatever lesser time the Chairperson of the Joint Legislative Budget Committee, or his or her designee, may in each instance determine.

Background—WIC Program's Manufacturer Rebate Fund. Among other things, the WIC program offers participants infant formula, infant cereal and juice. WIC has contracts with these food manufacturers who in turn, rebate the WIC Program each time a participant purchases heir product. Manufacturer's rebates are used to offset federal grant food expenditures thereby stretching federal food grant dollars to serve more participants and absorb inflation costs. Rebates comprised about 30 percent of WIC food expenditures in 2004-05.

Subcommittee Staff Recommendation. It is recommended to approve the $35 million increase for the WIC Manufacturer Rebate Fund and the revised Budget Bill Language. No issues have been raised.

3. Nuclear Planning Assessment Special Account (CPI) Adjustment

Issue. The **Subcommittee is in receipt of a Finance Letter requesting an increase of $29,000 (Nuclear Planning Assessment Fund) as required by Section 8610.5 of the Government Code which provides for a consumer price index adjustment. These funds are used to support the existing Nuclear Power Preparedness Program.**

Legislation mandating the Nuclear Power Preparedness Program has been continuous since 1979, enacted as Government Code Section 8610.5, the Radiation Protection Act. The program is funded by utilities through a special assessment fund managed through the State Controller.

While the State OES has absolute coordination authority during emergency response, the DHS is assigned the technical lead responsibility during ingestion pathway and recovery phases of an emergency. The goal during ingestion pathway response is preventing contaminated water, food, and food animals from reaching the consumer. The goal during recovery is restoring areas to pre-accident conditions.

In California, there are two operating nuclear power plan sites—Diablo Canyon (San Luis Obispo) and San Onofre Nuclear Generating Station (San Diego).

Subcommittee Staff Recommendation. It is **recommended to adopt the Finance Letter.**

4. Reappropriation of 2005-06 Proposition 50 Bond Funds for Water & Technical

Issue. The **Subcommittee is in receipt of a Finance Letter requesting to (1) authorize reappropriation authority to the Proposition 50 Fund, and (2) provide $175,000 (Proposition 50 Bond Funds) for an interagency agreement with the Department of Water Resources.**

The DHS indicates that Proposition 50 project approvals are pending, but given the nature of construction contracting, additional time is necessary to obligate funding from the 2005-06 appropriation. The proposed reappropriation language would enable the DHS to expend these funds into 2006-07. The Budget Act of 2005 authorized a total of $107.5 million (Proposition 50 Funds). Of this total amount, $90.9 million is appropriated in Item 4260-111-6031 and $17 million is appropriated in Item 4260-115-6031. A summary of the funding for the current-year is discussed below.

In addition, the DHS is requesting an increase of $175,000 (Proposition 50 Bond Funds) for an interagency agreement with the Department of Water Resources. These funds were originally approved by the Legislature in 2003. However, this funding was inadvertently eliminated by the DHS during their 2006-07 budget development process. **As such, they are requested this technical adjustment through the Finance Letter process.** The Department of Water Resources uses these funds to conduct delta water quality activities through the CALFED.

Summary of "Round 1" (2005) Proposition 50 Funds (“Funding Commitments”). As discussed in our Subcommittee #3 hearing of March 27th, the DHS has provided the following summary table which displays funding commitments (i.e., full applications approved).

Title/Focus Proposition 50	Disadvantaged Communities (Projects & Dollars)	Non-Disadvantaged Communities (Projects & Dollars)	Total Proposition 50
Water Security (Chapter 3)	3 and $587,000	7 and $30.7 million	$31.3 million
Small Community Systems	8 and $5.9 million	3 and $438,000	$6.4 million
Monitoring	4 and $180,000	1 and $1 million	$1.2 million
Source Water Protection	1 and $1.6 million	1 and $115,000	$1.7 million
Disinfection Byproducts	2 and $591,000	3 and $800,000	$1.4 million
Southern California	2 and $3 million	8 and $41.8 million	$44.8 million
Total (rounded)	**20 and $11.8 million**	**23 and $74.9 million**	**$86.7 million**

The DHS states that the "Round 2" Proposition 50 "full applications" are due to the DHS in April and May 2006 (different dates for various grants). The DHS has already received 127 "pre-applications" for Round 2 and it is anticipated that from $75 million to $90 million will be awarded through this process.

Background on Proposition 50 and Chapters Applicable to the DHS Drinking Water Program. Proposition 50 was approved by the voters in 2002 to provide $3.4 billion in funds to a consortium of state agencies and departments to address a wide continuum of water quality issues.

Several chapters within the Proposition 50 bond measure pertain to functions conducted by the DHS as it pertains to the overall Drinking Water Program, including Chapter 3 and Chapter 4 of the Proposition. The DHS anticipates receiving as much as $485 million over the course of the bond measure.

- Chapter 3—Water Security ($50 million). Proposition 50 provides a total of $50 million for functions pertaining 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, (7) other projects designed to prevent damage to water treatment, distribution and supply facilities**.**

- Chapter 4—Safe Drinking Water ($435 million total for DHS). Proposition 50 provides $435 million to the DHS for expenditure for grants and loans for infrastructure improvements and related actions to meet safe drinking water standards. A portion of these funds will be used as the state's match to access federal capitalization grants

Subcommittee Staff Recommendation. It is **recommended to approve this Finance Letter to correct a technical adjustment to the Governor's budget. No issues have been raised.**

5. Technical Adjustment—Food Safety Fund, and Drug and Medical Device Safety

Issue. The Subcommittee is in receipt of a Finance Letter requesting a series of technical adjustments to the Governor's budget. Specifically, savings of $178,000 (General Fund) were recognized in the Governor's budget by shifting these expenditures to special funds; however, the corresponding special fund adjustments were not reflected. As such, the DHS is requesting an increase of $92,000 (Drug and Medical Device Fund) and $86,000 (Food and Safety Fund) to reflect the corresponding special fund adjustments.

Subcommittee Staff Recommendation. It is recommended to approve this Finance Letter to correct a technical adjustment to the Governor's budget. **No issues have been raised.**

6. Technical Correction to the Governor's Budget—DHS to CMAC Shift

Issue. The Subcommittee **is in receipt of a Finance Letter requesting a decrease of $238,000 ($119,000 General Fund) from the DHS to correct an error in the Governor's budget.** The Budget Act of 2005 provided two positions and $238,000 intended for the CA Medical Assistance Commission (CMAC). However the funding and position authority were mistakenly placed by the DOF in the DHS budget. The Governor's 2006-07 budget includes a baseline adjustment to increase the CMAC budget for this issue in 2006-07 but it did not reflect the reduction in the DHS budget. The Finance Letter accomplishes this technical adjustment.

Subcommittee Staff Recommendation. It is recommended to approve this Finance Letter to correct a technical adjustment to the Governor's budget. **No issues have been raised.**

E. ITEMS FOR DISCUSSION—Department of Health Services

1. DHS Request for Staff for Geographic Managed Care Expansion

Issue. The DHS is requesting **17 new permanent positions for an increase of $1.6 million** ($718,000 General Fund) to continue the implementation of the expansion of Medi-Cal Managed Care to 13 additional counties as approved by the Legislature in the Budget Act of 2005.

The table below displays the number of new positions the DHS received in the Budget Act of 2005 for this purpose and it displays their additional request for 2006-07. **As noted below, the DHS received 27 new positions last year for this expansion effort.**

Table—DHS New Positions for 13 Counties Medi-Cal Managed Care Expansion

Area/Division	Positions Approved in Budget Act of 2005	DHS Request 2006-07	Total
DHS Managed Care	16.0	13.0	29.0
DHS Payment Systems	5.5	3.0	8.5
DHS Administration	3.5	1.0	4.5
DHS Legal Office	2.0	0	2.0
CA Medical Assistance Commission (CMAC)		1.0	1.0
TOTALS	27.0 positions	18.0 positions	45.0 positions

The key activities of the requested 18 new permanent positions are discussed below under each subheading as noted.

A. DHS Managed Care Division—(Total of 13 positions). This division is requesting 13 new positions as follows.

- *Pharmacy Consultant II.* This position would be used to develop new policies and procedures relative to drug utilization and Medi-Cal formulary oversight.

- *Nurse Evaluator II.* This position would be used to develop enhanced medical monitoring protocols and tools.

- *Associate Management Auditors (3.0 positions).* These positions would be used to conduct ongoing financial monitoring of contracted health plans in the new counties and to work with actuary staff in the development of experienced-based rates for the expansion areas.

- *Research Analyst II.* This position would perform ongoing research, data collection and analysis, and reporting resulting from the expansion.

- *Account Technicians (3.0 positions).* These positions would be used to perform capitation payment activity for the new contracts.

- *Health Program Specialist II.* This position would be used to conduct fiscal analyses of special needs services.

- *Associate Governmental Program Analysts (2.0 positions)*. These AGPA positions would be used to provide additional contract management resources for the new contracts in expansion counties.

- *Associate Governmental Program Analyst—Office of Ombudsman.* This position would be used to provide additional support to the Office of the Ombudsman. The workload for this office will increase due to the new enrollees and the need to provide safeguards against people getting lost in the managed care system.

B. DHS Payment Systems Division—Health Care Options Section (Total of 3 positions). This division is requesting 3 new positions—two Associate Governmental Program Analysts, and a Research Program Specialist I. **These positions would be used to address workload needs associated with increased beneficiary informing and enrollment services in 7 of the expansion counties that are transitioning from fee-for-service to managed care (the other 6 counties pertain to County Organized Health Care systems).** The DHS states that the existing Health Care Options staff cannot be redirected

The additional staff will develop new county specific enrollment materials, oversee the necessary health care options system changes, and plan the Call Center and field operations expansions in the counties targeted for implementation. This includes (1) developing new beneficiary informing packets for each of the counties, (2) overseeing enrollment system changes, (3) monitoring the health care options contractor (Maximus), (4) evaluating the soundness of the expansion-related statistical analyses prepared by the enrollment broker, (5) overseeing the enrollment contractor's reporting function, and (6) conducting ongoing sampling and review of expansion-related enrollment materials.

C. DHS Administration Division (One Position). This division is requesting an Accounting Officer position to support additional workload that will be generated from the invoicing of more managed care contracts. Specifically, this position would (1) monitor and track payments for contracts, (2) complete paperwork to draw federal funds, and (3) support other standard accounting functions related to staff payroll and travel.

D. CA Medical Assistance Commission (CMAC) (One Position). The DHS is proposing to fund a Senior Negotiator position at CMAC to negotiate Medi-Cal Managed Care contracts that pertain to the expansion counties who would merge with a County Organized Healthcare System (COHS) or a Geographic Managed Care (GMC) model. CMAC presently has this responsibility. **The CMAC is requesting this position to support the workload associated with negotiating the new contracts.**

Background—Overview of Existing Medi-Cal Managed Care Models. The DHS is the largest purchaser of managed health care services in California. **Currently, some form of Medi-Cal Managed Care serves about 3.2 million Medi-Cal enrollees, primarily families and children and is in 22 counties.** About 280,000 enrollees, or about 9 percent, are seniors and individuals with developmental disabilities.

The Medi-Cal Managed Care system utilizes three types of contract models— (1) the Two Plan, **(2)** Geographic Managed Care, and **(3)** the County Organized Health Systems (COHS). About 74 percent of Medi-Cal managed care enrollees are in a Two Plan model which covers 12 counties. There are five COHS (federal law limit) that serve eight counties. The GMC model is used in two counties.

For people with disabilities, enrollment is *voluntary* in the Two Plan and GMC model, and *mandatory* in the COHS. In addition, certain services are "carved-out" of the Two Plan and GMC models, as well as some of the COHS's. Most notably, Mental Health Managed Care, and the California Children's Services (CCS) Program are "carved-out", except for CCS in some selected counties which operate under the COHS model. Per existing state statute, CCS is carved-out until September 1, 2008.

The Two Plan model was designed in the late 1990's. The basic premise of this model is that CalWORKS recipients (women and children) are automatically enrolled (mandatory enrollment) in either a public health plan (i.e., Local Initiative) or a commercial HMO. Other Medi-Cal members, such as aged, blind and disabled, other children and families, can voluntarily enroll if they so choose. About 74 percent of all Medi-Cal managed care

The GMC model was first implemented in Sacramento in 1994 and then in San Diego County in 1998. In this model, enrollees can select from multiple HMOs. The commercial HMOs negotiate capitation rates directly with the state based on the geographic area they plan to cover. Only CalWORKS recipients are required to enroll in the plans. All other Medi-Cal recipients may enroll on a voluntary basis. **Sacramento and San Diego counties contract with nine health plans that serve about 10.6 percent of all Medi-Cal managed care enrollees in California.**

Under a County Organized Healthcare System (COHS), a county arranges for the provision of medical services, utilization control, and claims administration for *all* Medi-Cal recipients, including individuals who are aged, blind and disable. About 540,000 Medi-Cal recipients receive care from these plans.

<u>Background--Summary of 13 County Medi-Cal Managed Care Expansion per Budget Act of 2005 .</u> The Legislature approved the Administration's proposal to expand California's existing Managed Care Program to 13 additional counties (i.e., mandatory enrollment of children and families who are not medically needy, and *voluntary* enrollment of aged, blind and disabled individuals).

After much public discussion and discourse, both the Administration and Legislature agreed that the mandatory enrollment of aged, blind and disabled individuals should be delayed until performance measures specific to special needs populations, as well as many other core program improvements, could be crafted and implemented. These issues are discussed more fully in this Agenda under item 2, below. Therefore, the DHS has focused its efforts on conducting the 13 county Medi-Cal Managed Care expansion of the existing program.

As shown in the table below, the Administration assumed the following Managed Care model configuration for these 13 new counties. The DHS states that they will not compel or force any county into a particular managed care model. In several instances, counties have not yet made a decision as to which model they may select. Those that have made a formal decision are highlighted in **bold,** below.

Table—Administration's Implementation of 13 County Expansion of Medi-Cal Managed Care

County	**County Preference**	**Administration's Proposed Model (Under discussion with Counties)**	**Number of Eligibles *(Both non-ABD & ABD)***
El Dorado	GMC—their own or COHS	Join Sacramento Geographic Managed Care (GMC) by March 2007	7,036 Non-ABD 184 Aged, Blind, Disabled
Placer	**GMC with Sacto.**	Join Sacramento GMC	11,576 297 Aged, Blind, Disabled
Imperial	No managed care	Join San Diego GMC	26,229 493 Aged, Blind, Disabled
Fresno	**Two Plan w/ Madera & Kings**	Convert to a GMC (not a new county)	Not applicable
Merced	**COHS—seeking federal authority**	Join w/Fresno on GMC	40,785 579 Aged, Blind, Disabled
Madera	**Two Plan w/ Madera & Kings**	Join w/Fresno on GMC	19,589 253 Aged, Blind, Disabled
Kings	**Two Plan w/ Madera & Kings**	Join w/Fresno on GMC	17,504 249 Aged, Blind, Disabled
Ventura	**COHS—seeking federal authority**	Join w/Santa Barbara COHS	61,039 23,398 Aged, Blind, Disabled
San Luis Obispo	**COHS w/SBRHA**	Join w/Santa Barbara Regional Health Authority (SBRHA) COHS	16,380 8,275 Aged, Blind, Disabled
San Benito	**COHS w/ CCAH**	Join w/Central Coast Alliance for Health (CCAH) COHS	5,061 1,514 Aged, Blind, Disabled
Marin	**COHS w/PHP**	Join w/PHP COHS	6,944 5,456 Aged, Blind, Disabled
Lake	COHS w/PHP	Join w/PHP COHS	8,481 5,515 Aged, Blind, Disabled
Mendocino	**COHS w/PHP**	Join w/PHP COHS	12,735 5,624 Aged, Blind, Disabled
Sonoma	COHS—own *or* COHS w/ PHP	Join w/PHP COHS	23,876 14,736 Aged, Blind, Disabled

It should also be noted that the DHS must submit a State Plan Amendment for this 13 county Medi-Cal Managed Care expansion to the federal CMS for their approval. It is unclear at this time when this State Plan Amendment will be submitted to the federal CMS.

Legislative Analyst's Office Recommendation—Delete 13 of 18 Requested Positions. **The LAO recommends deleting 13 positions for savings of $1.1 million ($480,000 General Fund).**

The LAO states that the staffing request does *not* reflect the fact that the expansion will be phased-in over 2006-07 and 2007-08 and is likely to be delayed in some counties. For example, Imperial County, one of the expansion counties for which the DHS resources are requested, has indicated that it is not supportive of implementing managed care by March 2007 as assumed in the budget plan (as noted above in the table).

With respect to the CMAC position, the LAO believes that they should have sufficient staff to absorb this additional workload.

The LAO recommends approving only 5 positions. These positions include the following:

- *Associate Management Auditor.* This position would be used to conduct ongoing financial monitoring of contracted health plans in the new counties and to work with actuary staff in the development of experienced-based rates for the expansion areas. The DHS had requested three positions for this function.
- *Research Analyst II.* This position would perform ongoing research, data collection and analysis, and reporting resulting from the expansion. This is the position the DHS had requested (i.e., no difference).
- *Account Technician.* This position would be used to perform capitation payment activity for the new contracts. The DHS had requested three positions for this function.
- *Health Program Specialist II.* This position would be used to conduct fiscal analyses of special needs services.
- *Associate Governmental Program Analyst*. This position would be used to provide additional contract management resources for the new contracts in expansion counties. The DHS had requested two positions for this purpose.

Therefore, the LAO recommends savings of $1.1 million ($480,000 General Fund) by approving only 5 of the positions as noted.

Subcommittee Staff Recommendation. In addition to the 5 positions recommended by the LAO, it is recommended **to also approve the Associate Governmental Program Analyst position for the Office of the Ombudsman.** This position would serve in an important role in assisting new enrollees with questions and complaints, and generally help ensure that people do not get lost in the managed care system.

Therefore, it is recommended to approve a total of 6 positions for total savings of about $1 million ($430,000 General Fund).

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

1. **DHS**, Please provide a **summary of the status of the 13 county expansions**.

2. **DHS**, Please provide a **summary of the budget request** and need for the positions.

2. DHS Staff Request & Local Assistance Funds for Outreach to Special Populations

Issue. The **DHS is requesting 9 new permanent positions for increased expenditures of $916,000 ($386,000 General Fund) in state support** *and* **an increase of $1.1 million ($550,000 General Fund) in local assistance, to encourage the enrollment of individuals into Medi-Cal Managed Care who have special health care needs (i.e., are in the aged, blind and disabled Medi-Cal aid categories) and who are presently enrolled in the Fee-For-Service Medi-Cal Program.** These two adjustments are discussed below.

First, the DHS is requesting **9 new permanent positions** for increased expenditures of $916,000 ($386,000 General Fund) to perform the following functions:

- Craft education and outreach efforts to target strategies and create enhanced materials to increase voluntary enrollment of individuals into Medi-Cal Managed Care who are aged, blind and disabled;
- Develop an infrastructure to serve aged, blind and disabled individuals, including developing and implementing statewide standards and requirements specific to this population; and
- Initiate a limited implementation of mandatory enrollment of individuals who are aged, blind and disabled in two selected counties (from voluntary enrollment to mandatory enrollment).

The key activities of these requested 9 new permanent positions are discussed below under each subheading as noted.

A. Education and Outreach for Voluntary Enrollment (2 positions). The DHS is requesting two positions—an Associate Governmental Program Analyst (AGPA) and a Health Education Consultant II—for this purpose. **The AGPA** would oversee the development, execution and ongoing management of an interagency agreement for the assessment of current materials and enrollment processes and the development of enhanced materials. **The Health Education Consultant III** position would develop enhanced enrollment and informing materials specific to the aged, blind and disabled population, and work with the Health Care Options contractor (Maximus) and an advisory group to maintain these materials.

B. Development of Infrastructure for Special Populations (4 positions). The DHS is requesting 4 positions—Nurse Evaluator II, Nurse Consultant II, Research Program Specialist I, and an AGPA—to address numerous shortcomings regarding the Medi-Cal Managed Care Program as identified in recent reports and studies, particularly in the report conducted by the CA Healthcare Foundation (as referenced below).

Specifically, the key functions of these **four positions** would be as follows:

- *Nurse Evaluator II.* This position would **(1)** develop medical monitoring protocols and tools specific to the aged, blind and disabled population (voluntary enrollment), **(2)** review current data to determine needed modifications for monitoring any enhancements done for the aged, blind and disabled population, and **(3)** provide clinical expertise in all aspects of increasing enrollment for the aged, blind and disabled populations.

- *Nurse Consultant II.* This position would **(1)** prepare a statewide infrastructure to serve the aged, blind and disabled population, **(2)** develop and advise on feasible recommendations for quality measures for serving this population, and **(3)** convene consumer and provider groups to craft recommendations for improving services for this population.

- *Research Program Specialist I.* This position would **(1)** analyze complex databases regarding this population, **(2)** look at trends in utilization and health indicators, **(3)** conduct research specific to the effects of enrolling aged, blind and disabled individuals into managed care, (4) work with clinical staff to develop an initial health assessment tool, and (5) maintain complex project models used to estimate and budget for the increase of voluntary enrollment of this population.

- *Associate Governmental Program Analyst (AGPA).* This position would oversee the development and implementation activities associated with statewide standard enhancements to include: **(1)** Analysis and development or revision of regulations, contract language and contract deliverables for compliance with enhanced standards, and **(2)** Participation in stakeholder and advisory group meetings.

C. Mandatory Enrollment in Two Counties (2 Positions). The DHS is requesting two positions—an AGPA and Nurse Evaluator II—to develop a mandatory enrollment of the aged, blind and disabled populations in two counties (which have voluntary enrollment currently). **These two positions pertain to policy legislation—AB 2979 (Richmond)—which is scheduled to be heard in the Assembly Health Committee on April 25th.**

D. Payment Systems Division—Health Care Options (1 Position). The DHS is requesting an AGPA to focus solely on aged, blind and disabled population enrollment. This position would direct and oversee the implementation of informing and enrollment process changes for the aged, blind and disabled populations.

Second, **an increase of $1.1 million ($550,000 General Fund) in local assistance is requested for the DHS to enter into an interagency agreement for education and outreach activities.** The DHS intends to establish an interagency agreement with **UC Berkeley** for this purpose.

The products to be developed under this interagency agreement include (1) development of a "welcome and resource" guide on Medi-Cal Managed Care, and **(2)** development of population-specific informing materials and presentation to encourage the voluntary enrollment of special populations (i.e., aged, blind and disabled) into Medi-Cal Managed Care. The DHS states that a variety of information in alternative formats would be used.

The DHS states that an Education and Outreach Advisory Group would be established in July, and execution of the Interagency Agreement would occur by December 2006. The actual implementation of outreach and education is to begin August 2007. This first year of the DHS effort will focus on "ramp-up", including review of existing materials, focus testing of consumers, development of new materials in alternative formats, focus testing on new materials, translation into 13 threshold languages, county and community-based organization trainings, and related matters.

<u>Background—Need for Performance Standards and Core Program Improvements for Medi-Cal Managed Care.</u> After much public discussion and discourse last year, both the Administration and Legislature agreed that the mandatory enrollment of aged, blind and disabled individuals should be delayed until performance measures specific to special needs populations, as well as many other core program improvements, could be crafted and implemented.

A comprehensive analysis conducted by the CA Healthcare Foundation, using three consulting groups with specialized expertise, was released in November 2005. Among other things, this analysis identifies 53 recommendations to improve the Medi-Cal Managed Care Program, including performance measures for serving people with disabilities and chronic conditions (i.e., aged, blind and disabled) in the program. These 53 recommendations were categorized into 23 that are "essential", 21 that are "important" and 9 that are "ideal".

The DHS is presently conducting an internal process regarding these 53 recommendations to discern their next steps for crafting an action plan. It is anticipated that a plan will be forthcoming soon—probably by May. The DHS states that this plan will then be discussed with stakeholders and other interested parties, including at least two public forums (North and South venues).

<u>Legislative Analyst's Office Recommendation—Delete 6 Positions.</u> The **LAO recommends deleting 6 of the requested 9 positions for savings of $580,000 ($235,000 General Fund), and approving the $1.1 million in local assistance for outreach.** The LAO believes that other separate budget requests for DHS staff to conduct managed care activities would provide sufficient staff to ensure that the managed care infrastructure is adequate. **The three positions the LAO recommends approving are as follows:**

- *<u>Education and Outreach for Voluntary Enrollment (1 position not 2 positions).</u>* The LAO recommends approving the Health Education Consultant III position. The DHS had requested a total of two positions, including an AGPA position for this purpose.
- *<u>Development of Infrastructure for Special Populations (2 positions not 4 positions).</u>* The LAO recommends approving the Nurse Consultant II and Nurse Evaluator II positions for this purpose. The DHS had requested a total of 4 positions, including a Research Program Specialist I and an AGPA.

Therefore, the LAO recommends savings of $580,000 ($235,000 General Fund) by approving only 3 of the 9 positions as noted.

<u>Subcommittee Staff Recommendation—Delete 4 Positions.</u> In addition to the LAO's recommendation, it is recommended to provide **two additional positions—the Research Program Specialist I and the AGPA—to fully staff the "Development of Infrastructure for Special Populations" piece of this request** (see "B" above, under key activities to be completed by these positions). It is critical to have this section fully staffed to address the 53 recommendations contained in the CHCF report as referenced above. **Quality products need to be produced by the DHS.**

The development of performance measures and medical monitoring protocols and tools specific to this medically involved population is critical to the program. In addition, activities related to contract amendments for these forthcoming standards, as well as the development or revision of regulations, needs to be done as well. **Further, work for developing an initial health assessment tool and other research and survey-related functions will need to be completed early on as voluntary enrollment increases.**

The two positions requested for the mandatory enrollment of the aged, blind and disabled in two counties (i.e., Two Plan Model counties) should be denied since this policy decision is pending before the Legislature (as contained in AB 2979 (Richmond) as noted above). As such, funds can be placed in the legislation for this purpose.

Further, it is recommended to approve the $1.1 million in outreach funds, along with the following uncodified trailer bill language:

> "In conducting outreach activities for the enrollment of special needs populations into the Medi-Cal Managed Care Program, the Department of Health Services and its contractors, as deemed applicable by the department, shall work with state, local and regional organizations with the ability to target low-income seniors and individuals with disabilities in the communities where they live. This shall include but not be limited to, all applicable state departments who serve these individuals, Regional Centers, seniors' organizations, local health consumer centers, and other consumer-focused organizations who are engaged in providing assistance to this population."

The purpose of this language is to more fully utilize the expertise of existing resources which are available outside of the DHS. The above referenced entities generally have more direct contact with the population the DHS is seeking to voluntarily enroll and therefore, would likely have creative and constructive ideas to facilitate enrollment and provide more one-on-one assistance.

Therefore, it is recommended to (1) reduce by $487,000 ($142,000 General Fund) to reflect the approval of only 5 of the requested positions, **(2)** approve the $1.1 million for outreach as proposed, and **(3)** adopt uncodified trailer bill language as shown above.

<u>Questions.</u> The Subcommittee has requested the DHS to respond to the following questions.

1. DHS, Please provide **an update regarding the development of the action plan** to address the 53 recommendations contained in the **CA Healthcare Foundation report.**
2. DHS, Please **provide a brief summary of the proposal** and the request for positions.

3. DHS Request for Staff—Two New Pilot Projects for Medi-Cal Managed Care

Issue. The DHS is **requesting 11 new permanent positions for an increase of $1.1 million ($525,000 General Fund) to implement *two new pilot project models*— (1)** Access Plus, and **(2)** Access Plus Community Plan Choices. These models require statutory changes to implement. **Implementation of these models requires state statutory change.**

As introduced, AB 2979 (Richmond) is the Administration's sponsored policy legislation that would implement these proposed pilot models, along with other proposed changes to the Medi-Cal Managed Care Program. **Since these pilot projects are new models, it was recommended for the Administration to proceed with policy legislation, in lieu of budget trailer bill language.**

Specifically, the DHS is requesting 11 positions as follows:

Medi-Cal Managed Care Division (7 positions). This division is requesting positions to obtain the infrastructure to develop and monitor the proposed pilot projects. The positions and key activities are as follows:

- *Nurse Consultant III.* This position would serve as the technical expert in the coordination of Medicare and Medi-Cal benefits and provide technical clinical expertise to develop the pilot project models.
- *Associate Governmental Program Analysts (2 positions).* These positions would (1) serve as project coordinators, (2) provide application and readiness reviews, (3) develop and define enrollment process and benefit package, and (4) research and develop regulatory and statutory authority.
- *Nurse Evaluator II.* This position would be used to develop new policies and procedures relative to clinical standards, and quality of care issues.
- *Fiscal Actuary.* This position would develop rates and revise rates as needed for the pilot projects.
- *Associate Management Auditor.* This position would be used to fiscally monitor the Access Plus Program pilot projects.
- *Associate Governmental Program Analyst*. This position would conduct contract development, management and support.

DHS Office of Long-Term Care (3 positions). This section is requesting three positions as follows:

- *Health Program Manager II.* This position would manage and coordinate the Access Plus Community Choices Unit and related functions.
- *Associate Governmental Program Analysts (2 positions).* These positions would be used to develop the Access Plus Community Choices policy, and would monitor at least four contracts and do related work with this model.

Payment Systems Division (1 position). An Associate Governmental Program Analyst position is requested to manage the dual eligible enrollment coordination efforts with the Health Care Options contractor (Maximus) and develop various enrollment materials for the pilot models.

Background—Access Plus Model, & Access Plus Community Plan Choices Model. The federal Medicare Modernization Act allows for Medicare Plans to offer a new type of coordinated care plan for Medicare beneficiaries called "Medicare Special Needs Plans". **Among other things, these Medicare Special Needs Plans can elect to provide care to certain individuals, including those who are *dually eligible* (i.e., Medicare and Medi-Cal individuals), as well as those who have severe and chronic conditions.** The DHS states that there are at least 9 health plans in California that have received federal CMS approval to become a Medicare Special Needs Plan. As such, the DHS is proposing to develop these two models so that dual eligibles and others can receive services through these plans.

The DHS states that the Access Plus model would be implemented in two Geographic Managed Care counties/regions. The DHS states that the Access Plus Community Plan Choices model would be implemented in a County Organized Healthcare System (COHS), a Two-Plan model county and a Senior Care Action Network (SCAN). The differences in healthcare benefits between traditional Medi-Cal Managed Care and the proposed two models are shown below in the table.

Health Care Benefits	**Existing Medi-Cal Managed Care**	**Proposed Access Plus**	**Proposed Access Plus Community Choices**
Primary care	yes	yes	yes
Hospital care, emergency room services and surgeries	yes	yes	yes
Case management of covered medical services	yes	yes	yes
Medi-Cal scope of benefits	yes	yes	yes
Nursing facility services, including extended stays	No—provided under fee-for-service	yes	yes
Adult Day Health Care (ADHC)	No—provided under fee-for-service	yes	yes
Required Expanded Case Management: Consumer participation Interdisciplinary team support Manage care across all settings Priority to avoid institutions			yes
Home and community-based services			yes

Legislative Analyst's Office Recommendation—Deny 3 Positions of 11 Positions. The LAO recommends denying 3 of the positions for savings of $314,000 ($208,000 General Fund). The three positions recommended to delete are Associate Governmental Program Analysts (i.e., two in the Medi-Cal Managed Care Division and one in the Payment Systems Division).

Subcommittee Staff Recommendation. It is recommended to **deny the entire proposal for savings of $1.1 million ($525,000 General Fund). AB 2979 (Richmond), as introduced, contains the Administration's proposal to implement these two new models.** This legislation is scheduled to be heard before the Assembly Health Committee on April 25th. **As such, this resource request can be placed in the legislation.**

Question. The Subcommittee has requested the DHS to respond to the following question.

1. **DHS,** Please provide a brief summary of the request.

4. DHS Staff for New Coordinated Care Management Projects *(Fee-for-Service)*

Issue. The DHS is **requesting 5 new positions for an increase of $473,000 ($208,000 General Fund) to develop a "Coordinated Care Management" (CCM) Demonstration Project.** No statutory changes are proposed.

The DHS states this project would be designed for two specific populations who are enrolled in Medi-Cal Fee-for-Service who are *not* on Medicare (not dually eligible). One project would focus on seniors and persons with disabilities who have chronic health conditions, *and* the other project would focus on persons with chronic health conditions who are seriously mentally ill.

The DHS states that the purpose of these demonstration projects would be to offer the state the opportunity to test targeted approaches for meeting ***high-end users*** of the medical system in a cost-effective manner.

The DHS is requesting 5 new positions in two Divisions as discussed below.

Medi-Cal Operations Division (4 Positions). These positions and their key activities include the following:

- *Nurse Consultant III Specialist.* This position would develop, implement and provide on-going quality assessment and monitoring of the CCM Project from a clinical perspective, including development of the Request for Applications (RFA) and evaluation of the applications. This position would collaborate with medical experts to provide the overall direction of the project.
- *Research Program Specialist I.* This position would provide research, data analysis, and evaluation to the CCM Project, including analysis of program outcomes and conducting complex studies utilizing project data.
- *Associate Governmental Program Analyst.* This position would function as the lead contract manager.
- *Office Technician.* This position would provide clerical support.

Medi-Cal Procurement (One Limited-Term Position). An Associate Governmental Program Analyst position is requested to provide project management and oversight for the RFA contract procurement. This is a two-year limited-term position.

<u>Additional Background on Proposed Coordinated Care Model Demonstration Project.</u> The DHS notes that individuals with chronic medical conditions or terminal illnesses and persons with severe mental illness comprise a significant portion of high-end users of Medi-Cal services. **There is an unmet need within this population for chronic care management and for education and counseling in how to more effectively utilize the healthcare system and its services**. As an example, a person with both schizophrenia and diabetes may be unable to manage his/her diabetes due to an untreated mental condition. **Prompt identification of needs and early treatment will most likely reduce health care needs and expenditures.**

It has been well documented over the years that a small number of Medi-Cal enrollees consume a higher percentage of expenditures. A recent report commissioned by the DHS found that 10 percent of Medi-Cal enrollees (Fee-For-Service) consume over 70 percent of the total costs. For example, the average 85-year old Medi-Cal enrollee incurs about $10,000 in expenditures. As such, the DHS is interested in how to more effectively management these "high-end users".

<u>Legislative Analyst's Office Recommendation—Delete 2 Positions.</u> The LAO recommends denying two of the requested five positions ***and*** to use some Mental Health Services Fund moneys (Proposition 63 funds) in lieu of General Fund support for savings of $133,000 General Fund.

Specifically, the LAO recommends providing three positions to support the CCM Project for persons with severe mental illness, *and* denying the positions designated for the CCM Project for persons with disabilities who have chronic healthcare conditions. Therefore, fewer staff would be needed than requested by the DHS. **As such an AGPA position and the Office Technician position would be deleted.**

The LAO states that the CCM Project for persons with disabilities who have chronic healthcare conditions is not warranted **because the DHS has not yet implemented a Disease Management Project that was authorized by the Legislature in 2003.** Further, the LAO contends that the CCM Project for persons with disabilities who have chronic healthcare conditions is very similar in concept to the Disease Management Project and would be largely duplicative. As such they believe it is important to proceed with the Disease Management Project first.

<u>Subcommittee Staff Recommendation—Delete One Position.</u> **It is recommended to fund all of the positions, except for the Office Technician position, in order to implement the two Coordinated Care Pilot Projects.** This recommendation provides funding for the two-year limited-term AGPA position in the Medi-Cal Procurement Division, whereas the LAO's recommendation does not. The LAO's recommendation to use a small amount of Proposition 63 funds for the mental health project would also be recommended.

Though the DHS has sorely lagged in its implementation of the Disease Management Project, it is important to have the DHS proceed with addressing core issues regarding high-end users in the Fee-For-Service Medi-Cal Program. Even with the continued expansion of Medi-Cal Managed Care, there will always be a Fee-For-Service system that needs to be appropriately managed to ensure both quality of care and cost-effectiveness.

Further, it is assumed that the DHS will utilize information readily available from several "high-end user" projects which were funded by the CA Healthcare Foundation. These county-based projects which have been operating for a few years can provide the DHS with a prototype to use in its development of these projects for Medi-Cal enrollees, as well as information on lesions learned from operating them.

Therefore, a savings of $88,000 General Fund would be obtained by funding only 4 of the 5 positions and using Proposition 63 funds. The difference between this recommendation and the LAO's is the AGPA position for Medi-Cal Procurement.

Questions. The Subcommittee has requested the DHS to respond to the following question.

1. **DHS,** Please provide a brief summary of the proposal, including how this project is distinctive from the Disease Management Project.

2. **DHS**, Please describe how the Coordinated Care Management Program would operate.

5. Establish the CA Mental Health Disease Management (CalMEND) Program

Issue. The DHS **is requesting $887,000 ($443,500 from the Mental Health Services Fund—Proposition 63, and $443,500 from federal funds) to contract for program management, consumer education and peer counseling, clinical consultation, and administrative support.**

The DHS and DMH have initiated this joint effort-CalMEND-- to improve mental health outcomes, while managing pharmaceutical costs. **CalMEND aims to reduce pharmaceutical costs and improve prescribing patterns and access to the quality mental health care services delivered to persons with certain mental health disorders.**

The DHS states that CalMEND will directly address the necessary improvement of the cost-effectiveness of mental health services delivered and/or paid for by state organizations by developing best clinical and administrative practices.

The DHS and DMH will be working with the CA Institute of Mental Health (CiMH), Texas Medication Algorithm Project (TMAP), other experts in the field, and consumers during the planning phase to develop deliverables. Specifically, CalMEND is to build upon the following existing models of mental health disease management and current state efforts to achieve its deliverables:

- The Texas Medication Algorithm Project and the CA Medication Algorithm Project, which is adapting the Texas model for use in local County Mental Health Plans, which uses evidence-based medication algorithms as a central component; and
- The efforts of the Common Drug Formulary System and Policy Oversight Committee developed in January 2003, in response to SB 1315 (Sher), Statutes of 2002, by several state departments, under the direction of the Department of General Services.

When full implemented, CalMEND is to have the following deliverables:

- Develop and implement clinical evidence-based treatment approaches including medication algorithms or equivalent clinical decision support systems for providers to use when making clinical treatment decisions;
- Improve client self-efficacy and compliance with medication and other treatment and mental health support regimens;
- Change the practice environment to support improved quality of care; and
- Develop a data infrastructure to improve upon data collection and analysis based upon common data sets and uniform documentation standards.

Additional Background. The Medi-Cal Program provides psychotherapeutic drugs to nearly 300,000 persons per month. The cost to Medi-Cal for the purchase of psychotherapeutic drugs needed to treat various mental health conditions was nearly $1 billion (total funds) in 2003-04. **The DHS estimates that about 10 to 15 percent of the cost of provision of drugs for the treatment of mental disorders is attributable to the inappropriate prescribing of more than one antipsychotic to an individual, which, for the most part, is considered to be an inappropriate prescribing practice.**

Subcommittee Staff Recommendation. It is **recommended to approve the request.** No issues have been raised by Subcommittee staff or the Legislative Analyst's Office.

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

1. DHS, Please provide a brief summary of the request.

6. Nursing Facility Waiver—Comply with SB 643 (Chesbro), Statutes of 2005

Issue. The DHS **is requesting 14 new positions for an increase of $1.1 million ($355, 000 General Fund) to expand the Nursing Facility Level A/Level B Waiver as required by SB 643, Statutes of 2005, to add 500 persons to the waiver**.

The Nursing Facility Level A/Level B Waiver provides home and community-based services to those individuals in Medi-Cal who would otherwise require institutionalization in a skilled nursing facility.

The requested positions include: (1) Ten Nurse Evaluator II's, **(2)** Two Nurse Evaluator III's and **(3)** an Office Technician. **These additional positions will** (1) support an increase in the Nursing Facility Level A/Level B Waiver enrollment capacity, (2) facilitate compliance with the Olmstead Decision (U.S. Supreme Court decision to provide community-based services), (3) assist in eliminating an existing waiting list for these services, (4) provide required technical assistance and case management services, and (5) maintain compliance with federal CMS requirements for administration of the waiver.

The legislation requires the DHS to:

- Submit an amendment to the federal CMS for the state's Nursing Facility Level A/Level B Waiver to add 500 eligible persons, with 250 of these individuals being residents of nursing homes and acute care hospitals;
- Include new services—community transition and habilitation services—in the waiver amendment;
- Adjudicate a claim for payment of services within an average of 30 days for individual nurse providers; and
- Meet certain reporting requirements to provide information to the Legislature.

Legislative Analyst's Office Recommendation—Approve as Proposed. The LAO recommends approval of the budget request as proposed. The workload is justified.

Subcommittee Staff Recommendation. It is **recommended to approval the proposal.** No issues have been raised. The proposal is consistent with the enabling statute.

7. DHS Staff for DDS Self-Directed Services Program, & Home & Community Waiver

Issue. The DHS is requesting two positions for an increase of $193,000 ($96,000 General Fund) to provide oversight to the Self-Directed Services Waiver Program operated by the Department of Developmental Services (DDS). The positions include an Associate Governmental Program Analyst and a Health Program Specialist I.

The DHS states that these positions are needed to carry out all required monitoring and administrative oversight activities, including the following:

- Respond to federal CMS requests for additional information, including written responses to ensure that appropriate consumer level of care has been determined and that plans of care appropriate and updated as consumer needs change;
- Provide consultation and research on the Waiver regarding regulations, statutes, and bill analyses;
- Provide ongoing administration of the Waiver by providing technical assistance, advice and policy consultation; and
- Oversee interagency agreement with the DDS, including reviewing federal fund claims;

Legislative Analyst's Office Recommendation—Delete One Position. The LAO recommends approving only the Health Program Specialist I position for savings of $100,000 ($50,000 General Fund). The LAO notes that the workload for two positions is not warranted.

Subcommittee Staff Recommendation. Subcommittee staff **concurs with the LAO.** Expansion of the DDS Self-Determination Project has been delayed due to problems associated with CADDIS (DDS' information management system which was discussed in the April 3rd hearing). **One position is warranted in order to ensure compliance with the federal CMS regarding the existing program and to prepare for the upcoming expansion.**

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

1. **DHS,** Please provide a brief summary of the request.

8. Implementation of Assisted Living Waiver Pilot Project

Issue. The DHS **is requesting six positions and contract funds for an increase of $1.2 million ($467,000 General Fund) to implement, monitor, and perform oversight functions required by this pilot project.** The DHS positions include two Nurse Evaluator II's and four Nurse Evaluators. Of the requested amount, $523,000 (total funds) is for contracts.

The Assisted Living Waiver has been approved by the federal CMS and the DHS states that implementation of the Waiver will commence in the current-year (i.e., **no people have as yet been enrolled**). This Waiver Pilot will serve adults with disabilities who meet the intermediate care, Nursing Facility Level A/Level B, or skilled nursing level of care.

It will operate in Sacramento, San Joaquin and Los Angeles. A total of 15 participating facilities in these areas have identified by the DHS. It is assumed that the Waiver Pilot will have a phased-in approach to enrollment with total enrollment being no more than 1,000 participants. **The Waiver application submitted by the DHS projects 200 enrollees in year one, 600 by year two, and 1,000 by year three.**

This Waiver differs from the Nursing Facility Level A/Level B Waiver in several important ways. The target population is different (this Waiver does not include anyone under 21 years). This Waiver is restricted to participating Residential Care Facilities for the Elderly and publicly subsidized housing sites. Lastly, this Waiver is a full-time benefit that is shared among other waiver enrollees in the same setting.

Legislative Analyst's Office Recommendation—Fund Half of the Positions. The LAO recommends providing a total of three positions since it is unlikely that participation in the Waiver project will reach the level originally anticipated. **Therefore, savings of $362,000 ($107,000 General Fund) would be achieved.**

Subcommittee Staff Recommendation. Subcommittee staff **concurs** with the Legislative Analyst's Office recommendation.

Questions. The Subcommittee has requested the DHS to respond to the following question.

1. DHS, Please provide a brief summary of the request.

9. Develop a New Long-Term Care Community Options Assessment Tool

Issue. The DHS **is requesting an Associate Governmental Program Analyst position and contract funds for an increase of $595,000 ($297,000 General Fund) to develop and test a new "Community Options & Assessment Protocol" (COAP) which would be used across multiple state departments and their vendors for programs designed to help individuals remain in their homes instead of nursing facilities..** Of the amount requested, $500,000 is for contracts.

Currently there is no protocol for proactively assessing individual's preferences, needs and access to home and community-based alternatives before admission to a nursing facility. There is no consistency between assessment data elements and definitions that allow community-based health and supportive service programs to share relevant information when it would benefit an individual trying to access multiple services and supports instead of being admitted to a nursing facility. The lack of a uniform assessment tool and protocol was identified as a high priority for resolution under California's Olmstead Plan.

This proposal requires statutory change to implement. AB 3019 (Daucher), as introduced, is the Administration's sponsored legislation for this purpose. This legislation is scheduled to be heard in Assembly Health Committee on April 18th.

Subcommittee Staff Recommendation—Deny and Place in Legislation. It is recommended to deny these requested funds since policy legislation is pending before the Legislature. **The resources necessary to implement the COAP should be placed into the legislation.**

LAST PAGE OF AGENDA

Diane Van Maren(w) 651-4103
Senate Budget & Fiscal Review

Outcomes for Subcommittee No. 3: Monday, April 17th
(Use this document in tandem with the Subcommittee Agenda for the day.)

B. ITEM FOR "VOTE ONLY"—Managed Risk Medical Insurance Board (Page 3)

1. Access for Infants and Mothers (AIM) Program—Program (Page 3)

- **Action.** Approved as proposed.
- **Vote.** 3-0

C. ITEMS FOR DISCUSSION—(Page 4)

1. Healthy Families Program—*Baseline Program* (Page 4)

- **Action.** Approved as proposed, pending May Revision.
- **Vote.** 3-0

2. Trailer Bill —Eliminate Potential for Duplicative Enrollment (Page 6)

- **Action.** Approved as proposed.
- **Vote.** 3-0

3. Proposal to Streamline HFP Enrollment Process (Page 8)

- **Action.** Approved as proposed.
- **Vote.** 3-0

4. Certified Application Assistance for the HFP & Medi-Cal Program (Page 9)

- **Action.** Deleted the "incentive" CAA piece for savings of $2.5 million ($1 million General Fund).
- **Vote.** 3-0

5. Proposed Allocations for County Outreach (Page 11)

- **Action #1. (1)** Established a $3 million pool for small counties, **(2)** Approved the remaining dollar amount for the County Allocation Program as proposed for large counties, and **(3)** Adopted placeholder trailer bill legislation, *in lieu* of the Administration's language, to establish the County Allocation Program.
- **Vote.** 3-0
- **Action #2.** Rejected the CHDP follow-up component of the Administration's proposal.
- **Vote.** 2-1

(In addition, the DHS is to provide Subcommittee staff with a list of "rural/suburban" counties who may be eligible to obtain funds under the pool. (Provide soon please.))

6. Proposed Media Campaign *(Local Assistance)* (Page 13)

- **Action. Denied the request.**
- **Vote.** 3-0

7. DHS Staff for County Allocation Program & Media Campaign (Page 14)

- **Action.** Adopted the LAO recommendation to provide 3 staff as specified for savings of $614,000 ($307,000 GF).
- **Vote.** 3-0

8. MRMIB Request for Staff—Ten Positions for Various Functions (Page 15)

- **Action.** Deleted 6 of the 10 requested positions as recommended by Subcommittee staff, as shown in agenda, for savings of $200,000 General Fund.
- **Vote.** 3-0

9. MRMIB Request for Staff for Mental Health Services Oversight (Page 17)

- **Action. (1)** Held "open" the two positions (discuss with Prop 63 on May 8th)**, (2) Approved the $226,000 (Proposition 63 and federal funds) for UCSF, and (3) Adopted Trailer Bill Language as shown in the Agenda.**
- **Vote.** 3-0

10. Request to Exempt MRMIB from Budget Control Language (Page 20)

- **Action. Rejected the proposed language.**
- **Vote.** 3-0

D. ITEMS FOR "VOTE ONLY"-- Health Services *(Items 1 through 6) (Page 21)*

- **Action. Adopted Items 1 through 6 (Pages 21 *through* Page 24)**
- **Vote.** 3-0

E. ITEMS FOR DISCUSSION—Department of Health Services (Page 25)

1. DHS Request for Staff for Geographic Managed Care Expansion (Page 25)

- **Action. Deleted 12 positions and approved 6, as noted in the Subcommittee staff section of the agenda, for savings of $1 million ($430,000 General Fund).**
- **Vote.** 3-0

2. DHS Staff Request & Local Assistance Funds for Outreach—Special *(Page 30)*

- **Action. Deleted 4 positions and approved 5, as noted in the Subcommittee staff section of the agenda, for savings of $142,000 General Fund.**
- **Vote. 2-1 (Senator Cox)**

3. DHS Request for Staff—Two New Pilot Projects *(Page 34)*

- **Action.** Rejected the entire proposal since policy legislation is moving on this.
- **Vote. 3-0**

4. DHS Staff for New Coordinated Care Management Projects *(Fee-for-Service) (Page 36)*

- **Action.** Deleted two positions and approved three.
- Vote. 2-0 (Senator Cox absent.)

5. Establish the CA Mental Health Disease Management (CalMEND) (*Page 38*)

- **Action.** Approved as requested.
- Vote. 2-0 (Senator Cox absent.)

6. Nursing Facility Waiver—Comply with SB 643 (Chesbro), Statutes of 2005 (*Page 40*)

- **Action.** Approved as requested.
- Vote. 2-0 (Senator Cox absent.)

7. DHS Staff for DDS Self-Directed Services Program (*Page 41*)

- **Action.** Adopted the LAO recommendation to delete one position for savings of $100,000 ($50,000).
- **Vote.** 2-0 (Senator Cox absent.)

8. Implementation of Assisted Living Waiver Pilot Project (*Page 42*)

- **Action.** Adopted the LAO recommendation to provide half of the positions for savings of $362,000 ($107,000 General Fund).
- **Vote.** 2-0 (Senator Cox absent.)

9. Develop a New Long-Term Care Community Options Assessment Tool (*Page 43*)

- **Action.** Rejected entire proposal since policy legislation is moving.
- **Vote.** 2-0 (Senator Cox absent.)

Senate Budget and Fiscal Review—Wesley Chesbro, Chair

SUBCOMMITTEE NO. 3 Agenda

Chair, Senator Denise Moreno Ducheny
Senator Dave Cox
Senator Wesley Chesbro

Thursday, April 20, 2006
(10 am or Upon Adjournment)
John L. Burton Hearing Room (4203)
Consultant, Anastasia Dodson

Vote-Only Agenda

Discussion Agenda

Due to the volume of issues testimony will be limited. Please be direct and brief in your comments so that others may have the opportunity to testify. Written testimony is also welcome and appreciated. Thank you for your consideration.

Vote-Only Agenda

5180 Department of Social Services (DSS)

DSS Vote-Only Issue 1: Case Management Information and Payrolling System (CMIPS) II Procurement

Description: The Department requests a Spring Finance Letter for $680,000 ($340,000 General Fund) to extend 4.0 existing limited-term positions for one year to continue the IHSS CMIPS II procurement and continue funding for independent verification and validation (IV&V) activities.

Background:

The Governor's Budget proposes $25.6 million ($12.8 million General Fund) for a new automation system to replace the existing Case Management, Information and Payrolling System (CMIPS). CMIPS is a 20 year-old system that supports the In-Home Supportive Services (IHSS) program. Development of the new system, known as CMIPS II, is necessary to meet state and federal program requirements for IHSS. Analysis and preparation of the procurement of CMIPS II has been ongoing since 1999-00, and has been delayed a number of times. Final bidder proposals are due in May 2006, and the contract is expected to be awarded in January 2007.

The Health and Human Services Agency Office of Systems Integration (OSI) manages the procurement of CMIPS II for DSS. In 2005-06 there were 16 OSI and 4 DSS positions for CMIPS II procurement and implementation. The Governor's Budget proposed to continue the OSI positions, and this Spring Finance Letter proposes the continuation of the DSS positions, as well as IV&V funding for activities required by state and federal law.

Recommendation: Approve the Spring Finance Letter for $680,000 to extend 4.0 existing positions for one year, and provide continued IV&V funding for CMIPS II procurement.

DSS Vote-Only Issue 2: Community Care Licensing

Description: On March 30th the Subcommittee discussed the Governor's Budget proposal to provide additional DSS positions to address a backlog of required visits and increase the number of random sample licensing visits from 10 percent to 20 percent annually. Consistent with the Governor's Budget, the Subcommittee may wish to adopt trailer bill language to clarify current law regarding the frequency of annual visits.

Background:

Frequency of Facility Visits:

The Budget Act of 2003 and its implementing legislation eliminated the required annual or triennial visits and instead required the department to visit annually the following facilities:

- Facilities owned or operated by a licensee on probation or against whom an accusation is pending;
- Facilities subject to a plan of compliance requiring an annual inspection;
- Facilities subject to an order to remove a person from a facility;
- Facilities that require an annual visit as a condition of federal financial participation such as facilities serving adults with developmental disabilities.

All other facilities are subject to an annual inspection based on a 10 percent random sampling method, **with each facility required to be visited at least once every five years**. The 2003 Budget Act changes also included an escalator clause to trigger annual visits for an additional 10 percent of facilities if citations increase by 10 percent or more.

The 2003-04 funding level for CCL was intended to provide enough staffing to achieve the 10 percent random sampling method, but did not provide sufficient resources to allow CCL to visit facilities at least once every five years – this would have required 20 percent of the facilities to be subject to random inspections, rather than 10 percent.

The Governor's Budget proposed positions sufficient to allow 20 percent of facilities to have random inspections each year. The Subcommittee may wish to adopt placeholder trailer bill language to clarify that the department shall conduct unannounced visits to at least 20 percent of facilities per year. This 20 percent requirement is consistent with the funding and staffing proposed in the Governor's Budget, as well as existing statute that requires facilities to be visited at least once every five years.

Facility Information on the Internet

Unlike skilled nursing facilities, information on the number and types of complaints and citations for community care facilities is not available to consumers on the internet, and reports comparing the performance of facilities are not available to the public or policymakers. On March 30th, the Subcommittee discussed the feasibility of making this information available to the public, and heard testimony from California Advocates for Nursing Home Reform (CANHR), which has worked with the Department of Health Services to put nursing home facility compliance data on the internet.

CANHR has indicated a strong interest in working with DSS to put compliance information for Residential Care Facilities for the Elderly (RCFE) on the internet for consumers. Once the process is developed to put RCFE data on the internet, the department could work with other provider organizations to put the remaining facility compliance data on the internet.

Further, the LAO recommends that the Legislature adopt supplemental report language that requires DSS to report on the costs and benefits of developing the capacity to track the following enforcement data: (1) the number of civil penalties issued for noncorrection of violations and for repeated serious violations, (2) the number of noncompliance conferences held and, (3) the number of resulting probationary, and revocation actions taken against facility licenses.

Recommendations:

1. Adopt placeholder trailer bill language to clarify that the department shall conduct unannounced visits to at least 20 percent of facilities per year. This 20 percent requirement is consistent with the funding and staffing proposed in the Governor's Budget, as well as existing statute that requires facilities to be visited at least once every five years.
2. Adopt placeholder trailer bill language requiring the department to submit a written plan to the Legislature by April 1, 2007 that 1) outlines the system changes, options, and costs to provide compliance history and civil penalty information for CCL facilities to the public via the internet, and 2) reports on the costs and benefits of developing the capacity to track the following enforcement data: a) the number of civil penalties issued for noncorrection of violations and for repeated serious violations, b) total number of civil penalties assessed, c) the number of noncompliance conferences held and, d) the number of resulting probationary, and revocation actions taken against facility licenses.

DSS Vote-Only Issue 3: Statewide Automated Welfare System: CalWIN

Description: On March 30th the Subcommittee discussed the Governor's Budget funding for the Statewide Automated Welfare System (SAWS), including the CalWIN system, which will be used by 18 counties, covering 36 percent of the caseload for various health and human services programs. Counties expressed concerns that the budget did not include funding for replacement of computer workstations that are five years old and have begun to fail.

Background:

The Statewide Automated Welfare System (SAWS) automates the eligibility, benefit, case management, and reporting processes for a variety of health and human services programs operated by the counties: CalWORKs, Food Stamps, Foster Care, Medi-Cal, Refugee Assistance, and County Medical Services Program. SAWS includes four primary systems managed by local consortia, a statewide time-on-aid tracking system, and a statewide project management and oversight office.

CalWIN: The Governor's Budget requests $117.5 million ($44 million General Fund) to continue implementation and operations of the CalWIN system. Implementation of this system began in Sacramento County in March 2005, and is expected to be completed by July 2006. Funding for 2006-07 includes one-time implementation costs of $60 million, and ongoing maintenance costs of $57 million. The 2006-07 costs are $21.8 million higher than previously anticipated. However, the budget also includes $25.8 million in legacy system savings due to discontinuance of the previously operated legacy system.

County Support Staff	$827,000
Help Desk Staff	$4,376,000
Local Telecommunication	$4,630,000
Print Charges	$10,388,000
Quality Assurance	$1,575,000
Total	**$21,796,000**

Note that the 2005 May Revision also added $25.1 million in additional funding for CalWIN implementation above the $128 million previously anticipated for 2005-06.

LAO Analysis: The LAO indicates no concerns with funding for SAWS except the CalWIN budget:

1. **Help Desk Staff.** The budget proposes to increase total county Help Desk staff from 127 to 195, at a cost of $4.4 million. The LAO notes that the information provided by the department does not reflect workload estimates and metrics, and that the appropriate staffing level cannot be determined without these kinds of metrics. The LAO recommends denial of this funding until real metrics are provided.

2. **Print Charges.** The budget requests $10.4 million for additional print charges, which include printing, sorting, stuffing, folding, and bulk mail charges. Note that some of these print costs are offset by legacy system savings. CalWIN produces significantly more client correspondence than the legacy systems, due to more consistent compliance with client notification requirements. In addition, CalWIN provides forms in 7-8 languages, and uses forms that meet Turner requirements for reading comprehension level and format simplicity. The LAO notes concern with the methodology used to calculate the printing costs, and has requested further justification. Without further justification, the LAO indicates funding may be reduced by $2 million total funds.

County Concerns About Workstation Replacement and Help Desk Staff: County welfare departments have expressed concern that the CalWIN budget does not include funding for a workstation replacement schedule, and does not provide adequate help desk staff to support county eligibility staff. The Gartner Group, a nationally recognized independent information technology expert, recommends replacing computer workstations every three to five years. Over 10,000 workstations were installed in 2001-02 and will be five years old in 2006-07, and are due for replacement. Some of these computers have begun to fail, sometimes becoming inoperable in the middle of an eligibility intake.

Counties also note that the funding proposed by the Governor's Budget for help desk staff in CalWIN (and help desk staff for the CWS/CMS automation system used for child welfare) assumes that help desk staff are funded at 1999 salary levels, rather than 2006 salary levels. This effectively reduces the number of help desk staff that can be funded to less than the 195 staff described in the Governor's Budget. Counties request $13.5 million ($4.5 million General Fund) in 2006-07 for replacement of five-year-old workstations and to fund help desk staff at 2006 salary levels.

Note that state departments receive funding for routine workstation replacement in the standard OE&E allowance. However, in recent years state budgets for county operation of social service programs have not included a price increase or other cost of doing business increase. As a result, county-operated social service programs have been significantly challenged to maintain client services while absorbing cost increases in salaries, health care, gasoline, and other operating expenses. Counties would be forced to further reduce staff and services if funding were not provided through the state budget for workstation replacement.

Recommendation: To ensure that counties are able to perform eligibility determination and case management functions in a timely manner, and to prevent further service and staff reductions, staff recommends that funding for CalWIN be increased above the Governor's Budget by $7.0 million ($2.6 million General Fund). The Subcommittee may wish to revisit the issue of funding for help desk staff at a later hearing if workload estimates and metrics are provided.

Governor's Budget	$21,796,000
LAO Print Savings	-$2,000,000
Workstation Replacement	+$9,000,000
Total Recommended	$28,796,000

4200 Department of Alcohol and Drug Programs (DADP)

DADP Vote-Only Issue 1: Reduction in Federal Grants

Description: The department requests a Spring Finance Letter to reduce federal funds by $4.7 million in 2006-07 to reflect a decrease in federal grants from the Substance Abuse Prevention and Treatment (SAPT) Block Grant ($2.4 million) and the Safe and Drug Free Schools and Communities (SDFSC) Grant ($2.3 million). These reductions are primarily the result of a mandatory across-the-board cut to all federal discretionary appropriations.

Recommendation: Approve the Spring Finance Letter for a $4.7 million reduction in federal funds.

5175 Department of Child Support Services (DCSS)

DCSS Vote-Only Issue 1: California Child Support Automation System (CCSAS)

Description: As discussed by the Subcommittee on March 30th, the Governor's Budget proposes $210 million ($71 million General Fund) at both DCSS and the Franchise Tax Board (FTB) to support continued project development and implementation of the CCSAS Child Support Enforcement (CSE) component, and $37.7 million ($13.5 million General Fund) for the

State Disbursement Unit (SDU). The FTB acts as DCSS' agent for the procurement, development and maintenance of the CCSAS project. The Administration has also submitted Spring Finance Letters requesting an additional $15 million ($5.5 million General Fund) for the CSE and $11 million ($3.8 million General Fund) for the SDU in 2006-07.

Background: In an effort to avoid additional federal penalties of $220 million in 2007-08, the state has undertaken an aggressive timeline to allow an application for federal certification of compliance to be submitted by September 30, 2006. As a result of lessons learned from system testing and initial SDU roll-out in the current year, a number of project and funding changes are being proposed.

- **Governor's Budget CSE Component.** The CSE component of CCSAS will provide a statewide central database for case management, financial management, and interstate communication. Total funding for the CSE component is estimated to be $210 million in 2006-07. The budget requests changes that result in a total 10-year cost increase of $12.5 million. The budget also requests 3 new positions at DCSS, and the redirection of 10 existing DCSS positions to continue development of this system. Total positions for the CSE in 2006-07 would be 73 DCSS positions and 142 FTB positions. Total costs for the CSE are projected to be $1.3 billion ($466 million General Fund) from 2003-04 through 2012-13. This component is scheduled to be completed by September 2008.

- **CSE March 14, 2006 Spring Finance Letter.** The Administration has submitted a Spring Finance Letter requesting $16.1 million ($5.5 million General Fund) in 2006-07 redirected from unspent 2004-05 and 2005-06 funds for the CSE. This funding is requested to meet federal certification requirements, ensure proper system operation, and maintain existing local functionality. The Department indicates that major components of this request include $2 million to change data identifiers for Non IV-D cases, $4.3 million to incorporate bar coding on child support documents, $2 million for conversion of outstanding disbursements, and $1.5 million for interfaces and report functions for connections to welfare automation systems. The Administration has also requested expedited review of a Section 11.00 request, dated March 14, 2006, to sign an additional contract with the CSE vendor for $16 million, effective March 31, 2006.

  The Finance Letter also requests Budget Bill Language to increase the authority of the Administration in 2006-07 to use unspent prior year and current year funding to address unanticipated project needs and to accommodate very short project timelines. More specifically, the requested language would: 1) reappropriate unspent 2004-05 and 2005-06 DCSS funds to 2006-07, and allow the Department of Finance to authorize the expenditure of the funds; 2) allow the Department of Finance to transfer reappropriated funds among the DCSS budget items; 3) authorize reappropriated funding to be transferred between DCSS and FTB. The proposed language does not include any notification to the Legislature.

  The department indicates that $31.0 million ($10.6 million General Fund) in unspent 2004-05 funding would be available for reappropriation to 2006-07.

- **Governor's Budget SDU Component.** The SDU component of CCSAS will provide statewide collections and electronic disbursement of child support payments. Total funding for the SDU component is estimated to be $37.7 million in 2006-07. The budget requests $2.1 million in 2005-06 and $3.1 million in 2006-07 due to implementation schedule changes. The department indicates these cost increases are offset by cost savings, due to schedule changes. Total project costs between 2004-05 and 2011-12 are anticipated to be $223.5 million. This component is scheduled to be completed by September 2006.

- **SDU March 27, 2006 Spring Finance Letter.** The Administration has submitted a Spring Finance Letter requesting an additional $11 million ($3.7 million General Fund) to ensure sufficient outreach and instruction to employers of non IV-D cases, proper allocation and processing of non IV-D payments, and sufficient resources are available for call center and help desk support for program participants, employers, and state and local child support staff. The Administration has also notified the Legislature through a Section 11.00 notification of a pending contract amendment with the SDU vendor to increase the contract by $11.8 million.

  The Finance Letter also requests Budget Bill Language to allow the Department of Finance to augment General Fund spending for CCSAS above the amount included in the 2006-07 Budget. The language provides that "if the Director of Finance deems that the augmentation is in the critical path to meet federal certification requirements and therefore necessitates immediate action or immediately necessary for system functionality, the Director may approve the augmentation. Any changes for these purposes would be excluded from the reporting requirements of Section 11.00." In such a case, written notification would be required to the Legislature within 10 days after Finance approval of the contract. If those conditions are not met, project augmentations would be authorized after a 30 day advance notice to the Legislature. Language is also requested to allow $132 million federal funds in the 2006-07 budget to be available for expenditure through 2007-08.

The LAO indicates no concerns with the funding requested in the March 14th Finance Letter, but suggests changes in the contract structure for the SDU help desk costs in the March 27th Finance Letter. The department indicates it is working to address the LAO's concerns. The LAO has also expressed concern that the Budget Bill Language requested under the March 27th Finance Letter would limit Legislative authority.

Recommendation:

1. **CSE March 14, 2006 Spring Finance Letter:** Approve the requested funding increase in 2006-07. Amend the Budget Bill Language to require Legislative notification prior to reappropriation or reallocation of any funds. (DCSS only).

2. **SDU March 27, 2006 Spring Finance Letter:** Hold open the requested funding increase, pending further discussions with Subcommittee staff on resolution of the LAO's concerns. Modify the proposed Budget Bill Language to 1) ensure Legislative oversight prior to mid-year spending increases, and 2) limit the amount of funding and time period for mid-year increases.

Discussion Agenda

5175 Department of Child Support Services (DCSS)

DCSS Issue 1: Accounting Transition to Date of Receipt – Information Only

Description: Concurrent with implementation of the Child Support State Disbursement Unit (SDU), the state is transitioning from a "Date of Collection" accounting system to a "Date of Receipt" system. As a result of legal and operational issues related to a Date of Receipt system, some non-custodial parents that are paid monthly and have been fully compliant in the past will develop an arrears case that could generate interest charges and trigger enforcement actions. As requested by the Subcommittee on March 30th, the department is developing options to address this issue.

Background: The Subcommittee discussed the Date of Receipt issue on March 30th, and asked the department to develop options to fix this problem. Since then, the department has met with Legislative staff and county representatives, and has begun to develop further information about the seven options described below. The department is currently working with Local Child Support Agencies to develop specific cost estimates for each option by May 5th.

1. Adopt Trailer Bill Language to reflect the intent of the Legislature that this problem be solved, declaratory of existing law.
2. Change the CCSAS v2 automation system to record transition arrearages separately, and not charge interest or take enforcement action against this arrearage.
3. Change the SDU to use the Date of Withholding or Date of Collection instead of Date of Receipt.
4. Pay arrears and interest for transitioning cases and do not fix automation systems.
5. Change CCSAS v2 and implement a transitional correction until v2 changes are made.
6. Do not charge interest on arrears until v2 changes are made.
7. No Change.

Questions:

1. DCSS, please briefly present rough estimates for each option.

Recommendation: Hold open until May Revision.

DCSS Issue 2: Funding for Local Child Support Agencies – Information Only

Description: The Governor's Budget proposes to continue holding General Fund support for local child support agencies (LCSAs) flat at $740 million ($192 million General Fund) in 2006-07. Funding has remained at that level for a number of years, and LCSAs indicate that flat funding has reduced the rate of growth in child support collections. At the March 30th hearing the Subcommittee discussed the LCSA request for a 5 percent funding increase ($12.1 million General Fund) for LCSAs, and requested that the department and counties report back on the increased assistance collections and other offsets for the requested funding.

Background:

- **Local Child Support Agency (LCSA) Functions:** 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.

- **LCSA Funding Structure:** California provides baseline compensation to counties, on a statewide basis, at a level comparable to 13.6% of the estimated level of collections adjusted to reflect county expenditures and available General Fund resources. The DCSS 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 formula based on child support collections, subject to Budget Act appropriation. Individual county allocations are generally based on historic county expenditures and vary across the state.

- **Report on Administrative Cost Ratio Study:** In response to Supplemental Report Language for the 2005-06 Budget, the department has provided its report on how local child support agency costs should be classified as direct program costs or overhead costs, and the feasibility of imposing a cap on overhead expenses. The report found a reasonably consistent administrative cost ratio across counties, taking into account expected variables due to size. The workgroup also looked at the various cost review mechanisms and concluded that these mechanisms ensure appropriate program oversight. The department indicates its goal is to ensure that LCSAs consistently and accurately report expenditures according to the definitions developed in the report. The department may conduct periodic reviews of LCSA expenditure report to ensure consistency.

- **LCSA Staffing Reductions:** The Child Support Directors Association reports that state and local staffing has declined from 11,070 in 2001-02 to 9,319 in 2003-04, due to the lack of funding increases. Additional local positions may be eliminated or held vacant in 2006-07 as a result of flat funding.

Funding to support LCSAs has been held flat for the past four years. The Association indicates that flat funding has resulted in an ongoing decline in the rate of growth of child support collections. The rate of growth in distributed collections has dropped from 8.7 percent in FFY 2001 to 1.8 percent in FFY 2005. This represents a 79 percent decline in the rate of growth over the last five years. The Association indicates that chief among the reasons for decline is the loss of approximately 1,800 child support positions over the past three years representing a 17.4 percent reduction in staffing. While automated systems are important, the Association notes that the single most important factor that contributes to the collection of child support is the ability of staff to work directly with a case.

The Association indicates that LCSAs have also been called upon to provide significant resources to support the state in its effort to develop and implement CCSAS. At last count, nearly 200 child support employees are participating in various capacities to support the project. Only a small number of those staff positions are being reimbursed. Additionally, every county child support department is being required to expend resources around conversion and integration activities that are necessary for the successful implementation of the system. Unlike DCSS or FTB, LCSAs have been largely required to absorb the additional workload demands within their current allocation.

- **Options for County Funding:** LCSAs recently met with the department and Legislative staff to develop options for county funding in 2006-07. These options would be intended to increase collections, particularly assistance collections, by increasing LCSA funding. Assistance collections offset state and federal funds for CalWORKs.

  Assistance collections have remained flat or slightly declined since 2001-02, in part due to flat CalWORKs caseload, efforts to close cases, more complex CalWORKs families with more barriers for the NCP, more incarcerated parents, reduced LCSA funding for outreach and ombudsman services, and automation transitions that have shifted county expenditures from collections casework to automation activities.

  Pending options to increase LCSA funding:

  1. **Performance Enhancement Fund:** Counties would submit action plans to the state to request funding. A statutory mechanism (to be developed) would require increased assistance collections as a result of the additional funding.

  2. **Increase the County Share of Assistance Collections:** Counties would receive a greater share of Assistance Collections that are achieved above the currently estimated level of Assistance Collections in 2006-07.

Questions:

1. Representatives for the Local Child Support Directors will briefly present the options being discussed.

Recommendation: Hold open until May Revision.

4700 Department of Community Services and Development (DCSD)

DCSD Issue 1: Naturalization Services Program – Information Only

Description: The Governor's Budget includes $1.5 million for the Naturalization Services Program (NSP). This program assists legal permanent residents obtain citizenship. The Urban Institute estimates that approximately 2.7 million Californians are eligible for but have not applied for citizenship. The Subcommittee may wish to consider additional funding for this program.

Background:

NSP Program Information: The NSP assists legal permanent residents obtain citizenship. This program funds local organizations that conduct outreach, intake and assessment, citizenship application assistance, citizenship testing and interview preparation. In 2005 the program is expected to assist an average of 12,000 individuals in the completion of citizenship applications. The program spends an average of $166 per client. Total funding for the program in 2005-06 was $1.5 million General Fund. Positive outcomes as a result of NSP and citizenship include improved employment opportunities for citizens, and reduced caseload for state-only programs such as the Cash Assistance Program for Immigrants (CAPI), as citizens may quality for the federally-funded Supplemental Security Income (SSI) program.

Catholic Charities of California provides this additional information about NSP:

- Since the first $2 million budget appropriation for NSP in 1996, the State has committed more than $25 million to the program through the annual budget bill process. Over 90,000 citizenship-eligible residents have been served by the resulting provider network.

- This funding represents "seed money" to the many non-profit community-based organizations throughout the State as they assist citizenship-eligible Californians in the completion of their naturalization applications. These non-profits, in turn, enlist the financial and logistical support and volunteer services of local governments, businesses, community groups, labor unions, and others.

- This funding also complements public and private contributions in support of "one-day one-place" Naturalization Fairs that have assisted more than 100,000 immigrants complete citizenship applications, provide fingerprints, and deliver the completed application with the necessary fees to an on-site INS official. The fairs, conducted throughout the State and supervised by the US Citizenship Action Network brought together county and city governments, community colleges, the private sector, volunteers, and the Immigration and Naturalization Service.

- As a result, the net effect of State funding has been multi-faceted:
  - The cost-per-new citizen was minimized,
  - The state "seed money" enabled local agencies and community based organizations to seek and acquire federal and private funds and donations,
  - These same organizations established public-private partnerships for a civic good,
  - Naturalization assistance programs continued to generate and sustain high levels of volunteerism, and
  - Communities experienced social stabilization as individuals, local, State, Federal agencies and community-based organizations worked together to assist citizenship-eligible residents and their extended families in the naturalization process.

Related Programs in Department of Education: The Administration indicates the California Department of Education (CDE) budget includes approximately $660 million in 2004-05 for Adult Education programs that, among other things, authorize naturalization services. Specifically, the CDE indicates current year funding for English Literacy and Civics (EL Civics) Education (which includes Citizenship Preparation Education (CPE)) is approximately $18 million, Federal English as a Second Language (ESL) (which includes ESL-Citizenship) is approximately $42 million, and Adult Secondary Education (of which State ESL-Citizenship is a part) is approximately $600 million. According to the Administration, at this time data detailing spending specifically attributable to naturalization services, as well as the number of immigrants who have completed citizenship applications as a result of these programs, is unavailable. For example, an ESL class may have ten students, but only three may be in the process of becoming naturalized citizens.

However, according to information on the CDE website, enrollment in Adult Education ESL Citizenship classes was less than 5,200 in 2002-03. In addition, Adult Education funding is used for a wide variety of other programs, including High School/GED, vocational education, programs for older adults or adults with disabilities.

Nonetheless, in addition to traditional classroom activities, the CDE indicates the following activities are authorized under this funding:

- Activities that support outreach and recruitment of legal permanent residents who are eligible for citizenship.
- Preparation and assistance activities necessary to successfully complete the naturalization application and interview process.
- Child care and transportation for participants in CPE activities.

The CDE indicates that in addition to being authorized, these activities are encouraged and are taking place statewide at community colleges, adult education centers, faith and community-based organizations (CBOs), and various non-profit entities.

Advocates indicate that NSP is better aligned with the communities it serves than the CDE-sponsored programs. NSP has deeper roots in the communities and immigrants tend to trust their local CBOs as opposed to an adult education center. NSP also differs from the CDE programs because it allows for more services to be provided than just civics classes. NSP allows outreach, application assistance, referrals to classes and in some cases legal assistance.

Questions:

1. DCSD, please describe the Governor's Budget funding level for the Naturalization Services Program.

2. DCSD, has the average length of time for obtaining citizenship recently declined?

Recommendation: Hold open until May Revision.

5180 Department of Social Services (DSS)

DSS Issue 1: Group Home Reform Plan Costs – Information Only

Description: On March 30th the Subcommittee discussed the need for an evaluation of group home reform options, and requested that the department validate the $1 million estimated cost for such a plan.

Background: A number of studies, reviews, reports, legislative hearings, workgroups and stakeholder sessions have underscored the need for improvement in the use of group homes. While efforts at both the county and state levels have focused on reducing the utilization of group homes, little has been done to define the specific roles of residentially-based services within the broader child welfare, juvenile justice, and mental health systems.

A formal evaluation of group home reform options would build on the efforts of the Residentially-Based Services Reform workgroup, which includes advocates, providers, local government, legal, legislative, and Administration representatives. This group has developed a comprehensive framework document that could be used as a starting point for development of a group home reform implementation plan.

Questions:

1. DSS, what is the estimated cost for a thorough evaluation of group home reform options?

Recommendation: Hold open until May Revision.

DSS Issue 2: Dependency Drug Court – Information Only

Description: The 2005-06 Budget Act trailer bill requires DSS to provide a report to the Legislature during budget hearings on the outcomes of the dependency drug court (DDC) program and the amount of savings realized in foster care out-of-home placement and child welfare services. UCLA has prepared an evaluation of the DDC program – the report is under review by the Administration and has not been shared with the Legislature yet, but one of the researchers that prepared the report will present the key findings for the Subcommittee.

Background: Dependency Drug Courts (DDCs) provide intensive substance abuse treatment along with close court supervision to parents who are involved in dependency court cases. Prior evaluations of the DDC model, including one conducted for the federal Department of Health and Human Services, have produced evidence that the model reduces time to reunification, increases reunification rates, and increases participation in substance abuse treatment. This approach would result in cost avoidance in Foster Care and Child Welfare programs.

- **UCLA Report Results:** According to the department, UCLA evaluators found positive results for families that successfully completed the DDC program but mixed results when the program in total was compared to the non DDC counties. In addition, to provide a more rigorous study design the evaluation was based on limited data from Sacramento, San Diego, and Santa Clara counties.

- **DDC Funding Level and Expansion Counties:** The 2005-06 Budget Act provided $2 million federal Promoting Safe and Stable Families (PSSF) funds for DDCs, including $1.8 million for local DDCs, and $200,000 to fund the UCLA evaluation contract. However, not all counties that applied for funding were able to receive it. (only 9 counties received grants out of 22 counties that applied). Furthermore, additional counties (including Los Angeles) have indicated an interest in establishing Dependency Drug Courts in 2006-07. A total of $5.2 million would be needed to continue funding existing DDC and expand DDCs to all of the other counties that want to establish these programs in 2006-07.

  For example, Los Angeles County Superior Court has requested that the Subcommittee consider funding for dependency drug courts in that county. More than 27,000 children are the court's jurisdiction in Los Angeles County. The Superior Court has also requested funding for 1) a substance abuse protocol for youth in five of the county's twenty-seven delinquency courts, and 2) development of a systematic approach to providing treatment to youth under Dependency Court jurisdiction who have substance abuse issues. Studies have shown that substance abuse plays a significant role in instances where youth crossover from Dependency Court to Delinquency Court, and that issue is not adequately addressed in Dependency Court. A new approach could be developed to prevent youth from entering the Delinquency system.

  Note that the 2005-06 trailer bill requires the DDC program be funded unless it is determined that the program is not cost-effective. The proposed budget does not provide funding for DDCs or provide trailer bill language to suspend this requirement.

Note also that the state will receive additional PSSF funds under the Deficit Reduction Act of 2005, which have been used in the past to fund DDC programs. DSS estimates that the state will receive $5 - $10 million in 2005-06 and 2006-07 in additional PSSF funds. The Act also provides $100 million nationally over five years for juvenile court improvements. California is likely to receive roughly 10 percent of these funds.

Questions:

1. Dr. Elizabeth Hall from UCLA will briefly review the results of the DDC evaluation.

Recommendation: Hold open until May Revision.

4200 Department of Alcohol and Drug Programs (DADP)

DADP Issue 1: Drug Courts

Description: The Governor's Budget provides $16.7 million General Fund for Drug Court programs in 2006-07, including $9.1 million for Comprehensive Drug Court Implementation (CDCI) Act programs, plus $7.6 million for the Drug Court Partnership program. Based on an analysis by the LAO that shows significant savings, the Subcommittee may wish to consider an expansion of CDCI Felony Drug Court. Also, the department requests a Spring Finance Letter to add trailer bill language to extend the sunset date for the CDCI program by one year, to January 1, 2008.

Background:

- **Drug Court History:** The first drug court in California began in Oakland in 1993. As a result of the significant increase in drug-related crime, Drug Courts expanded in the 1990's. The Drug Court Partnership Act of 1998 appropriated $4 million for competitive grants to counties to expand drug courts, and required periodic reporting to demonstrate the cost-effectiveness of the grants. The Comprehensive Drug Court Implementation (CDCI) Act of 1999 expanded drug courts to include juvenile drug courts, dependency drug courts, family drug courts, and increased capacity in existing adult drug courts. The CDCI was originally due to sunset on January 1, 2005, but was amended in 2003 to sunset on January 1, 2006, and again in 2005 to sunset on January 1, 2007.

- **Drug Court Program:** Drug Courts use a team approach that emphasizes sobriety and accountability. They integrate drug treatment with other rehabilitation services, conduct frequent drug testing, and provide intensive judicial supervision that deals promptly with relapses of drug use and its consequences. Judges may modify program services and exercise enforcement options, including jail sentences and other sanctions, to assure client compliance. Drug courts are diverse and serve different populations. There are over 150 drug courts for adult and juvenile offenders in 50 counties in California.

- **Adult (Felony) Drug Courts** focus on adult, convicted, felony offenders. The primary purpose is to offer treatment in lieu of incarceration for drug related offenses, by providing access to intensive drug treatment services with on going judicial oversight and team management. The majority of drug courts include initial intensive treatment services with ongoing monitoring and continuing care for 12 months or more.

- **Juvenile Drug Courts** focus on delinquency matters that involve substance-using juveniles by providing immediate and intensive intervention with continuous court supervision. This includes requiring both the juvenile and the family to participate in treatment, submit to frequent drug testing, appear regularly at frequent court status hearings, and comply with other court conditions geared toward accountability, rehabilitation, long-term sobriety and cessation of criminal activity.

- **Dependency Drug Courts** focus on cases involving parental rights in which an parent faces a substance abuse charge that may result in a child being placed away from the parent. The goal is to provide parent(s) with the necessary parenting skills and treatment for their substance abuse to allow children to remain safely in their parent's care and to help decrease the number of children placed in foster care.

- **Drug Court Results:** In the March 2005 Final report on the CDCI, the DADP reported that adult drug court participants who completed the CDCI program averted a total of $42.8 million in prison costs, compared to $32.7 million in drug court expenditures, from January 1, 2001 through June 30, 2004. The ratio of prison costs avoided to drug court costs is 1.31 to 1. This cost offset ratio is based on the full $32.7 million funding for all CDCI programs, even though fifteen percent of this amount was allocated to drug courts other than adult felon courts, including juvenile drug courts and dependency drug courts. In addition to prison cost savings, drug courts also reduced homelessness and resulted in improved social outcomes, such as employment, school attendance and grades, and drug-free births.

- **LAO Analysis:** The LAO has reviewed the costs and savings associated with Adult (Felony) Drug Courts, and estimates that an increase in General Fund expenditures for Felony Drug Courts of $4 million in 2006-07 and $8.9 million in 2007-08 and annually thereafter would result in net savings to the state of $179,000 in 2007-08 and $7.9 million in 2008-09, due to reduced prison costs.

Legislative Analyst's Office Estimated Fiscal Impact of Felony Drug Court Program Expansion					
Savings Under Current Funding Level	**2004-05**	**2005-06**	**2006-07**	**2007-08**	**2008-09**
Felony Drug Court Funding	$15,219,699	$16,475,000	$16,475,000	$16,862,163	$17,308,635
Reduction in Prison Costs	$35,860,032	$49,711,258	$50,139,307	$51,317,581	$52,676,356
Net Savings	**-$20,640,333**	**-$33,236,258**	**-$33,664,307**	**-$34,455,418**	**-$35,367,721**
Savings With Program Expansion	**2004-05**	**2005-06**	**2006-07**	**2007-08**	**2008-09**
Felony Drug Court Funding	$15,219,699	$16,475,000	$20,475,000	$25,831,163	$26,950,582
Reduction in Prison Costs	$35,860,032	$49,711,258	$50,139,307	$60,465,672	$70,262,598
Net Savings	**-$20,640,333**	**-$33,236,258**	**-$29,664,307**	**-$34,634,509**	**-$43,312,016**
Fiscal Impact of Program Expansion	**2004-05**	**2005-06**	**2006-07**	**2007-08**	**2008-09**
Annual Net. Cost or Savings*	**$0**	**$0**	**-$4,000,000**	**$179,091**	**$7,944,295**

*A negative figure represents a net cost; positive figures represent a net savings.

LAO Assumptions:

(1) **Startup:** The Department of Alcohol and Drug Programs (DADP) will notify the counties by June 30, 2006, that $4 million in additional CDCI felony drug court funding will be available beginning January 1, 1007 ($2 million will be awarded the third quarter of the 2006-07 fiscal year, and $2 million will be awarded the fourth quarter). Counties will submit applications for the funding and DADP will notify counties of the awards prior to January 1, 2007.

(2) **Funding:** CDCI felony drug court funding will be increased by $4 million General Fund (half-year funding) in 2006-07 above the spending level proposed in the 2006-07 Governor's budget. CDCI felony drug court funding will be increased by $8.9 million General Fund (full-year funding) in 2007-08 above the spending level proposed in the Governor's 2006-07 budget. Funding for the 2007-08 and 2008-09 years is adjusted for inflation based on the California Consumer Price Index (CA CPI).

(3) **Funding Allocation:** The counties will allocate 33 percent of the increased funding to improving services for existing caseload and the counties will allocate 66 percent of the increased funding to expanding drug courts to additional participants.

(4) **Number of Clients Entering:** Clients entering CDCI felony drug court will increase by 66 percent in the last two quarters of 2006-07. CDCI felony drug court clients are 54 percent of the total of new clients entering drug courts (the CDCI felony drug court budget of $8,875,000 in 2005-06 is 54 percent of total felony drug court funding of $16,475,000). Therefore, of the 2,646 new clients estimated to enter felony drug courts in 2005-06, 1,428 are funded by CDCI. An increase of 66 percent over 1,428 = 942 new felony drug court participants annually beginning in 2006-07.

(5) **Average Months to Completion:** On average it will take participants 18 months to complete drug court (12.5 percent completion in 0-12 months; 37.5 percent completion in 12 to 18 months; 37.5 percent completion in 18 to 24 months; 12.5 percent completion in 24 to 48 months).

(6) **Number of Clients Completing:**

(a) The number of clients completing grew from 823 in 2003-04 to 1,098 in 2004-05 or by about 33 percent. This growth is due mainly to the increase of $2.3 million in 2003-04. Growth in clients completing will decrease to 16.5 percent between 2004-05 and 2005-06 and there will be no annual year-to-year growth in clients completing in subsequent years.

(b) CDCI felony drug court clients are 54 percent of the total of clients completing drug courts (the CDCI felony drug court budget of $8,875,000 in 2005-06 is 54 percent of the total felony drug court funding of $16,475,000). Therefore, of the estimated 1,279 clients completing drug court in 2005-06, 690 are funded by CDCI.

(c) A 66 percent increase in CDCI clients completing will be 455 annually (57 would complete in 0-12 months; 171 would complete in 12 to 18 months; 171 would complete in 18 to 24 months; and 56 would complete in 24 to 48 months).

(7) **Daily Overcrowding Rate:** As provided by CDCR for 2003-04 through 2006-07. Adjusted by the CA CPI in 2007-08 and 2008-09.

(8) **Savings Assumptions:** Only reflect prison days save for completers. Unknown additional savings would likely result for some noncompleters. Unknown additional savings would likely result from the county allocating 33 percent of the funding to improving services for existing caseload as this may result in improved completion rates.

Questions:

1. LAO, please present your analysis.

Recommendation: Due to the significant results for Drug Courts documented by DADP and the LAO, staff recommends that the Subcommittee adopt trailer bill language to eliminate the sunset date for the Comprehensive Drug Court Implementation Act. Recommend that the Drug Court funding level be held open until the May Revision.

DADP Issue 2: Funding for Proposition 36, the Substance Abuse and Crime Prevention Act (SACPA) – Information Only

Description: The Governor's Budget proposes $120 million in 2006-07 for Proposition 36, the Substance Abuse and Crime Prevention Act (SACPA). SACPA provides drug treatment instead of incarceration for certain first or second time non-violent adult drug offenders. SACPA also appropriated $120 million annually from 2001-02 to 2005-06 for drug treatment. Researchers at the University of California at Los Angeles (UCLA) recently released a report on the effectiveness of SACPA which found state and local savings of $2.50 for every $1 in treatment and other costs for the program as a whole. The UCLA report also found savings of $4 for every $1 in costs for those who completed treatment.

Background:

- **Voters Approved SACPA in 2000:** 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.

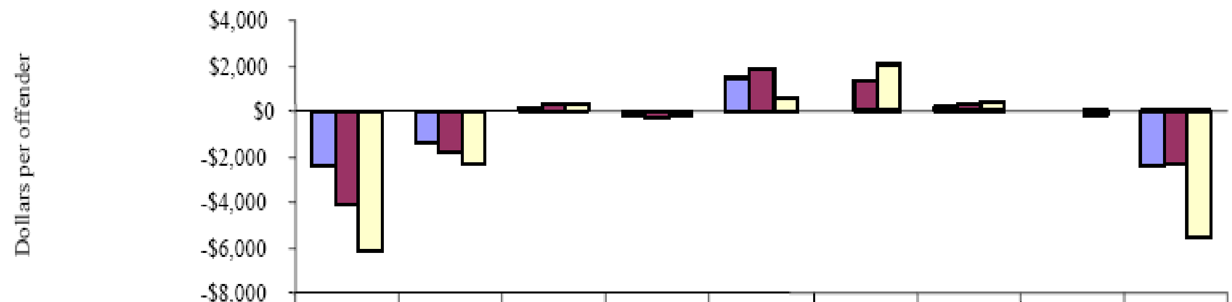
- **UCLA Cost Analysis Report:** The UCLA report includes three studies that each documented costs and savings in eight areas: Prison, Jail, Probation, Parole, Arrest and Conviction, Treatment, Health, and Taxes. CalWORKs and Child Welfare/Foster Care costs and savings were not included in the study. The researchers used administrative data from state databases for SACPA and non-SACPA participants to measure state and local savings.

    1. **Overall SACPA Cost Analysis:** Study 1 found a benefit-cost ratio of nearly 2.5 to 1, indicating that $2.50 was saved for every $1 in SACPA expenditures. Across the 8 areas assessed, SACPA led to a total cost savings of $2,861 per offender over the 30 month follow up period. Study 1 compared costs and savings for 61,609 SACPA offenders between 2001 and 2004 to a similar group of 68,543 pre-SACPA offenders between 1997 and 1998.

    2. **Cost Ratios for SACPA Completion Levels:** Study 2 found that savings for drug treatment completers reflected a benefit-to-cost ratio of about 4 to 1, despite higher treatment costs for this group. This indicates that approximately $4 was saved for every $1 spent on a treatment completer in SACPA. Study 2 compared costs and savings among three groups:

        a. **No Treatment:** Total savings across eight areas was $2,468 per offender.
        b. **Some Treatment:** Total Savings across eight areas was $2,386 per offender.
        c. **Completed Treatment:** Total savings across eight areas was $5,601 per offender.

Figure 10. DID Cost Summary by Drug treatment Status

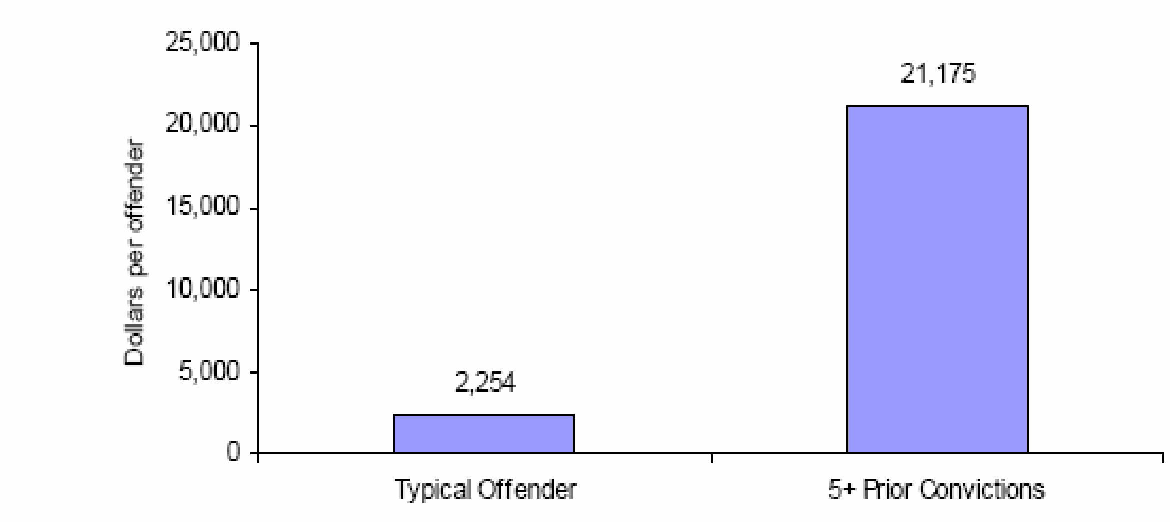


	Prison	Jail	Probation	Parole	Arrest & Conviction	Treat-ment	Health	Tax	Total
No treatment	-$2,459	-$1,411	$111	-$211	$1,440	-$48	$154	-$45	-$2,468
Some treatment	-$4,058	-$1,822	$329	-$245	$1,859	$1,335	$260	-$44	-$2,386
Completed treatment	-$6,175	-$2,372	$336	-$225	$552	$2,027	$434	-$177	-$5,601

No treatment   Some treatment   Completed treatment

3. **SACPA Second Year Replication:** Study 3 found that the benefit-cost ratio in the second year of SACPA implementation was very close to the first year, at 2.1 to 1 for the first year and 2.3 to 1 for the second year. Study 3 compared SACPA eligible offenders

Figure 13. Relative Costs for High-rate Offenders (1.6%, N=1,010)



- **UCLA Conclusions and Recommendations**

  - **High Cost Offenders:** Offenders with 5 or more convictions in the 30-month period prior to their SACPA eligible conviction produced costs 10 times higher than those of the typical offender. SACPA criteria should be modified so that offenders with high rates of prior non-drug convictions (e.g. 5 or more prior convictions over the prior 3 years) would be placed into more controlled settings, including, but not limited to, residential treatment or prison- or jail-based treatment programs.

  - **SACPA Results Varied:** UCLA found that assessment rates were better in counties where assessment units or centers were located in or near the court, where offenders were allowed more days to report for assessment, and where assessment and treatment placement occurred in a single visit. Assessment and treatment show rates were higher in counties using one or more Drug Court procedures. At the drug treatment level, residential and methadone modalities were underutilized for high drug severity and opiate dependent offenders. Outcomes were best for SACPA completers. More specifically:

    1. Based on client assessments and research findings on successful strategies, greater resources should be dedicated to increasing treatment engagement, retention, and completion.

    2. Resources should be allocated to ensure suitable and effective drug treatment options locally. This may require capacity expansion, more efficient location and higher utilization of residential services, and greater utilization of narcotic substitution therapy.

    3. Collaboration and coordination among court, probation, parole, and drug treatment systems should continue to be improved with the goal of admitting offenders into appropriate treatment in the shortest possible time, as well as maintaining appropriate levels of oversight and supervision.

    4. Incentives should be considered for providers who demonstrate more success in drug treatment engagement, retention, and completion for SACPA clients.

    5. A greater utilization of both probation and community program drug testing information should be used to determine the need for additional services and/or intermediate sanctions of increasing severity for problematic or recalcitrant offenders. Such sanctions could include short jail stays.

  - **Previous UCLA Report – Clients Served and Outcomes:** According to UCLA's July 2005 evaluation of SACPA, in 2003-04 51,033 clients were referred to the system and 37,103 (73%) received treatment. This "show rate" compares favorably with show rates in other studies of drug users referred to treatment by criminal justice. The UCLA findings include:

- o Most SACPA clients (89%) were on probation when sentenced or were already on probation. The remaining 11% were parolees with a new drug offense or a drug-related parole violation.

- o SACPA clients had long histories of drug use and half were experiencing treatment for the first time. Methamphetamine was the primary drug used by 53% of SACPA clients. About 45 percent were non-Hispanic White, 32 percent were Hispanic, and 14 percent were African-American. The average age of SACPA clients was 35.

- o Most SACPA clients (84%) were placed in outpatient drug-free programs, and 11% were placed in long-term residential programs. However, many clients had drug problems severe enough to suggest a need for residential treatment. Methadone maintenance, methadone detox, non-methadone detox, and short-term residential treatment were rarely used in SACPA.

- o Of those clients who entered treatment in the second year (2002-03), 34% completed treatment. Of the total clients referred (clients entering treatment as well as those who dropped), the completion rate was 25%. SACPA treatment performance rates are typical for drug users referred to treatment by criminal justice.

- o Success in treatment was particularly difficult for those with heroin addiction. Few heroin users were treated with methadone detoxification or maintenance programs, despite the proven effectiveness of those programs.

- **Program Funding and Expenditures:** SAPCA appropriated $60 million for 2000-01 and $120 million annually from 2001-02 through 2005-06. The sentencing guidelines established by SACPA do not sunset, although the statutory funding requirement sunsets June 30, 2006. Of total expenditures in 2003-04, counties spent 76% on treatment and related services, and 24% on court, probation, and other criminal justice activities.

Fiscal Year	Amount Allocated to Counties	Carryover Funds from Previous Year	Total Funds Available	Total Expenditures	% Expended of Total Funds Available	% Expended of Total Annual Allocation
FY 2000/01	$58,800,000	Not Applicable	$58,800,000	$7,177,107	12.2%	12.2%
FY 2001/02	$117,022,956	$54,241,609	$171,264,565	$92,783,434	54.2%	79.3%
FY 2002/03	$117,022,956	$85,971,954	$202,994,910	$136,392,288	67.2%	116.6%
FY 2003/04	$117,022,956	$70,872,140	$187,895,096	$134,282,695	71.5%	114.7%
FY 2004/05	$116,594,956	$57,011,522	$173,606,478	$133,483,107	76.9%	114.5%
FY 2005/06	$116,513,956	$40,123,371	$156,637,327	*$149,709,926	95.6%	128.5%

* Estimated

- **Governor's Budget:** The Governor's Budget funding level of $120 million may effectively result in funding reductions for counties, as they have been using unspent carryover funds from their initial SACPA allocations to supplement the $120 million annual appropriation. Counties are expected to have little or no carryover funds after 2005-06.

The budget requests statutory changes to align SACPA sentencing guidelines with the drug court model, including drug testing, flash incarceration, and judicial monitoring. The budget also recommends programmatic changes to ensure that offenders are matched with appropriate treatment services, such as narcotic replacement therapy and culturally competent services.

- **Concerns Regarding Funding Level:** On March 9th the Subcommittee heard extensive testimony from counties, consumers, providers, educators, and advocates, who expressed concern that the Governor's Budget funding level for SACPA is insufficient, and that it would result in reduced services, more persons incarcerated, and reduced supervision of violators. Further, the funding level for SACPA has not been adjusted to reflect actual caseload or treatment cost increases.

  The Coalition of Alcohol and Drug Associations (CADA) has requested $209.3 million General Fund for SACPA in 2006-07, an increase of $89.3 million above the Governor's Budget funding level. This figure is based on surveys conducted in 2004 and 2005 among county alcohol and drug program administrators. They indicate the anticipated shortfall in 2006-07 is $68 million for treatment, $4.5 million for ancillary services, and $16.8 million for probation supervision. The greatest unmet needs are for residential treatment and aftercare, which is received by less than one third of Proposition 36 offenders.

  Due to funding constraints, some counties currently have waiting lists for residential treatment slots. Clients are provided outpatient services while on those waiting lists. Funding constraints have also resulted in some counties reducing the intensity and duration of treatment, such as providing group counseling instead of individual counseling, and reducing treatment programs from 12 to 8 weeks.

- **LAO Analysis:** Based on the findings of the UCLA study and their own analysis, the LAO indicates that failure to fund Proposition 36 programs at their current actual expenditure level would probably eventually result in an even larger increase in state General Fund support for the state prison system. The LAO estimates that Proposition 36 resulted in savings for prison and parole of $205 million General Fund in 2002-03 and $297 million General Fund in 2003-04. They also note that Parole savings may be understated and health care costs may be under or overstated. The LAO recommends:

  1. Funding for Proposition 36 in 2006-07 should be set generally at the current level of expenditure (roughly $150 million General Fund). This amount includes $7 million carryover funding from 2005-06, so the net General Fund increase above the Governor's Budget level of $120 million would be approximately $20 - $23 million.

2. Counties should have a share of cost for any funding above $120 million, beginning in 2007-08.

3. The Legislature should seek advice from the Office of Legislative Counsel regarding whether it is permissible to provide funding as a regular appropriation to DADP. The advantage of that approach would is that it would provide the Legislature greater policy control over this funding.

Questions:

1. UCLA Researchers Dr. Angela Hawken and Dr. Darren Urada will present their report.

2. LAO, please present your analysis of funding level for SACPA in 2006-07.

Recommendation: Hold open until the May Revision.

DADP Issue 3: Alcohol and Drug Program Licensing Reform Proposal

Description: The Department of Alcohol and Drug Programs (DADP) requests a Spring Finance Letter for $879,000 ($650,000 General Fund) and 7.5 new positions (including 1.0 one-year limited-term position) to improve the licensing and certification of alcohol and drug treatment programs in the state.

Background: The DADP Licensing and Certification Division currently includes a total of 58 positions.

DADP Licensing and Certification Division	Current Positions	Additional Positions Requested
Residential & Outpatient Programs Compliance Branch – Manager	1	0
Licensing and Certification Section (non-SACPA funded facilities)	8	1
Licensing and Certification Section (SACPA facilities)	8	1
Complaint Investigations Section*	8	4
Special Projects and Support Section	6	1
Driving Under the Influence (DUI) Program Branch	9	0
Narcotics Treatment Program (NTP) Branch	15	0
Licensing and Certification Deputy Director's Office	3	0
Total	**58**	**7**

** Note that the Complaint Investigations Section investigates complaints for all types of facilities, including Residential, Outpatient, DUI, and NTP programs, and began investigating complaints against counselors in October 2005.*

Current Alcohol and Drug Program Licensing and Certification Responsibility

Facility Type/Counselor	**Number of Programs**	**Oversight**
Alcohol and Drug Treatment Facilities – Residential	837*	Licensed by DADP, Residential and Outpatient Programs Compliance Branch
Alcohol and Drug Treatment Facilities – Outpatient	954	Certified by DADP, Residential and Outpatient Programs Compliance Branch
Driving Under the Influence Facilities	448	Licensed by DADP, DUI Program Branch
Narcotics Treatment Program Facilities	146	Licensed by DADP, NTP Branch
Counselors – All Facilities	17,000	Certified by 10 Outside Organizations

** Note that Residential facilities are licensed by DADP, and Outpatient facilities are certified by DADP. Of the 837 licensed residential facilities, 351 are also certified by DADP to allow for third party certification. Therefore the 954 total certified outpatient facilities includes 351 licensed residential facilities.*

At the March 9th hearing the Subcommittee discussed articles in the *Sacramento Bee* that focused on the quality of care provided by counselors under SACPA. These articles indicated that over 40 serious incidents of neglect or abuse had been identified since the implementation of SACPA in 2001. These incidents resulted in the risk or actual injury or death of patients, and may be the result of insufficient regulation and standards for substance abuse counselors.

The department indicated that increased incidents of abuse or neglect should be considered in the context of the significant increase in treatment admissions and providers under SACPA. The department also noted that it implemented new counselor certification regulations effective April 1, 2005, after seeking stakeholder comments. The regulations are intended to improve the quality of counselors without resulting in workforce shortages. Prior to the regulations, a valid TB test was the only requirement for an individual to become a substance abuse counselor.

The DADP Licensing Reform proposal expands on the counselor certification regulations, and includes additional staffing and statutory changes to improve the health and safety of clients and improve the quality of alcohol and drug treatment services:

- **Staff for Complaint Investigation Workload:** Due to recently adopted regulations, effective October 2005 the department began investigating complaints against alcohol and drug program counselors.

  Prior to the implementation of the Counselor Certification regulations, complaints about counselor conduct were investigated as a possible failure by a licensed or certified facility to properly hire, train and/or supervise their employees. This usually consisted of investigating whether or not the counselor had violated any of their employer's rules or policies, and whether or not they had the qualifications documented in the facilities protocol. Because the investigation focused on the actions of the facility, if a facility fired the individual, the investigation would end because the facility had taken a presumably appropriate action. This would allow a counselor to move from program to program, repeating the same inappropriate behavior, without having to fear any kind of consequences beyond loss of current employment.

Under the current regulations, counselor conduct complaints continue to be investigated as a possible failure by the program to properly hire, train and/or supervise. However, the individual counselor is also investigated to determine if they have the required registration or certification and if they violated the code of conduct provisions contained in regulation. If a violation has occurred, the organization who certified the counselor will be ordered to take disciplinary action against the counselor, up to revocation of the counselor's certification, limiting the individual's ability to simply move from program to program. The follow-up required in the event of a complaint against counselors is a new workload for the Department.

- $150,000 contract with the Department of Social Services for a peace officer investigator to assist with counselor complaint investigation.
- 4.0 DADP staff for counselor complaint investigation.
- 0.5 DADP legal staff to assist with complaint investigation and disposition.

	Complaints Against Providers/Facilities	**Complaints Against Counselors**
2004-05	312	
2005-06*	339	25
2006-07*	354	170
2007-08*	369	170

* Estimated

- **Staff for Biennial Reviews of Certified Outpatient Facilities:** 2.0 DADP staff are requested for biennial reviews of 603 outpatient facilities that are certified but not licensed. This request is in conjunction with the trailer bill language request to require biennial visits to outpatient facilities. Unless a complaint is filed, outpatient-only facilities are not currently visited by ADP staff after the initial certification visit. This proposal will not affect the DUI or licensed and certified residential programs, which already have on-site reviews and renewal licenses once every two years.

  Note that the department also indicates the trailer bill language proposal for probationary reviews of new programs at the six month and one year intervals would increase current compliance visits by nearly 400 per year. Training and technical assistance for providers would also increase the department's workload. Actual workload for these activities is not yet known, and resources for these activities are not requested at this time.

- **Staff for Licensing Reform Analysis and Data Sharing:** 1.0 one-year limited-term position to lead a review of the DADP licensing and certification process and collaborate with the Department of Social Services (DSS) to align the licensing process between the two departments and develop a process to share information between the departments regarding programs or counselors closed or sanctioned by either department. The department indicates that sharing this information requires statutory changes, as described below.

The department indicates the proposed trailer bill language would authorize DADP to 1) take license actions in reliance on conclusions in final administrative actions taken by other departments and 2) take license actions for "conduct inimical" to health and welfare, regardless of the location of the conduct. Current statute requires in most cases that the conduct be in or about the facility. The department indicates that information that would be used to take action would be provided to DADP from other departments' licensing functions.

The department also notes that it is not requesting statutory changes to authorize DADP to send information to other departments. The department believes this language is not necessary because 1) its final administrative actions are public records, and 2) its sharing of non-final information with other departments should be received by them as "complaints" to be investigated, and 3) this type of disclosure is already permitted by the Information Practices Act in Civil Code §1798.24(e).

- **Trailer Bill Language for Licensing Reforms:** The Spring Finance Letter requests various changes to the licensing and certification process for alcohol and drug programs. Some of these changes would give the department expanded authority to suspend or revoke facility/counselor licensure or certification. Alcohol and drug program providers have requested that the Subcommittee not act on the proposed statutory changes yet, as the changes are extensive, and require a greater review period. The Subcommittee may wish to reject all or portions of the trailer bill without prejudice and suggest that these changes be heard by policy committees of the Legislature. Note that the trailer bill provisions are also being considered under SB 1759 (Ashburn) and AB 2703 (Aghazarian). The proposed statutory changes would:

    - Require DADP to develop regulations for outpatient program certification, with voluntary standards until the regulations are adopted.

    - Establish a certification period of two years. Under current law, outpatient facility certification does not have an expiration period. Other facilities have a two year license.

    - Require officers and owners of facilities licensed or certified by DADP to submit a self-disclosure statement of any crimes or license suspension at the time of license/certification application or renewal. Currently only staff and owners of NTP facilities are required to be fingerprinted and have background checks. Counselors at other alcohol and drug treatment facilities are not required to be fingerprinted, except if they are applying to work in an adolescent facility or NTP clinic. The 10 certifying organizations authorized by DADP may require fingerprints at their discretion, and counties may require fingerprints for counselors employed in facilities in which there is a county contract.

    - Prohibit persons whose application for licensure or certification is rejected by the department from applying for license or certification for two years.

- Allow DADP to deny an application for licensure or certification, suspend or revoke a license or certification, or deny an application due to conduct inimical to individual or public health, morals, welfare, or safety.

- Allow DADP to conduct more frequent facility evaluations than the minimum specified by law or regulation.

- Allow the department to issue a license or certification of less than two years under certain conditions.

- Establish a one-year probationary period for all licensed or certified facilities.

- Allow DADP to determine accreditation standards for facilities and counselors.

- Require onsite compliance inspections to be conducted at least once during the two-year licensure period for providers.

- Provide DADP with emergency regulation authority to implement the changes listed above.

Alcohol and drug programs have expressed concern about the increased program costs that may result from this licensing reform proposal, particularly from the proposed statutory changes.

Questions:

1. DADP, please present the licensing and certification reform proposal.

2. DADP, please explain how licensing fees would be affected by this proposal.

Recommendation:

a) Approve the 4.5 positions and $150,000 peace officer contract for complaint investigations.

b) Approve the 2.0 positions and trailer bill language for the biennial reviews of outpatient-only facilities.

c) Deny the 1.0 position for licensing reform analysis and data sharing. The activities of this position are closely related to the licensing reform trailer bill language, which would expand the authority of the department to revoke or suspend licenses.

d) Deny the remaining trailer bill language without prejudice and refer it to policy committee. The proposed changes are extensive and unrelated to significant budget issues.

5160 Department of Rehabilitation (DOR)

The Department of Rehabilitation assists people with disabilities to obtain and retain employment and maximize their ability to live independently in the community. The budget proposes total funding of $360.1 million ($47 million General Fund).

DOR Issue 1: Supported Employment Program Rates – Information Only

Description: The Department of Rehabilitation (DOR) funds services for persons with developmental disabilities primarily through its Supported Employment Program (SEP) and Work Activity Program (WAP). The Subcommittee may wish to consider a reimbursement rate increase for SEP providers. Some of the General Fund costs associated with the rate increase may be offset by savings in WAP and other programs and benefits.

Background:

Work Activity Program (WAP): WAP provides work experience and ancillary work-related services in a non-integrated setting to persons with developmental disabilities. Funding for WAP is included in both the DOR and Department of Developmental Services (DDS) budgets. DOR funds WAP intake services with the goal of preparing consumers for integrated supported employment. DDS funds long-term WAP services for consumers who do not vocationally progress to supported employment. In 2006-07, 1,223 consumers with developmental disabilities are anticipated to be served by WAP through not-for-profit agencies reimbursed by DOR.

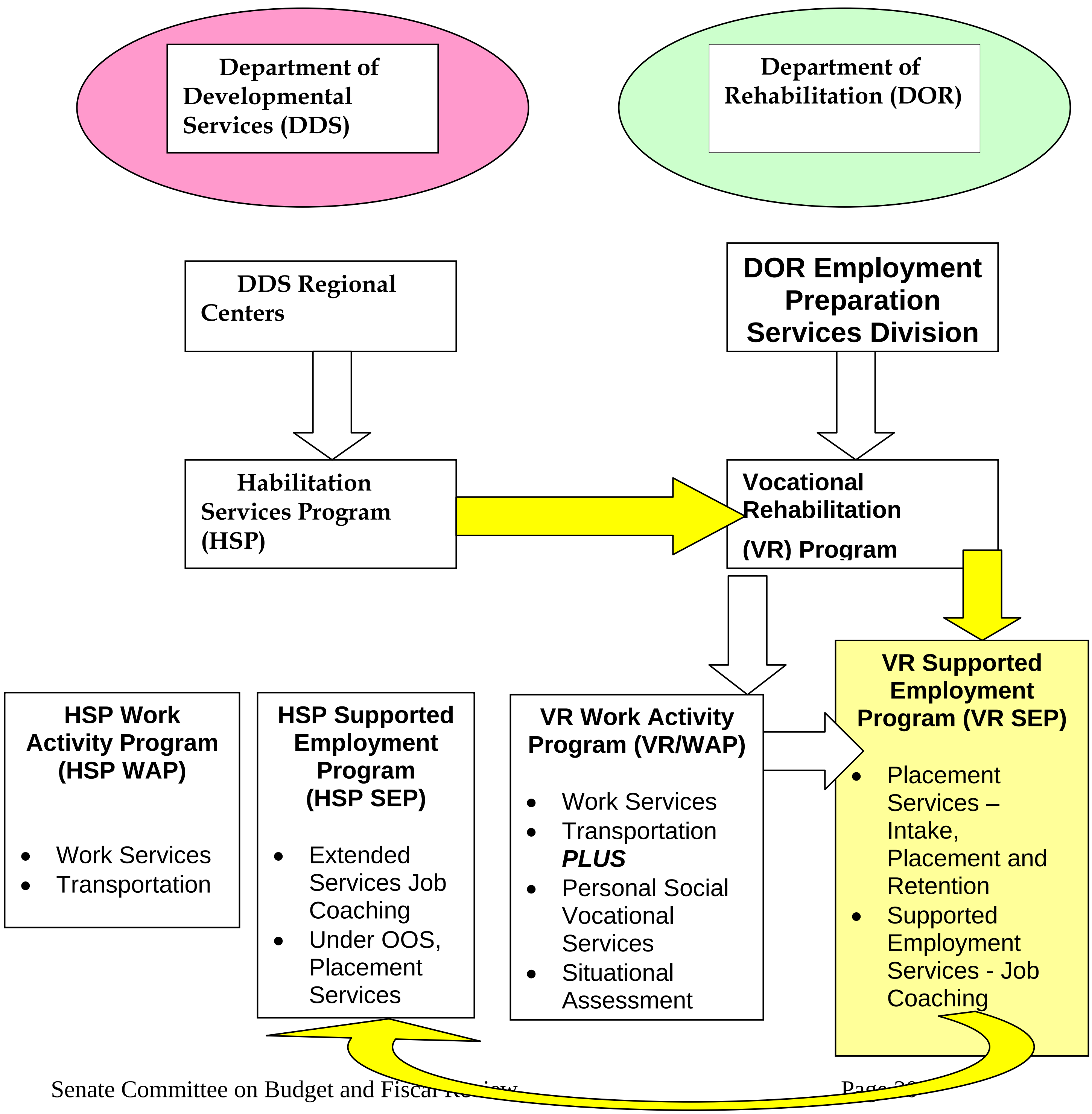
Providers are reimbursed for services on a per consumer day basis. WAP rates are specific to each facility, based upon historical costs for one fiscal year, calculated through cost statements submitted and reviewed, set biennially, and in effect for two state fiscal years unless legislation dictates otherwise. However, WAP daily rates for DDS and DOR have been in effect since July 2002, due to a statutory rate freeze.

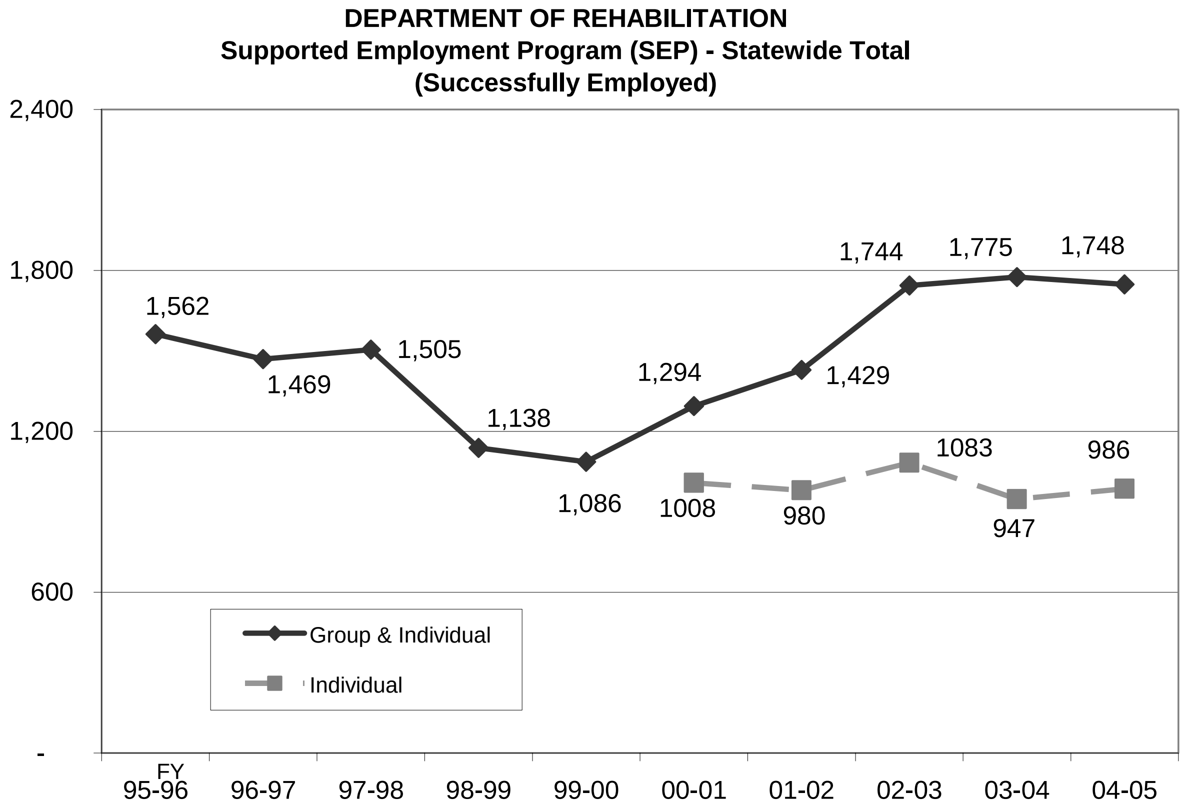
Supported Employment Program (SEP): SEP provides clients integrated employment opportunities and provides training and ancillary support services to enable clients to learn job skills and maintain employment. SEP services are provided in individual or group settings, and include assessment, specialized job placement services and job coaching. Of the 7,087 SEP clients with developmental disabilities anticipated to be served by DOR in 2006-07, approximately 70 percent will be in individual placements, with the remaining clients in group placements.

SEP placement rates for consumers with developmental disabilities referred from Regional Centers are $200 for intake, $400 for job placement, and $400 for job retention after 90 days of successful employment ($1,000 total). After a consumer is placed on the job, job coaching is provided at an hourly rate of $27.62. These intake, placement, job retention and job coaching rates also apply to other DOR consumers with non-developmental disabilities (such as psychiatric, traumatic brain injury, etc.) who require supported employment through the department's non-Habilitation Supported Employment Program. The non-Habilitation SEP consumers represent about 10 percent of total SEP consumers.

DOR pays placement rates to community rehabilitation programs (CRPs) for consumers who do not require supported employment services based on the cost of providing the service with the average statewide rate of approximately $1,766. These services may include limited job coaching and follow along services.

Supported Employment and Work Activity (HSP VR/SEP)





Note: DOR ceased plan services to all new eligible consumers in 1995 and 1998 due to insufficient funds. Under an Order of Selection process from 1999 to present, DOR has maintained services to all eligible consumers with significant and most significant disabilities (Categories I and II). Note also that DOR began tracking Individual and Group SEP placements separately in 2000-01.

SEP Rate History: Community Rehabilitation Programs are currently paid $27.62 per job coach hour for both group and individual job coaching in the SEP.

- Prior to 1998-99, SEP job coaching rates were paid per consumer and based on the WAP rate with an added administration fee. New providers were paid $4.30 per consumer hour for group consumers and $22.86 per consumer hour for individual placements.

- Effective July 1, 1998, SEP rates were set in statute at $27.50 per job coach hour, for both group and individual consumers.

- Effective July 1, 2000, SEP rates were increased 3% to $28.33 per hour.

- Effective July 1, 2003 SEP rates were reduced 2.5% to $27.62 per hour. WAP rates were also reduced by 5%.

- The 2006-07 Governor's Budget proposes a 3% increase for SEP job coaching (to $28.45 per hour) and WAP daily rates to conform to proposed DDS rate increases.

Provider Rate Proposal: Providers are concerned that low SEP reimbursement rates are effectively limiting the number of new clients that can be served. The providers indicate that there has been one increase, not based on cost, in 20 years. They suggest that the current rate does not provide enough funding to recruit and retain competent job coaches, thus leading to a significant decrease in successful placements and an increase in those needing re-placement services. Providers note there has been little or no increase in individual SEP placements in the last ten years statewide.

As indicated in the chart on the previous page, the number of SEP placements resulting in successful employment has remained relatively flat about approximately 1,000 per year since 2000-01, when the department began separately tracking individual and group placements. **However, providers note that while the number of successful SEP placements has remained flat, the number of working-age adults with developmental disabilities has increased by an average of 3.8 percent each year since 1994, leaving many consumers underserved.**

Providers also indicate that significant General Fund costs occur in DDS when clients that would be able to eventually become more independent are not able to be served through SEP due to low reimbursement rates, and instead are served through WAP, first in DOR, then later in DDS. Note that DOR SEP and WAP costs are funded with 78.7 percent federal funds, and 21.3 percent General Fund, but that DDS WAP costs are funded with 50 percent General Fund for waiver-eligible consumers (60 percent of DDS WAP consumers are waiver-eligible, so 30 percent of the DDS WAP program is funded through federal funds).

Providers suggest that successful SEP placements are cost effective in the long run, since the General Fund share of DOR SEP costs is significantly lower than the General Fund share of DDS WAP costs. In addition to the lower General Fund share of cost for DOR services, providers also indicate that successful employment placement reduces SSI/SSP costs for individuals with disabilities.

Providers suggest that a $10 per hour increase in the job coach hourly rate from $27.62 to $37.62 would increase the number of SEP consumers and that significant savings would result in DDS day services due to consumers being redirected to DOR.

DOR Response: The department indicates it cannot confirm a cost/savings estimate for this proposal at this time, but it is working with DDS to develop an estimate.

However, the department notes that the federal Vocational Rehabilitation grant that funds SEP, WAP, and other DOR programs is a capped grant, and that the estimated expenditures for 2006-07 are very close to the cap. The federal grant is based on population, per capita income, and the CPI, and is adjusted each year by the CPI and every other year for the other two factors.

The federal grant for Federal Fiscal Year (FFY) 2007 is $271.5 million. An additional $4.8 million is available from the prior year reallotment award, for a total of $276.3 million in capped federal funds. The Governor's Budget proposes $274.8 million in federal fund expenditures. The department indicates the remaining $1.5 million under the cap may be needed for May Revision caseload adjustments.

Questions:

1. DOR, please briefly describe SEP, and how consumers with developmental disabilities progress through the program.

2. The number of consumers successfully employed through SEP since 2000-01 has been approximately 1,000 per year. DOR, how does that figure compare to the number of consumers that could be successfully employed through SEP if additional funding were available?

Recommendation: Hold open until May Revision.

SUBCOMMITTEE NO. 3 Agenda

Chair, Senator Denise Moreno Ducheny
Senator Dave Cox
Senator Wesley Chesbro

Thursday, April 20, 2006
(10 am or Upon Adjournment)
John L. Burton Hearing Room (4203)
Consultant, Anastasia Dodson

Trailer Bill Language

DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS

Proposed Trailer Bill Language, April 2006 Finance Letter

All references are to Health and Safety Code unless otherwise specified.

11756.9 (a) This act shall be known as the Alcohol and Drug Programs Licensing Reform Act of 2006.

(b) The regulations adopted by the department pursuant to this Act shall be adopted as emergency regulations in accordance with Chapter 3.5 (commencing with Section 11340) of Part 1 of Division 3 of Title 2 of the Government Code, and for the purposes of that chapter, including Section 11349.6 of the Government Code, the adoption of these regulations is an emergency and shall be considered by the Office of Administrative Law as necessary for the immediate preservation of the public peace, health and safety, and general welfare. Notwithstanding Chapter 3.5 (commencing with Section 11340) of Part 1 of Division 3 of Title 2 of the Government Code, including subdivision (e) of Section 11346.1 of the Government Code, any emergency regulations adopted pursuant to this section shall be filed with, but not be repealed by, the Office of Administrative Law and shall remain in effect until revised by the department. Nothing in this paragraph shall be interpreted as prohibiting the department from adopting subsequent amendments on a nonemergency basis or as emergency regulations in accordance with the standards set forth in Section 11346.1 of the Government Code.

11830.1. (a) In order to ensure quality assurance of alcohol and other drug programs and expand the availability of funding resources, the department shall implement a program certification procedure for alcohol and other drug treatment recovery services funded under this part. The department, after consultation with the County Alcohol and Drug Program Administrators Association of California, and other interested organizations and individuals, shall develop standards and regulations for the alcohol and other drug treatment recovery services describing the minimal level of service quality required of the service providers to qualify for and obtain state certification.
(b) The department shall develop standards and regulations to establish the criteria to be used for the approval or denial of program certification applications. The standards shall be voluntary until adopted as regulations, except that, notwithstanding Section 11340.5 of the Government Code, in order for a direct service provider to be eligible for funds pursuant to Section 1463.16 of the Penal Code, the provider shall have a valid certificate issued by the department under this chapter, whether or not the standards have been promulgated as regulations.
(c) The standards shall be excluded from the rulemaking requirements of the Administrative Procedure Act (Chapter 3.5 (commencing with Section 11340) of Part 1 of Division 3 of Title 2 of the Government Code).~~ Compliance with these standards shall be voluntary on the part of programs.~~ For the purposes of Section 2626.2 of the Unemployment Insurance Code, certification shall be equivalent to program review.

11830.5. (a) The department, in consultation with the county alcohol and drug program administrators and other interested organizations and individuals, shall develop program standards specific to each type of residential and nonresidential program, to be used during its certification process. These standards shall be voluntary until adopted as regulations, except as provided in Section 11830.1.~~advisory only and are excluded from the provisions of Section 11340.5 of the Government Code and other rulemaking requirements of the Administrative Procedure Act (Chapter 3.5 (commencing with Section 11340) of Part 1 of Division 3 of Title 2 of the Government Code), and Chapter 8 (commencing with Section 11835).~~
(b) The program standards shall include, but not be limited to, both of the following:

(1) Recognition and characterization of different approaches and solutions to the alcohol and drug problems that the department determines have sufficient merit for a separate standard.

(2) Reference to the needs of youth, the elderly, women, pregnant women, mothers and their children, gays, lesbians, the disabled, and special populations, with recognition of innovative solutions to the problems of those special populations.

(c) The program standards shall serve as educational documents to inform the public of the current state-of-the-art in effective and cost-efficient alcohol and drug problem programming.

11831.5. (a) Pursuant to the provisions of Section 11830.5, and the provisions of program certification standards, c~~C~~ertification shall be granted by the department pursuant to this section to any qualified alcoholism or drug abuse recovery or treatment program ~~wishing to receive, and requesting, the certification~~ upon approval of a completed application and payment of the required fee. Certification shall be valid for a period of not more than two years. The department may extend the certification period upon receipt of an application for renewal and payment of the required certification fee prior to the expiration date shown on the certification.

(b) The purposes of certification under this section shall be all of the following:

(1) To identify programs that exceed minimal levels of service quality, are in substantial compliance with the department's standards, and merit the confidence of the public, third-party payers, and county alcohol and drug programs.

(2) To encourage programs to meet their stated goals and objectives.

(3) To encourage programs to strive for increased quality of service through recognition by the state and by peer programs in the alcoholism and drug field.

(4) To assist programs to identify their needs for technical assistance, training, and program improvements.

(c) Pursuant to the provisions of Section 11830.5, and the provisions of program certification standards relating to criminal background check clearances, c~~C~~ertification may be granted under this section on the basis of evidence satisfactory to the department that the requesting alcoholism or drug abuse recovery or treatment program has an accreditation by a statewide or national alcohol or drug program accrediting body. The accrediting body shall provide accreditation that meets or exceeds the department's standards and is recognized by the department.

(d) No fee shall be levied by the department for certification of nonprofit organizations or local governmental entities under this section.

(e) Certification, or the lack thereof, shall not convey any approval or disapproval by the department, but shall be for information purposes only.

(f) The standards developed pursuant to Section 11830 and the certification under this section shall satisfy the requirements of Section 1463.16 of the Penal Code.

(g) The department and the State Department of Social Services shall enter into a memorandum of understanding to establish a process by which the Department of Alcohol and Drug Programs can certify residential facilities or programs serving primarily adolescents, as defined in paragraph (1) of subdivision (a) of Section 1502, that have programs that primarily serve adolescents and provide alcohol and other drug recovery or treatment services.

11832.1 ~~11834~~. The department shall encourage the development of educational courses that provide core knowledge concerning alcohol and drug abuse problems and programs to personnel working within alcohol and drug abuse programs.

Chapter 7.3

11833.01. Application of chapter. This chapter applies to all programs, facilities or services licensed, certified or otherwise approved by the department, and to any program, facility or service that contracts directly with or is funded by the department.

11833.1. Self-disclosure statement, criminal background investigation

(a) This section applies to all programs, facilities, or services first licensed or certified by the department on or after January 1, 2007, to all programs, facilities, or services renewing a license or certification on or after July 1, 2007, and to all applicants, licensees, partners, officers, directors, 10 percent or greater beneficial owners regardless of the form of ownership, persons employed or proposed to be employed pursuant to Section 2401(c) of the Business and Professions Code, and persons subject to criminal record reviews and fingerprinting pursuant to Section 11834.50(c), in any such program, facility, or service.

(b) (1) A self-disclosure statement shall be completed and signed under penalty of perjury by each person described in subdivision (a), and shall be submitted to the department with an application for initial or renewal licensure or certification.

(2) The self-disclosure statement shall disclose under penalty of perjury the following information:

(A) The conviction of any crime under any jurisdiction (state, federal, military, or any other jurisdiction outside of the United States). All convictions must be reported, including convictions that have been expunged (set aside) or for which a certificate of rehabilitation has been issued or for which there has been a plea of nolo contendere (no contest).

(B) Any past or present government-imposed disciplinary action taken.

(C) Any ongoing or recent investigation action by any law enforcement agency or licensing agency and a description of the reason(s) for the investigation.

(D) Any denial, revocation, or suspension of any license, certificate, credential, accreditation, or approval issued under this division, by any department of the California Health and Human Services Agency, by any board or subdivision of the Department of Consumer Affairs, or by the equivalent of any of the foregoing in any other jurisdiction.

(E) Any exclusion from a program, facility or service licensed by any department of the California Health and Human Services Agency or by any equivalent entity in any other jurisdiction.

(F) Any suspension, debarment or exclusion from participation in the Medicare, Medi-Cal or any Medicaid program.

(c) The department may request and evaluate input concerning any person described in subdivision (a) from any law enforcement or other government agency.

(d) Any person described in subdivision (a) whose application for licensure or certification is rejected by the department shall be prohibited from applying for or obtaining any type of license, certification or other approval from the Department for a period of two years from the date of notice of rejection, unless the law or regulation pertaining to the specific reason for the rejection requires a longer time.

11833.2. Conduct Inimical.

In addition to any other lawful grounds, the director may deny an initial or renewal application for licensure or certification, suspend or revoke any license or certification issued by this department, or deny an application to modify the terms and conditions of a license or certification if any person described in subdivision (a) of Section 11833.1 has engaged in conduct which is inimical to the health, morals, welfare, or safety of either an individual in or receiving services from the facility, local community, or the people of the State of California. This may include, but is not limited to, conduct evidenced by a final determination of any licensing board, department, administrative law judge or other agency of the State of California, or by any equivalent entity in any other jurisdiction, provided that the person or entity whose conduct is at issue had an opportunity for reasonable due process in that final determination.

11833.3. Discretionary disclosure of evaluation criteria.

The department may assess each program, facility or service, licensed or certified by the department using criteria established by the department to determine the need for more frequent program evaluations than the minimum specified for the particular license or certification. The department may, at its discretion, disclose part or all of the criteria established for conducting the evaluations except when to do so would compromise the ability of the department to investigate or take disciplinary action.

11833.4. Discretionary license or certification period less than two years.

The department may issue to any program, facility, or service a license or certification valid for a period of less than two years if the department has documentation of poor performance, or if the program, facility, or service has accreditation from a recognized accreditation body which expires before the end of the two-year license or certification period.

11833.5 Probationary period for new licensure or certification.

All programs, facilities or services approved for initial licensure, certification or direct contracting with the department shall be required to serve a probationary period of one year to ensure compliance with all applicable laws and regulations. The department shall establish standards for the probationary period, which may include, but are not limited to, a lower standard of proof and a limitation or elimination of administrative review of any determination to deny full licensure, certification or contract status. A determination to deny full licensure, certification or contract status shall not be set aside by any court unless the action is found to be arbitrary and capricious.

11833.6 Accreditation Alternative

The department may accept documentation of accreditation by a nationally recognized accreditation organization as evidence of compliance with all or part of the department's requirements for initial or renewal licensure or certification. Accreditation shall not substitute for a site visit by the department. The department may specify by regulation which accreditation organizations will be recognized, which standards may be satisfied by accreditation and what level of accreditation is required. Nothing in this section shall confer on any accreditation organization or any other person or entity any right or privilege for an accreditation organization to be recognized by the department. Recognition of accreditation organizations by the department may be granted, withdrawn or withheld in the sole discretion of the department.

11834.01. The department has the sole authority in state government to license adult alcoholism or drug abuse recovery or treatment facilities.

(a) In administering this chapter, the department shall issue new licenses for a period of not more than two years to those programs that meet the criteria for licensure set forth in Section 11834.03.

(b) Onsite program visits for compliance shall be conducted at least once during the license period.

(c) The department may conduct announced or unannounced site visits to facilities licensed pursuant to this chapter for the purpose of reviewing for compliance with any applicable statutes and regulations.

11834.16. A license shall be valid for a period of not more than two years from the date of issuance. The department may extend the licensure period for subsequent ~~two-year~~ periods upon submission by the licensee of a completed written application for extension and payment of the required licensing fee prior to the expiration date shown on the license. Failure to submit to the department the required written application for extension of the licensing period, or failure to submit to the department the required licensing fee prior to the expiration date on the license, shall result in the automatic expiration of the license at the end of the ~~two-year~~ licensing period.

11834.36. (a) The director may suspend or revoke any license issued under this chapter, or deny an application for licensure, for extension of the licensing period, or to modify the terms and conditions of a license, upon any of the following grounds and in the manner provided in this chapter:

(1) Violation by the licensee of any applicable provision of this division ~~chapter~~ or regulations adopted pursuant to those provisions ~~this chapter~~.

(2) ~~Repeated violation by the licensee of any of the provisions of this chapter or regulations adopted pursuant to this chapter.~~

~~(3)~~ (2) Aiding, abetting, or permitting the violation of~~, or any repeated violation of,~~ any of the provisions described in paragraph (1) ~~or (2)~~.

~~(4)~~ (3) Conduct which ~~in the operation of an alcoholism or drug abuse recovery or treatment facility that~~ is inimical to the health, morals, welfare, or safety of either an individual in~~,~~ or receiving services from~~,~~ the facility, the local community, or ~~to~~ the people of the State of California.

~~(5)~~ (4) Misrepresentation of any material fact in obtaining the alcoholism or drug abuse recovery or treatment facility license.

~~(6)~~ (5) Failure to pay any civil penalties assessed by the department.

(b) The director may temporarily suspend any license prior to any hearing when, in the opinion of the director, the action is necessary to protect residents of the alcoholism or drug abuse recovery or treatment facility from physical or mental abuse, abandonment, or any other substantial threat to health or safety. The director shall notify the licensee of the temporary suspension and the effective date of the temporary suspension and at the same time shall serve the provider with an accusation. Upon receipt of a notice of defense to the accusation by the licensee, the director shall, within 15 days, set the matter for hearing, and the hearing shall be held as soon as possible. The temporary suspension shall remain in effect until the time the hearing is completed and the director has made a final determination on the merits. However, the temporary suspension shall be deemed vacated if the director fails to make a final determination on the merits within 30 days after the department receives the proposed decision from the Office of Administrative Hearings.

11836.11. ~~The department shall require license renewal on a biennial basis.~~ A license shall be valid for a period of not more than two years.

11839.3. (a) In addition to the duties authorized by other statutes, the department shall perform all of the following:

(1) License the establishment of narcotic treatment programs in this state to use replacement narcotic therapy in the treatment of addicted persons whose addiction was acquired or supported by the use of a narcotic drug or drugs, not in compliance with a physician and surgeon's legal prescription, except that the Research Advisory Panel shall have authority to approve methadone or LAAM research programs.

The department shall establish and enforce the criteria for the eligibility of patients to be included in the programs, program operation guidelines, such as dosage levels, recordkeeping and reporting, urinalysis requirements, take-home doses of methadone, security against redistribution of the replacement narcotic drugs, and any other regulations that are necessary to protect the safety and well-being of the patient, the local community, and the public, and to carry out this chapter. A program may admit a patient to narcotic maintenance or narcotic detoxification treatment seven days after completion of a prior withdrawal treatment episode. The arrest and conviction records and the records of pending charges against any person seeking admission to a narcotic treatment program shall be furnished to narcotic treatment program directors upon written request of the narcotic treatment program director provided the request is accompanied by a signed release from the person whose records are being requested.

(2) Inspect narcotic treatment programs in this state and ensure that programs are operating in accordance with the law and regulations. The department shall have sole responsibility for compliance inspections of all programs in each county. Onsite compliance inspections shall be conducted at least once during the licensure period. ~~Annual c~~Compliance inspections shall consist of an evaluation ~~by onsite review~~ of the operations and records of licensed narcotic treatment programs' compliance with applicable state and federal laws and regulations and the evaluation of input from local law enforcement and local governments, regarding concerns about the narcotic treatment program. At the conclusion of each inspection ~~visit~~, the department shall conduct an exit conference to explain the cited deficiencies to the program staff and to provide recommendations to ensure compliance with applicable laws and regulations. The department shall provide an inspection report to the licensee within 30 days of the completed ~~onsite review~~ inspection describing the program deficiencies. A corrective action plan shall be required from the program within 30 days of receipt of the inspection report. All corrective actions contained in the plan shall be implemented within 30 days of receipt of approval by the department of the corrective action plan submitted by the narcotic treatment program. For programs found not to be in compliance, a subsequent inspection of the program shall be conducted within ~~30~~ 60 days after the ~~receipt~~ approval of the corrective action plan in order to ensure that corrective action has been implemented satisfactorily. Subsequent inspections of the program shall be conducted to determine and ensure that the corrective action has been implemented satisfactorily. For purposes of this requirement, "compliance" shall mean to have not committed any of the grounds for suspension or revocation of a license provided for under subdivision (a) of Section 11839.9 or paragraph (2) of subdivision (b) of Section 11839.9. Inspection of narcotic treatment programs shall be based on objective criteria including, but not limited to, an evaluation of the programs' adherence to all applicable laws and regulations and input from local law enforcement and local governments. Nothing in this section shall preclude counties from monitoring their contract providers for compliance with contract requirements.

(3) Charge and collect licensure fees. In calculating the licensure fees, the department shall include staff salaries and benefits, related travel costs, and state operational and administrative costs. Fees shall be used to offset licensure and inspection costs not to exceed actual costs.

(4) Study and evaluate, on an ongoing basis, narcotic treatment programs including, but not limited to, the adherence of the programs to all applicable laws and regulations and the impact of the programs on the communities in which they are located.

(5) Provide advice, consultation, and technical assistance to narcotic treatment programs to ensure that the programs comply with all applicable laws and regulations and to minimize any negative impact that the programs may have on the communities in which they are located.

(6) In its discretion, to approve local agencies or bodies to assist it in carrying out this chapter provided that the department may not delegate responsibility for inspection or any other licensure activity without prior and specific statutory approval. However, the department shall evaluate recommendations made by county alcohol and drug program administrators regarding licensing activity in their respective counties.

(7) The director may grant exceptions to the regulations adopted under this chapter if he or she determines that this action would improve treatment services or achieve greater protection to the health and safety of patients, the local community, or the general public. No exception may be granted if it is contrary to, or less stringent than, the federal laws and regulations which govern narcotic treatment programs.

(b) It is the intent of the Legislature in enacting this section in order to protect the general public and local communities, that self-administered dosage shall only be provided when the patient is clearly adhering to the requirements of the program, and where daily attendance at a clinic would be incompatible with gainful employment, education, and responsible homemaking. The department shall define "satisfactory adherence" and shall ensure that patients not satisfactorily adhering to their programs shall not be provided take-home dosage.

(c) There is established in the State Treasury the Narcotic Treatment Program Licensing Trust Fund. All licensure fees collected from the providers of narcotic treatment service shall be deposited in this fund. Except as otherwise provided in this section, if funds remain in this fund after appropriation by the Legislature and allocation for the costs associated with narcotic treatment licensure actions and inspection of narcotic treatment programs, a percentage of the excess funds shall be annually rebated to the licensees based on the percentage their licensing fee is of the total amount of fees collected by the department. A reserve equal to 10 percent of the total licensure fees collected during the preceding fiscal year may be held in each trust account to reimburse the department if the actual cost for the licensure and inspection exceed fees collected during a fiscal year.

(d) Notwithstanding any provision of this code or regulations to the contrary, the department shall have sole responsibility and authority for determining if a state narcotic treatment program license shall be granted and for administratively establishing the maximum treatment capacity of any license. However, the department shall not increase the capacity of a program unless it determines that the licensee is operating in full compliance with applicable laws and regulations.

11839.8. (a) The director may deny the application for initial issuance of a license if the applicant, owner, or any partner, officer, director, 10 percent or greater ~~shareholder~~ beneficial owner, or person proposed to be employed by the applicant under the authority of subdivision (c) of Section 2401 of the Business and Professions Code:

~~(a)~~(1) Fails to meet the qualifications for licensure established by the department pursuant to this article. However, the director may waive any established qualification for licensure of a narcotic treatment program if he or she determines that it is reasonably necessary in the interests of the public health and welfare.

~~(b)~~(2) Was previously the holder of a license issued under this article, and the license was revoked and never reissued or was suspended and not reinstated, or the holder failed to adhere to applicable laws and regulations regarding narcotic treatment programs while the license was in effect.

~~(c)~~(3) Misrepresented any material fact in the application.

~~(d)~~(4) Committed any act involving fraud, dishonesty, or deceit, with the intent to substantially benefit himself or herself or another or substantially injure another, and the act is substantially related to the qualification, functions, or duties of, or relating to, a narcotic treatment program license.

~~(e)~~(5) Was convicted of any crime substantially related to the qualifications, functions, or duties of, or relating to, a narcotic treatment program license.

~~(f)~~(b) The director, in considering whether to deny licensure under paragraph (4) or (5) of subdivision (a) ~~(d) or (e)~~, shall determine whether the applicant is rehabilitated after considering all of the following criteria:

(1) The nature and severity of the act or crime.

(2) The time that has elapsed since the commission of the act or crime.

(3) The commission by the applicant of other acts or crimes constituting grounds for denial of the license under this section.

(4) The extent to which the applicant has complied with terms of restitution, probation, parole, or any other sanction or order lawfully imposed against the applicant.

(5) Other evidence of rehabilitation submitted by the applicant.

~~(g)~~(c) If an applicant has been issued any other license(s) to provide narcotic treatment services, and, ~~With respect to any other license issued to an applicant to provide narcotic treatment services,~~ under that license(s) the applicant has violated any provision of this article or regulations adopted under this article that relate to the health and safety of patients, the local community, or the general public~~.~~, and, such v~~V~~iolations include, but are not limited to, violations of laws and regulations applicable to take-home doses of methadone, urinalysis requirements, and security against redistribution of replacement narcotic drugs~~. In these cases~~, the department shall deny the application for an initial license unless the department determines that all other licensed narcotic treatment programs maintained by the applicant have corrected all deficiencies and maintained compliance for a minimum of the six months immediately preceding the date of the application.

11839.9. (a) The director shall suspend or revoke any license issued under this article, or deny an application to renew a license or to modify the terms and conditions of a license, upon any violation ~~by the licensee~~ of this article or regulations adopted under this article that presents an imminent danger of death or severe harm to any participant of the program or a member of the general public by the licensee, owner, or any partner, officer, director, 10 percent or greater beneficial owner, or person employed under the authority of subdivision (c) of Section 2401 of the Business and Professions Code.

(b) The director may suspend or revoke any license issued under this article, or deny an application to renew a license or to modify the terms and conditions of a license, upon any of the following grounds and in the manner provided in this article:

(1) Violation by the licensee, owner, or any partner, officer, director, 10 percent or greater beneficial owner, or person employed under the authority of subdivision (c) of Section 2401 of the Business and Professions Code of any laws or regulations of the Substance Abuse and Mental Health Services Administration or the United States Department of Justice, Drug Enforcement Administration, that are applicable to narcotic treatment programs.

(2) Violation by the licensee, owner, or any partner, officer, director, 10 percent or greater beneficial owner, or person employed under the authority of subdivision (c) of Section 2401 of the Business and Professions Code of any applicable provision of this division or regulations adopted pursuant to those provisions.

~~(2) Any violation that relates to the operation or maintenance of the program that has an immediate relationship to the physical health, mental health, or safety of the program participants or general public.~~

(3) Aiding, abetting, or permitting the violation of~~, or any repeated violation of,~~ any of the provisions set forth in subdivision (a) or in paragraph (1) or (2).

(4) Conduct ~~in the operation of a narcotic treatment program~~ that is inimical to the health, welfare, or safety of an individual in, or receiving services from, the program, the local community, or the people of the State of California.

~~(5)~~(4) The conviction of the licensee, owner, or any partner, officer, director, 10 percent or greater ~~shareholder~~ beneficial owner, or person employed under the authority of subdivision (c) of Section 2401 of the Business and Professions Code at any time during licensure, of a crime substantially related to the qualifications, functions, or duties of, or relating to, a narcotic treatment program licensee.

~~(6)~~(5) The commission by the licensee, owner, or any partner, officer, director, 10 percent or greater ~~shareholder~~ beneficial owner, or person employed under the authority of subdivision (c) of Section 2401 of the Business and Professions Code at any time during licensure, of any act involving fraud, dishonesty, or deceit, with the intent to substantially benefit himself or herself or another, or substantially to injure another, and that act is substantially related to the qualifications, functions, or duties of, or relating to, a narcotic treatment program licensee.

~~(7)~~(6) Diversion of narcotic drugs. A program's failure to maintain a narcotic drug reconciliation system that accounts for all incoming and outgoing narcotic drugs, as required by departmental or federal regulations, shall create a rebuttable presumption that narcotic drugs are being diverted.

~~(8)~~(7) Misrepresentation of any material fact in obtaining the narcotic treatment program license.

~~(9)~~(8) Failure to comply with a department order to cease admitting patients or to cease providing patients with take-home dosages of replacement narcotic drugs.

~~(10)~~(9) Failure to pay any civil penalty assessed pursuant to paragraph (3) of subdivision (a) of Section 11839.16 where the penalty has become final, unless payment arrangements acceptable to the department have been made.

~~(11)~~(10) The suspension or exclusion of the licensee, owner, or any partner, officer, director, 10 percent or greater ~~shareholder~~ beneficial owner, or person employed under the authority of subdivision (c) of Section 2401 of the Business and Professions Code from the Medicare, ~~m~~Medicaid, or Medi-Cal programs.

(c) Prior to issuing an order pursuant to this section, the director shall ensure continuity of patient care by the program's guarantor or through the transfer of patients to other licensed programs. The director may issue any needed license or amend any other license in an effort to ensure that patient care is not impacted adversely by an order issued pursuant to this section.

11838.10. The director may suspend or revoke any license issued under this chapter, or deny an application to renew a license or to modify the terms and conditions of a license, upon any of the following grounds and in the manner provided in this chapter:

(a) Violation by the licensee of any applicable provision of this division ~~chapter~~ or regulations adopted pursuant to those provisions ~~this chapter~~.

(b) ~~Repeated violation by the licensee of this chapter or regulations adopted pursuant to this chapter.~~

~~(c)~~ Aiding, abetting, or permitting the violation of~~, or any repeated violation of,~~ subdivision~~s~~ (a) ~~and (b)~~.

(c) ~~(d)~~ Conduct which is inimical to the health, morals, welfare, or safety of either an individual in~~,~~ or receiving services from~~,~~ the program, the local community, or the people of the State of California. ~~Continued program operations jeopardize the health and welfare of participants or the public.~~

(d) ~~(e)~~ Misrepresentation of any material fact in obtaining a ~~multiple offender~~ program license.

Health and Safety Code 11970.4 is amended to read:

11970.4. This article shall remain operative only until January 1, 2008 ~~January 1, 2007~~, and as of that date is repealed, unless a later enacted statute, that is enacted before January 1, 2008 ~~January 1, 2007~~, deletes or extends that date.

SUBCOMMITTEE NO. 3 Agenda
Health, Human Services, Labor & Veteran's Affairs

Chair, Senator Denise Ducheny

Senator Wesley Chesbro
Senator Dave Cox

April 24th, 2006

10:00 AM

Room 4203
(John L. Burton Hearing Room)

(Diane Van Maren)

Item	Department
4300	**Department of Developmental Services--CADDIS**
4260	**Department of Health Services—*Selected Issues***

- **Public Health Issues**
- **Medi-Cal Program Issues**

PLEASE NOTE:

Only those items contained in this agenda will be discussed at this hearing. *Please* see the Senate File for dates and times of subsequent hearings.

Issues will be discussed in the order as noted in the Agenda unless otherwise directed by the Chair. 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.

A. Special Order—Update on the CA Developmental Disabilities System (CADDIS)

Issues. After extensive discussion in the April 3rd hearing, the Subcommittee requested the Department of Developmental Services (DDS) to report back on April 24th regarding any progress towards resolution of issues involving the implementation of CADDIS.

***Additional Background*.** Significant issues continue to swirl within the Administration regarding the implementation of the California Developmental Disabilities Information System (CADDIS).

The lack of implementation has led to the loss of at least $50 million in federal funds. Additional resources—potentially tens of millions in General Fund support—are likely to be needed to remedy the limitations of CADDIS or to construct an entirely new system. The ability of the Regional Center system and the DDS to conduct core aspects of program operations, such as case management, provider reimbursement, and overall fiscal monitoring are directly affected by the failure to implement CADDIS or a similar information system.

Due to continued delays in implementation, **California will lose over $50 million in federal funds over the next two-years (at least $19.9 million in 2005-06 and $31.8 million in 2006-07). The receipt of these federal funds could have been used to off-set General Fund support.**

The failure to implement CADDIS is also affecting implementation of the Self-Directed Services Model which was approved for expansion in the Budget Act of 2005. Under this model, consumers can choose services and supports from a comprehensive menu of options using a finite budget (90 percent of historical aggregate expenditures). However expansion of this program has been linked to the roll-out of CADDIS. As such, the Self-Directed Services Model has been delayed in the current year.

At the request of the Department of Finance, and as agreed to by the Legislature, Budget Act Language was included in the Budget Act of 2005 to require the DOF to report to the Legislature by October 2005 on its strategy to resolve problems on the CADDIS Project. In addition, a $2 million (General Fund) augmentation was provided to conduct the independent project review (at the request of the Administration).

The DOF strategy was to include, but not be limited to, (1) identification of problems or issues on the project, and (2) actions, costs and timeframes broken out by budget year and future years to correct those problems or issues. The DOF was also to provide an "independent project review report" (done by a consultant.)

In October 2005 an independent project review report (prepared by "Information Integration Innovation & Associates, Inc.) was provided to the Legislature. However the DOF analysis of the report, as well as a strategy for resolution of problems has not yet been provided and it is unknown at this time when it may be provided. It should be noted that the independent project review did identify serious concerns about completing CADDIS. The report did however recommend that CADDIS be continued as a project. However, to be successful, CADDIS has many more obstacles to traverse.

<u>Subcommittee Staff Comment.</u> Subcommittee staff has requested a critical path chart from the Administration regarding CADDIS implementation, as well as a fiscal summary regarding options for problem resolution. The Legislative Analyst's Office has also made additional requests in an effort to better ascertain what options are available for problem resolution. **However, no comprehensive information has been forthcoming from the Administration, though the DDS has responded to issues regarding system progress and the pilot testing.** We have been advised by the Administration that the status of the CADDIS project is under review. But that is all.

<u>Questions.</u> The Subcommittee has requested the DDS to respond to the following questions.

1. DDS, Please provide an update on CADDIS and the status of the project.
2. DOF and DDS, When can the Legislature receive information from the Administration regarding implementation options and potential costs?
3. DDS, Can federal fund support be obtained to mitigate future General Fund expenditures?

<u>B. ITEMS RECOMMENDED FOR "VOTE ONLY"—Department of Health Services</u>

<u>1. Extend for Two-Years Staff for In Home Supportive Services Waiver</u>

<u>Issue.</u> The DHS **is requesting to extend four existing positions for two more years (to June 30, 2008) for expenditures of $371,000 ($185,000 General Fund). These positions are used to ensure compliance with federal requirements regarding the In Home Supportive Services (IHHS) Waiver.**

The IHSS Waiver was approved in 2004 and it allows California to obtain federal funds for 26,000 individuals in the IHSS Residual Program previously supported by state and county funding. The projected savings to the General Fund is about $213 million annually.

As the single state Medicaid Agency, the DHS is required to administer all federal waiver programs, monitor the health and safety of waiver participants, oversee the financial aspects of these federal programs, and ensure cost neutrality. The DHS administrative oversight and monitoring will be required to ensure continued renewal of the Waiver.

Key activities of the four positions include the following:

- Provide ongoing administration of the IHSS Wavier by providing technical assistance, advice and policy consultation to the CA Department of Social Services (CDSS);
- Provide knowledge and expertise in reviewing reports to verify compliance with federal and state laws, regulations, and federal assurances;
- Revise and maintain ongoing waiver monitoring protocols, and assist in monitoring activities by CDSS and local agencies;
- Monitor and track payments and invoices related to the Waiver; and
- Report detailed fiscal information to the federal CMS;

<u>Subcommittee Staff Recommendation.</u> It is **recommended to approve as proposed.** The workload was justified and is continuing.

<u>2. Oversight of the Fiscal Intermediary Contract for Medi-Cal</u>

<u>Issue.</u> The DHS **is requesting to make permanent three limited-term positions which expire as of June 30, 2006 for increased expenditures of $294,000 ($74,000 General Fund).**

These positions are used to provide oversight and monitoring of the Medi-Cal Fiscal Intermediary contract (presently with Electronic Data Systems—EDS) which maintains the CA Medicaid Management Information System (CA-MMIS). This system process about $13 billion in Medi-Cal fee-for-service payments annually and has linkages to other DHS systems, such as the Breast and Cervical Cancer detection and treatment programs, as well as with other departments (such as the MRMIB for the Healthy Families Program). **This contract is one of the largest and most complex contracts in state government.**

These staff would contribute to the timely implementation of new program changes, help reduce the incidence of significant system errors, install changes to identify program fraud, and approve system changes resulting in millions of dollars in program savings.

Specific activities include the following:

- Review all invoices in detail to ensure claimed contractor staffing levels, project hours, purchases (software and equipment), are correct and in conformance with approved levels;
- Review, approve and monitor all project deliverables for completeness and accuracy and conformance to approved work plans;
- Respond to provider written communications and telephone calls regarding complex claims adjudication problems;
- Direct the contractor provider relations organization which is responsible for disseminating monthly programmatic bulletins to providers, holding training seminars for providers on billing procedures, and responding to inquiries from providers regarding claims adjudication.
- Review contractor submitted reports for accuracy and contract compliance;
- Evaluate program areas for potential cost savings and anti-fraud improvements;
- Implement any new anti-fraud measures as requested; and
- Monitor problem statements and payment corrections related to claims processing to ensure the errors are valid, corrected and any erroneous payments are corrected, including determining if the problem was due to a contractor error.

The Subcommittee is also in receipt of a letter from the DOF's Office of State Audits and Evaluations unit. This unit conducted a review of these positions, along with others, and recommended for the DHS to convert these three limited-term positions to permanent status. They determined that there was sufficient existing and proposed workload within this area to warrant this conclusion.

Subcommittee Staff Recommendation. It is **recommended to approve the request.** No issues have been raised.

3. Drug & Device Manufacturer Program—Trailer Bill Language ("open issue")

Issue and Prior Subcommittee Hearing (March 27th). The **Subcommittee approved** the DHS request to increase by $815,000 (Drug and Device Safety Fund) to fund 7 positions to conduct new licensing inspections, renewal licensing inspections, and to process various information and reports related to these inspections.

In addition, the DHS is proposing trailer bill language to change the licensing fee collection from annually to every two years (i.e., biennially). Therefore the fees paid by drug and medical device manufacturers would be paid upfront for a two-year period, versus a one-year period as now done. **This issue was left "open" by the Subcommittee pending the receipt of information from the DHS regarding the perspective of the drug and medical device manufacturers on this proposed language.**

At the request of the Subcommittee, the DHS contacted drug and medical device manufacturers to determine if they had any concerns in going to a biennial licensing fee arrangement. **Of those surveyed, 86 percent or 36 manufacturers supported this change or expressed no concerns with the implementation.**

Overall Background on the Drug and Medical Device Manufacturer Programs. These programs provide consumer protection from unsafe, contaminated, mislabeled, and fraudulent drugs (blood pressure medications, injectable drugs, antibiotics). New drug and medical device manufacturers are required to be inspected and licensed by the DHS prior to distributing products. In addition, AB 1496 (Olberg), Statutes of 2000, requires biennial inspections of existing licensed drug and medical device manufacturers. **All licensing fees from drug and medical device manufacturers and all enforcement fines and penalties are deposited in the Drug and Device Safety Fund.** The existing licensing fees are shown in the table below.

Drug or Medical Device Manufacturer	License Fee (as of July 2005)
New license	$1,600
Renewal license	1,300
Special or small (as defined)	$850
Prescription drug marketing act	$100

Note: The licensing fee shown above will double if the state proceeds with a biennial licensing process, versus the existing annual process. The fee of course would only be paid once every two-years under the proposed trailer bill legislation.

The Administration raised the fees for this program by about 25 percent effective as of July 1, 2005. According to the "Fund Condition Statement" provided in the Governor's Budget for 2006-07, the DHS is projecting a Drug and Device Safety Fund surplus of $7.9 million, including the expenditures for this request.

Subcommittee Staff Recommendation. It **is recommended to adopt the Administration's proposed trailer bill language since about 86 percent of those surveyed by the DHS were either supportive of the change or did not express a concern with the change.**

4. Convert Limited-Term Position to Permanent Status—Office of Long-Term Care

Issue. The budget proposes to establish an Office Technician-Typist position, which sunsets as of June 30, 2006, as a permanent position. An increase of $57,000 ($28,000 General Fund) is requested for this purpose. The position serves as the single support person to the Office of Long Term Care which includes eleven professional staff.

Subcommittee Staff Recommendation. It is recommended to approve the request. No issues have been raised and the workload is justified.

5. Third Party Liability—Convert 15 Limited-Term Positions to Permanent

Issue. The DHS is **requesting an increase of $989,000 ($247,000 General Fund) to convert 15 limited-term positions, set to expire as of June 30, 2006, to permanent. These positions include** (1) five Tax Compliance Representatives, (2) two Senior Tax Compliance Representatives, (3) six Program Technician II's, and (4) two Program Technicians.

These positions were provided in 2003 to address issues related to estate recovery and third party liability recoveries in the Medi-Cal Program. These positions recover Medi-Cal costs from the estates of certain decreased Medi-Cal beneficiaries and from other liable third parties.

According to the DHS, these positions are associated with at least $21.9 million ($10.9 million General Fund) in increased annual collections.

Subcommittee Staff Recommendation. It is recommended to approve the proposal. No issues have been raised by Subcommittee staff or the Legislative Analyst's Office.

6. Domestic Violence—Unserved and Underserved

Issue. The DHS **is requesting an increase of $350,000 (General Fund) to continue the same funding level of $1.1 million that was provided in the Budget Act of 2005.** The funding is supporting technical assistance and training to 94 statewide domestic violence shelter agencies through the award of three Requests for Proposal as referenced below. These contractors will assist the Domestic Violence shelters in serving the unserved and underserved populations.

The $350,000 General Fund request is to backfill for one-time only funds that were available through the Nine West Settlement Agreement. Therefore with the approval of this budget request, the funding mix would be $1.1 million ($865,000 General Fund and $235,000 Domestic Violence Training and Education Fund).

Summary Status of Requests for Proposals (RFPs). The DHS released three RFPs to address the needs of the unserved/underserved community. These consisted of (1) a mental health and substance abuse training and technical assistance project, (2) a developmentally disabled training and technical assistance project, and (3) a lesbian, gay, bisexual and transgender training and technical assistance project. According to the DHS, these awards are going out this year.

The DHS identified these needs for training and technical assistance through a survey that was conducted last year.

Subcommittee Staff Recommendation. It is recommended to approve the request. Approval of the Administration's request would conform to the Assembly's action on this issue.

C. ITEM FOR DISCUSSION---Department of Health Services

1. Establish a Continuing Education Program for Environmental Health Specialists *(See Hand Out)*

Issue. The **DHS is proposing an increase of $130,000 (Registered Environmental Health Specialist Fund) and trailer bill language to establish a continuing education program for Registered Environmental Health Specialists (REHS).** The DHS would use the $130,000 to hire a contractor to establish the continuing education program.

In order to establish this new program, the DHS is proposing trailer bill language to **(1)** increase fees, and **(2)** establish broad new authority for the DHS to deny, amend, restrict, revoke and suspend a registration under the program. **The table below displays the fee adjustments necessary to implement this proposal.** The RHS Program is fee supported and about $200,000 is presently collected on an annual basis. The fees have not been increased in over 10 years.

Table: Proposed Fee Increases for Establishing a Continuing Education Program

Types of Fees	Current Fee	Proposed Fees	Percent Fee Increase
Application	$73	$95	30 percent
Examination	$63	$126	50 percent
Biennial Renewal	$92	$175	47 percent
Retirees	$25	NA	0

The contractor's core responsibilities would be as follows:

- Conduct an occupational analysis of the profession to determine the knowledge, skills and abilities needed to perform effectively on the job, including a complete job audit of environmental health agencies in Northern and Southern California;
- Identify the core competencies in the REHS profession;
- Assist the DHS in the preparation of a regulation package that will establish the requirements of the continuing education program;
- Assist the DHS in the review and approval of continuing education providers;
- Assist the DHS in the review and approval of continuing education courses;
- Assist the DHS in the preparation of provider lists and approved course information lists;
- Maintain a computer database system to track and monitor continuing education units for REHSs;
- Develop an audit tool to determine if the REHSs have met the continuing education requirements;
- Assist in the preparation of enforcement action against providers for failure to meet acceptable requirements;
- Conduct investigations of REHSs that fail to meet the continuing education requirements; and
- Assist in enforcement actions against REHSs for failure to meet requirements.

Additional Background—Registered Environmental Health Program. The REHS Program was established in 1945 to assure that persons who perform activities related to environmental health protection meet specific standards of education, training, and experience, thus ensuring professional competency.

The DHS has 1.5 positions to operate the program. They are responsible for reviewing applications for registration, conducting examinations, issuing registrations and renewals, reviewing and approving local government REHS intern training programs, investigating complaints against persons registered by the program, and developing registration revocation actions.

REHSs are employed by local governmental agencies to conduct investigations, inspections, and assessments of environmental conditions and public health problems. The specialists also secure compliance with applicable laws and standards that have been established t protect public health and safety. Their scope of responsibility covers public health issues related to food, water, sewage disposal, vector control, toxic substances, air quality, recreational health, bioterrorism, and housing.

Subcommittee Staff Recommendation. It is recommended to deny the proposal. The proposal seeks to establish new responsibilities and should be done through policy legislation. For example, the trailer bill legislation (Section 22 of the Hand Out) provides the DHS with very broad authority which should be discussed in a policy venue.

Further, the fee increases proposed represent a substantial increase. It may be possible for the DHS to conduct some of the proposed consultant work using existing staff and thereby, reduce the need for such a large fee increase.

It should be noted that during the 2000-01 Session of the Legislature, SB 1226 was introduced which would have raised fees for this program. Subsequently the bill was amended and used for other purposes.

Question. The Subcommittee has requested the DHS to respond to the following question.

1. **DHS,** Please provide a brief summary of the request.

2. DHS Licensing and Certification (L&C) Division Staff Increase *(See Hand Out)*

Issue. The DHS is requesting an increase of $17.6 million (fee supported special fund—Licensing and Certification Fund) to **(1)** hire 141 new positions in the budget year, and **(2)** contract with Los Angeles County to perform the functions of licensing and certification (as has been traditionally done). In addition, comprehensive trailer bill legislation is proposed.

This proposal is in *partial* response to hearings convened by Senator Ortiz as Chair of the Senate Health Committee, and Senator Elaine Alquist as the Chair of the Subcommittee on Aging, and is part of the Administration's restructuring of licensing and certification functions which is proposed to be a multi-year project.

The positions requested are intended to *augment* the following core L&C functions:

- Conduct annual certification surveys for participation in the federal Medicare and Medicaid (Medi-Cal in California) programs;
- Conduct complaint investigations under both federal certification requirements *and* state licensing requirements;
- Conduct surveys of "state licensed-only" facilities, such as certain primary care clinics, Adult Day Health Care Facilities, Home Health Agencies, and Surgery Clinics;
- Review the implementation of medication error plans in General Acute Care Hospitals and Surgery Clinics (Pharmaceutical Consultant positions); and
- Expand review of Skilled Nursing Facilities (SNFs) regarding substandard pharmaceutical care and medication misuse (Pharmaceutical Consultant positions).

The requested 141 positions and their classifications are shown in the table below.

Classifications	Requested Positions
Health Facility Evaluator Nurse (HFEN)	50
Health Facility Evaluator Nurse (HFEN)	23 (two-year limited term)
SUBTOTAL (Registered Nurses)	**73**
Health Facility Evaluator I (LVN or Psych Tech level)	23
TOTAL Additional Surveyors (RNs and LVNs)	**96**
Health Facility Evaluator II (Supervisor)	16
Health Facility Evaluator II (for training purposes)	3
Pharmacy Consultant II	7
Pharmacy Consultant II (Supervisor)	1
Associate Governmental Program Analyst	1
Program Technicians	16
Associate Personnel Analyst	1
TOTAL Other Support Positions	**55**
TOTAL REQUEST	**141**

Each of the specific functions and workload associated with the 141 positions are discussed below.

*L&C Survey Work (See Hand Out) (96 Positions)***.** The DHS conducted a consolidated analysis of their federal survey work, complaint investigations and state licensing-only facilities work. **Based upon their workload analysis, an additional 96surveyor positions are needed to address these L&C functions.**

The workload analysis assumes that each surveyor can provide 1,364 hours of productive work annually (1,800 hours equates to a full time position). The DHS notes they are using a lower productivity standard for the surveyor positions to more accurately reflect the time the surveyor is in the field conducting work directly attributable to core licensing and certification functions (i.e., survey preparation time, on-site survey time, travel time, and report writing). The remaining hours are utilized for training purposes and various administrative functions, such as staff meetings, general office work, data analysis and other "non-direct" survey work.

It should be noted that of these 96 surveyor positions, 23 positions are proposed by the DHS to be at the Health Facility Evaluator I (HFE I) level. The DHS states that these 23 HFE I positions can be filled using Licensed Vocational Nurses (LVN) or Psychiatric Technicians, in lieu of using the Registered Nurse classifications such as the Health Facility Evaluator Nurse level. **Using the less experienced HFE I positions reduces expenditures by $434,000 annually.**

The DHS states that the 23 HFE I positions would be required to pass the federal minimum qualification test and would perform the less complex clinical assessments of quality of care. The DHS also notes that one Health Facility Evaluator Nurse classification is required to participate in each survey anyway. **Finally, the DHS states they *will* evaluate whether the use of LVNs and Psychiatric Technicians *can* pass the federal test and whether the quality of the survey and complaint investigations has been impacted.**

L&C Survey Work—Supervisors and Support (33 Positions). In order to provide appropriate supervision, maintain surveyor quality assurance, and provide appropriate support staff, the DHS is requesting 33 positions (primarily clinical supervisors and Program Technicians). These positions are based upon a workload standard that corresponds to the number of surveyor positions.

L&C Training Section (3 Positions). The training of new surveyors is an intensive effort to ensure the registered nurses are competent to make critical assessments on clinical and related quality of care in health facilities. Presently there is 7 professional level training staff. These staff provide highly technical and specialized clinical training.

Three Health Facility Evaluator (HFE) II positions are requested to address increased workload. Due to limits in the availability of federal training slots, the L&C trainers are being required to provide training for California staff and to develop training materials to integrate federal survey protocol changes into L&C's survey protocol and procedures. In addition, the federal CMS requires that states provide continuing on-site training for new surveyors and quality assurance reviews for all surveyors. This workload coupled with additional survey staff means that the training function needs to be expanded.

Pharmaceutical Consultant Medication Error Workload (7 Pharmacists). The DHS is requesting these positions to **(1)** review implementation of medication error plans in General Acute Care Hospitals and Surgery Clinics to meet requirements of existing statute (SB 1875, Statutes of 2000), and **(2)** address issues in Skilled Nursing Facilities with noted indicators of substandard pharmaceutical care and medication misuse. DHS notes that pharmacy generated findings will result in a more comprehensive plan of correction and possibility of long-term correction by the provider. Without these positions, a comprehensive review of the pharmaceutical services could not be adequately performed.

Los Angeles County Contract. The DHS contracts with Los Angeles County to survey facilities within the county, unless the facility is owned and operated by the county. This contracting process has been the standard procedure for many years. The budget proposes an increase of $2.7 million (Licensing & Certification Fund) for this purpose.

Additional Support Personnel (2 Positions). The DHS is requesting an Associate Governmental Program Analyst position for the Accounting Section and an Associate Personnel Analyst position for the Personnel Management Section. These positions are needed to (1) process travel claims, payroll documents, and payroll checks for the surveyors, and (2) conduct personnel work associated with the addition of the proposed new staff.

DHS Needs to Develop a New Fee Structure. The Administration is presently reviewing changes to the existing licensing and certification fee structure to address their proposed new positions and future ongoing resource needs. **This review will likely *not* be completed until just prior to the May Revision. As such, the amount of fee increases needed for each type of facility is not known at this time.**

Currently, the Administration is proposing to do the following:

- Revise the methodology for assessing licensing and certification fees to adjust all fee amounts on an annual basis commensurate with the cost of work performed;
- Eliminate the current exemption from licensing fees for the University of California health facilities and certain local public health facilities; and
- Establish a special fund—Licensing and Certification Fund—and authorize all fees collected for this purpose to be placed in the fund.

The DHS notes that fees are not presently equitable distributed based on the costs of licensing and regulating the various categories of health facilities and health care staff. Some of the assessed fees are flat rates set in statute and others are adjusted annually in the Budget Act. Further, hospital and most nursing home facilities are adjusted annually by the DHS pursuant to Section 1266 of the Health and Safety Code. For various reasons, the fees paid by these facilities unfairly subsidize survey activities conducted in facilities that have their fees fixed in statute.

Current statute exempts government-operated facilities, including the University of California facilities, from paying licensure fees. As a result, the costs related to licensing these exempt facilities are presently borne by the General Fund. The Administration is proposing to begin charging the University of California facilities as well as some others.

Background—Vacant and Unallocated Position Reductions and Its Effect on L&C Staff. As shown below, the DHS has deleted position authority in the L&C area due to unfilled position vacancies (i.e., Section 31.5) and to meet "unallocated" reduction targets for the department as a whole. As has been well documented, nursing classifications are difficult to fill and the DHS has historically not been effective at recruitment and retention efforts. **Therefore, the DHS has chosen to use this area for reduction purposes.**

In total, 166 positions have been reduced from prior levels. Of these total positions, 79 positions or 48 percent, have been nursing-related positions (primarily HFENs) The largest reduction occurred in 2003-04 in which the DHS chose to reduce positions in this area to meet their unallocated reduction amount (as designated by the Department of Finance).

- 2000-2001 (vacancy reduction) 21 positions were reduced of which 20 where Health Facilities Evaluation Nurses.
- 2001-02 (unallocated reduction) 15 positions were reduced and all of them were Health Facilities Evaluation Nurses.
- 2002-03 (vacancy reduction) 39 positions were reduced and all were professional classifications (HFENs, analysts and pharmacy-related), except for 11 that provide clerical and data support.
- 2003-04 (unallocated reduction) 91 positions were reduced of which 32 were nursing classifications, 15 were other professional classifications (analysts, information specialists, and legal) and 44 that provide clerical and data support.

Background—Significant Concerns with Nursing Facility Oversight by DHS. Senator Ortiz, Chair of the Senate Health Committee, and Senator Elaine Alquist, Chair of the Subcommittee on Aging, conducted extensive hearings regarding the DHS' L&C operations. Through these hearings serious problems were discussed and identified, including issues raised by various advocacy and consumer protection organizations, as well as those raised by recent investigations conducted by the U.S. Government Accountability Office (GAO).

The GAO report documents reviews of California's nursing homes conducted from 2003 through January 2005. These reviews showed that the DHS had failed to identify *serious deficiencies in nursing homes.* For example, there is a significant lack of timely follow-up on public complaints alleging harm. Less than half of these complaints were being investigated by the DHS within the ten-day timeframe required by the federal rules. Numerous other inadequacies were also documented, including lack of enforcement on the part of the DHS.

Various publications, including the Los Angeles Times, San Francisco Chronicle and Sacramento Bee have also chronicled concerns regarding the quality of nursing home care in California.

As the result of the joint hearings, the Joint Legislative Audit Committee has requested the Bureau of State Audits to conduct an audit of the DHS' L&C Division. **In addition, SB 1312 (Alquist), has been introduced to address additional policy issues regarding enforcement of state law and regulation.**

Additional Background—Licensing and Certification. The DHS L&C conducts licensing and certification inspections (surveys) in facilities to ensure their compliance with minimum **federal certification** and **state licensing** requirements in order to protect patient health and safety. **L&C is also responsible for investigating complaints from consumers, consumer representatives, the Ombudsmen, and anonymous sources, against health facilities.** L&C is a statutorily mandated enforcement agency.

Certification is a federal prerequisite for health facilities and individual providers wanting to participate in and receive reimbursement from both Medicare and Medicaid (Medi-Cal). The DHS is the designated entity under contract with the federal CMS to verify that health facilities meet minimum certification standards. **Federal grant funds are allocated to California to conduct work associated with Medicare. These funds have been fairly flat and have not historically kept abreast of workload needs. With respect to Medi-Cal certification, the state must provide a 50 percent General Fund match to obtain the federal funding. Presently, fees are collected from the various facilities/entities and are placed in to the General Fund. As such, these fees may *not* be being used exclusively for licensing and certification purposes.**

Among other requirements, state law requires that periodic licensing inspections be conducted for "licensed-only" facilities. These include all health care facilities that are not certified to receive Medicare or Medi-Cal reimbursement as well as two other categories—Adult Day Health Care and hospitals. The DHS notes that resources are seriously challenging the DHS' ability to conduct licensing inspections, especially with the frequency required in state law.

The DHS contends that through policy legislation enacted in 1993, which amended Section 1279 of the Health and Safety Code, L&C is not required to conduct a periodic licensing inspection but must conduct periodic federal certification surveys. They state that this includes all facility categories except for hospitals, Adult Day Healthcare Centers and clinics. **This interpretation is in dispute and SB 1312 (Alquist), as amended, is intended to clarify this area of law.**

The other major means of addressing quality of care problems is through timely and thorough investigation of complaints from patients, clients, residents, family, friends, Ombudsman, facility staff, advocacy groups, law enforcement, and anonymous sources.

Additional Background-- Recent Retention & Recruitment Actions. In December 2005, the U.S. District Court (*Plata v. Schwarzenegger*) ordered the implementation of R & R differentials for physicians and surgeons and specific nursing classifications at all 33 state prisons to address high vacancy rates for these staff and inadequate health care services. **The Plata court order did not account for any consequences of the ruling upon other state agencies, including the DHS.**

Both the CA Department of Corrections and Rehabilitation (CDCR), and the Department of Mental Health (DMH) have now recently received "recruitment and retention ("R & R") pay differentials for physicians and surgeons and specific nursing classifications (over an 18 percent increase).

This pay differential across agencies is an issue that the Administration will need to address in order to recruit and maintain nursing classifications within the DHS L&C Division.

Legislative Analyst's Office Recommendation—Deny 63 Positions. The LAO recommends a total reduction of $8.2 million (Licensing and Certification Fund) by eliminating 63 positions from the DHS request and deleting $346,000 in contract funds for Los Angeles County. Specifically, the LAO believes that the DHS workload productivity level for the surveyor positions is too low and that a higher level of productive hours—1,503 hours—should be used. The 1,503 hours per surveyor would reduce the request by 41 surveyor positions. Subsequently, the positions requested for supervising, pharmacy review and related support, would be equally reduced. As such, a total of 63 positions would be eliminated.

Subcommittee Staff Recommendation. It is recommended to take the following actions: **(1)** augment the budget request by $434,000 (Licensing and Certification Fund) and change the 23 HFE I positions to the more experienced Registered Nurse classification of Health Facility Evaluator Nurse; **(2)** Change the 23 limited-term Health Facility Evaluator Nurse positions to permanent; **(3)** Adopt placeholder trailer bill legislation to establish a special fund—the Licensing and Certification Fund—and any necessary language regarding the collection of fees; **(4)** Reject the Administration's remaining trailer bill language changes without prejudice since policy legislation is proceeding on these issues; **(5)** Adopt trailer bill language which requires the DHS to provide the Legislature with a hiring plan for these positions by no later than October 1, 2006; and **(6)** Adopt Budget Bill Language that exempts all clinical positions within the L&C Division, including but not limited to, medical, nursing and pharmacy staff, from any unallocated reductions (i.e., any reductions would have to be done through the budget process with the approval of the Legislature).

Significant concerns regarding the state's nursing homes and the oversight of these homes by the DHS L&C Division have been documented and expressed in many venues. The DHS has begun to recognize the need to proceed with changes and has identified a substantial workload need through their analysis. As such, all of the 141 positions should be approved (at appropriate levels) in order to begin to get California back on track for providing consistent, quality care in nursing homes.

Further, this is not a time to experiment with using less qualified levels of personnel in the L&C survey arena. The DHS L&C Division has enough issues on its plate at this time and should not proceed with the extensive use of LVNs and/or Psychiatric Technicians to see whether they can or cannot pass the federal examination and whether the quality of the surveys are impacted.

Finally, the L&C Division was clearly, unfairly impacted by the various "unallocated" reductions and vacant position reductions allowed for in prior budgets. This area deserves and needs protection from these actions in the future in order to protect the public's health and safety.

In addition, the Administration needs to evaluate the need for a pay differential for the L&C Division nursing classifications.

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

1. DHS, Please provide a brief summary of the request, including the trailer bill language.
2. DHS, Please describe your hiring plan, as well as any recruitment and retention efforts that have been implemented.
3. DHS, Please describe key system efficiencies or improvements that have been undertaken.
4. DHS, When will information regarding fee adjustments for all affected facilities be available?

3. Additional Staff for Fingerprint Investigation & Proposed Trailer Bill *(See Hand Out)*

Issue. The DHS is requesting **(1)** an increase of about $1.3 million (proposed Licensing and Certification Fund) to add 14.5 positions to the existing fingerprint investigation unit at the DHS, **(2)** $65,000 in one-time only contract funds, and **(3)** trailer bill legislation to change the criminal background check process. Each of these is discussed below.

The DHS states that these resources are requested to address a current backlog and to meet critical workload increases in the Professional Certification Branch that will result from technical upgrades to the Department of Justice's electronic system which generates criminal offender record information to the DHS Fingerprint Investigation Unit.

***First,* 14.5 new positions are requested with ten being two-year limited-term appointments and 4.5 being permanently established. The DHS requested positions and their key functions are as follows:**

- ***Ongoing Workload for Conviction, Hearing and Settlement Process (4.5 New Positions).*** There are presently 7 existing Health Facility Evaluator II's (HFE II's) that perform "conviction" workload (5,400 cases per year). In order to address an *additional* workload of 4,992 cases per year with the onset of the DOJ computer system upgrades, the DHS is requesting 2.5 new HFE II's for this purpose and is redirecting one HFE II as well (total of 3.5 HFE II's).

  The DHS is also proposing to redirect two HFE II's to represent the DHS in appeal hearings and related administrative actions that result in denials or revocations of certificates or licenses.

  In order to manage the 5.5 positions noted above (i.e., 2.5 new and 3 redirected), the DHS is requesting a clerical support position—Office Technician--, and a management position—Health Facilities Evaluator Manager I. These two new positions will also address existing workload issues within the unit. **Therefore, a total of 4.5 new positions are requested for these functions, including 2.5 HFE II's, an Office Technician and a manager position.**

- ***Backload Workload--(10 New Two-Year Limited-Term Positions).*** The DHS is requesting ten two-year limited-term positions—7 HFE II's, one Manager I, and two Program Technicians—to address a backlog of "arrest only" criminal offender record information (CORI) records. These positions would process conviction information at a rate of 984 convictions per analyst plus supporting staff (i.e., 9,840 records).

  Over 24,000 "arrest only" records have accumulated and the DHS continues to receive an average of 9,600 additional "arrest only" records annually. Current efforts to reprogram DOJ's "subsequent arrest notification" system and to conduct a one-time run of the existing backlog of "arrest only" records will result in follow up dispositions. The DHS states that the majority of these dispositions (about 52 percent) will reveal a conviction and will lead to further workload to remedy. The DHS notes that backlogs of conviction cases will affect the health and safety of residents in long-term care facilities statewide, as they prevent taking the necessary denial action against caregivers.

Second, the request also includes $65,000 (proposed Licensing and Certification Fund) in one-time only contract funds to conduct a feasibility study to provide the DHS with a long-term automation solution to provide efficiencies to the system. The DHS states that this proposed feasibility study will identify the current problems with the system, define the business requirements, and provide potential alternative solutions.

Third, substantial trailer bill language is proposed to change the criminal background check process, including definitions of serious crimes and related matters. It should be noted that the Administration is sponsoring **SB 1759 (Ashburn)** to implement this proposed legislation. Due to the substantial policy issues involved it was recommended for the Administration to utilize the policy committee process in lieu of trailer bill language.

Background—Description of the Process. The DHS is responsible for conducting criminal background reviews of Certified Nurse Assistants (CNAs), Home Health Aides, and individuals associated with specified licensed care facilities that have access to vulnerable clients.

About 40,000 applicants for certification or employment in facilities licensed by the DHS annually submit fingerprints to the DOJ. In response to these submissions, the DOJ conducts a search of its automated database and provides the DHS with a notification that the individual has either: (1) no criminal offender record information, (2) a conviction, or (3) an arrest with no final disposition.

Of the fingerprints transmitted, the DHS receives 14,800 "criminal offender record information" (CORI) responses annually that must be processed, reviewed, and categorized by the type of criminal activity shown on the record. The CORI may contain convictions, or only an arrest with no final disposition. Arrest or conviction information is also generated when criminal activity occurs after a person becomes certified or employed.

About 5,200 of the CORI that are reviewed contain conviction information. These records represent the bulk of work being performed by the existing DHS staff. Staff must review the entire criminal history to determine if the conviction is for a crime that requires the department to deny the application or revoke the certificate. If such a conviction is present, the DHS must take action to either deny the individual's certification or employment, or to revoke their certification. If the conviction is for a crime other than one that requires denial or revocation, the case is assigned to a Health Facilities Evaluator II. These cases are triaged to determine priority and severity levels. Those who appeal the adverse actions are afforded an administrative hearing.

When the CORI contains an "arrest only", a notation of the existence of the record is made in the licensing system and the records are classified based upon severity. The majority of these records are not actionable because they lack the conviction disposition necessary to support a denial or revocation action. These CORI's are filed away.

Legislative Analyst's Office Recommendation. The LAO recommends approval of the staff request for 14.5 positions. No issues were raised regarding the workload.

Subcommittee Staff Recommendation. It is recommended to **(1)** approve the 14.5 positions, and **(2)** delete the proposed trailer bill legislation regarding criminal background checks without prejudice since policy legislation is moving and the changes will probably require considerable policy discussion.

Questions. The Subcommittee has requested the DHS to respond to the following question.

1. **DHS**, Please provide a brief summary of the request.

4. Long-Term Care Rate Adjustments per AB 1629, Statutes of 2004—DHS Staff & Local Assistance Discussion *(See Hand Out)*

Issue. The **budget proposes four actions** regarding the implementation of AB 1629, Statutes of 2004. **These proposed actions include: (1)** an increase of $5.3 million ($2.7 million General Fund) for the DHS to establish 55 positions, **(2)** an increase of $1.5 million ($750,000 General Fund) for a contract, **(3)** an increase of $787 million ($393.5 million General Fund) in local assistance to reflect the requirements of legislation, including various rate adjustments for freestanding nursing facility level B and certain adult subacute facilities, and **(4)** trailer bill legislation. Each of these issues is discussed below.

***First*, the DHS is requesting to establish 55 positions. Of these positions, 41 of them are new and 14 were *administratively* established to commence with the *initial* implementation of AB 1629.** Funding was provided to the DHS in the legislation for 2004-05 and 2005-06 for initial implementation purposes. However, the funding for the 14 administratively established positions expires in the current year**. As such, the DHS is requesting to establish all of these positions and to fund them on an ongoing basis, except for a half-time position which is limited-term.**

The DHS states that continued implementation of AB 1629 will significantly impact their workload in five areas of the DHS—(1) Administration Division, **(2)** Audits and Investigations, **(3)** Licensing and Certification, **(4)** Medi-Cal Policy Division, and **(5)** Legal Office. **Their proposed request by area is outlined below.**

- ***Administration Division (4 Positions—continue funding).*** Three Accounting Technicians and an Accounting Office are requested to due to the following key functions: **(1)** process for deposit the quality assurance fees from 1,100 facilities, **(2)** track the reconciliation of payments, and **(3)** managed the payment collection process.

- ***Audits and Investigations (22 Positions).*** This request includes **(1)** 19 Health Program Auditor III's, **(2)** two Health Program Audit Manager I's and **(3)** one Management Services Technician to perform facility audits and accumulate the data necessary to be used in the rate setting process required by AB 1629. To implement these requirements, the DHS will need to issue an annual audit report for each skilled nursing facility (Level B) that requires a Medi-Cal rate. Existing staff is presently only required to do full scope audits on about one-third of the existing 1,100 Level B's.

- ***Licensing and Certification (9.5 Positions—continue funding).*** This request seeks approval for **(1)** 5 Associate Governmental Program Analysts (AGPA), **(2)** three Research Program Specialists, **(3)** one Management Services Technician, and **(4)** a half-time limited-term position (to December 31, 2008) to do specified work. This work includes (1) conduct field work to do research and data gathering, (2) data analysis necessary to produce reports (January 1, 2007 report and January 2008 report as referenced in the background section below), and, **(3)** develop regulations to clarify certain aspects of legislation (i.e., half-time position). **It should be noted that the DHS is also proposing $500,000 ($250,000 General Fund) to contract for preparation of these reports as well.**

- ***Medi-Cal Policy Division (2 Positions—continue funding for one and one new).*** The DHS is requesting funding to continue an AGPA position and to obtain a new AGPA position. The first AGPA (continuing) is requested to annually calculate the capital cost category of the rate for nursing homes as contained in AB 1629.

  The second AGPA (new) is requested to develop, implement, administer and monitor the quality assurance fee. This position would be required to calculate, assess and collect the quality assurance fee.

  The DHS also will be using a contractor to assist in completing and implementing a new rate system for the facilities as contained in the legislation. This contract is for $1 million ($500,000 General Fund). The DHS notes that is imperative that the consultants continue to assist the DHS with the development and the operational aspects of the new rate methodology.

- ***Legal Office (18 new Positions).*** This request includes **(1)** 5 Health Program Auditor IV's, **(2)** Three Administrative Law Judges, **(3)** 6 attorneys, **(4)** 3 Senior Typists, and **(5)** one Legal Analyst. The DHS contends that these resources are needed to address the *anticipated* increase in appeals on audit adjustments and each facility's specific reimbursement rate. Any audit adjustment that results can be appealed through the department's administrative hearing process (two levels of appeals provided through this process).

Trailer bill legislation is proposed which would enable the DHS to reduce, on a weighted average, facility specific basis, the projected reimbursement rates established by AB 1629, in an aggregate amount sufficient to pay for any General Fund expenditures necessary for the DHS to administer the program. The Administration contends that this language is necessary in order to maintain the "cost neutrality" of the legislation and the agreement that constituency groups had with the Administration.

Summary of Key Aspects of AB 1629, Statutes of 2004. Among many things, the legislation authorized the DHS to do the following key functions:

- Require a "quality assurance fee" on certain skilled nursing home facilities effective as of July 1, 2004. This fee is then matched with federal funds.;
- Implement by August 1, 2005, a new facility-specific Medi-Cal reimbursement methodology for certain skilled nursing home facilities;
- Collect baseline information regarding certain skilled nursing home facilities including staffing levels, worker wages and benefits, resident's care, and citations and report to the Legislature by January 1, 2007; and
- Report to the Legislature by January 1, 2008 on other various data items.

Legislative Analyst's Office Recommendation—Approve 46 Positions of 55 Positions. The LAO concurs with the DHS on their request for staff except for in the Legal Office. **Specifically, the LAO recommends reducing the request for the Legal Office by half for a reduction of nine positions.**

Second, the LAO believes that 5 of the Associate Governmental Program Analyst (AGPA) positions in the Licensing and Certification section should be funded using the Licensing and Certification Fund (fee-supported), in lieu of the proposed General Fund support.

Third, the LAO is recommending eliminating $500,000 ($250,000 General Fund) for the contract to report the data report. **These three recommendations would result in savings of $1.5 million ($1 million General Fund).**

Subcommittee Staff Recommendation. It is recommended to **(1)** adopt the LAO recommendation regarding the reduction in Legal Office staff and the use of the Licensing and Certification Fund for specified positions, **(2)** retain the DHS request for the contract funds (data reports and fiscal assistance), ***and*** **(3)** adopt placeholder trailer bill language, in lieu of the Administration's, to more narrowly limit the Administration's language regarding the use of the quality assurance fees for the payment of DHS' expenditures to administer the program.

The savings from this recommendation would be about $800,000 General Fund.

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

1. **DHS,** Please provide a brief summary of the request, including the positions and proposed trailer bill language.

5. Long-Term Care Rate Adjustment for Other Facilities—Local Assistance

Issue. Using the standard rate methodology for long-term care facilities as contained within California's Medi-Cal State Plan, the budget provides an increase of $181.2 million ($91 million General Fund). The rate increases are effective as of August 1, 2006.

These are those long-term care facilities that are *not* defined in AB 1629, Statutes of 2004, including freestanding Level A nursing homes, Distinct-Part Level B nursing homes, and adult sub-acute facilities that provide long-term care (such as Intermediate Care Facilities for the Developmentally Disabled (ICF-DD)). Costs for managed care programs have also been included in this proposal. These managed care costs consist of the long-term care components of all County Organized Healthcare systems and long-term care components (such as PACE and SCAN, and OnLok).

The cumulative weighted increase for Level A nursing facilities, Distinct-Part Level B nursing homes, Rural Swing beds and Pediatric Subacute Facilities is 14.70 percent. For Intermediate Care Facilities for the Disabled, including Habilitative and Nursing (ICF-DD, ICF-DD/N and ICF-DD-H), it is 6.17 percent.

Subcommittee Staff Recommendation. It is recommended to approve these increases as proposed, pending receipt of the May Revision. The May Revision will make some adjustments to these figures but nothing substantial.

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

1. DHS, Please provide a summary of the proposal.

<u>6. Aged Drug Rebates—Extend 11 Positions for One-Year</u>

<u>Issue.</u> The DHS **is requesting to extend 11 positions for one year (to June 30, 2007) for increased expenditures of $988,000 ($494,000 General Fund) to complete work related to aged drug rebates.** These positions were originally authorized in the Budget Act of 2003 on a three-year limited-term basis. **All of these positions are presently filled.**

The purpose of these positions is to collect on drug rebates owed to the state by drug manufacturers. These "aged" drug rebates are in dispute and must be reconciled through the DHS system and with the manufacturers. The DHS notes that in 2003 there was about $300 million (total funds) in aged rebates and by December 2005 there was about $150 million (total funds). Further by the end of 2006 they anticipate that the amount will about $100 million.

The dispute resolution process is complex and requires a high level of skill to operate the Rebate Accounting and Information System and the rebate-related software applications, and to learn the dispensing patterns of the drugs. As such, continuation of the exiting staff is important in order to reduce the backlog. Staff has also created automated claims analysis tools, made improvements in the Rebate Accounting and Information System and related items to improve efficiencies.

<u>Subcommittee Staff Recommendation—Capture Savings of $7.5 million GF.</u> It is recommended to **(1)** approve the request to extend the positions for an additional year, ***and*** **(2)** reduce the Medi-Cal local assistance item by $15 million ($7.5 million General Fund). The DHS concurs with the recommended savings level identified for 2006-07. No other issues have been raised.

<u>Questions.</u> The Subcommittee has requested the DHS to respond to the following questions.

2. **DHS,** Please briefly state the need to continue the positions and is the $7.5 million GF savings achievable in the budget year?

<u>7. Disease Management Pilot Program Implementation—LAO Issue</u>

<u>Issue.</u> The Legislative Analyst's Office (LAO**) is recommending a reduction of $750,000 ($375,000 General Fund) in the current-year *and* $1 million ($500,000 General Fund) in the budget year to reflect a delay in the implementation of the Disease Management Pilot Project.** This proposed reduction pertains to the **first** pilot project which would address the following conditions: Advanced Atherosclerotic Disease Syndrome, Asthma, Coronary Artery Disease, Diabetes and Chronic Obstructive Pulmonary Disease (i.e., Disease Management Project #1)

The DHS' Request for Application (RFA) to conduct a fee-for-service pilot project for Disease Management, as directed by the Legislature, was initially released by the DHS on March 15, 2006. Subsequently, there have been three addendums to the RFA document with the last one being released on April 3rd.

The Governor's budget had assumed that payments to the awarded contractor would commence as of May 2006. However the DHS RFA proposes an implementation date of August 1, 2006. **As such, payments to the contractor will not begin until at least October 2006**. **As such, the LAO has proposed a reduction to the budget to reflect this revised timeframe.**

<u>Additional Background Information.</u> The Disease Management Pilot Project was approved by the Legislature through the Budget Act of 2003. The purpose of this three-year pilot project is to test the efficacy of providing a disease management benefit to Medi-Cal enrollees. This is to include, but not be limited to, the use of evidence-based practice guidelines, supporting adherence to care plans, providing patient education, monitoring, and strategies for healthy lifestyle changes.

The program will provide a range of services that are to enable enrollees to remain in the least restrictive and most homelike environment while receiving the medical care necessary to protect their health and well being. **The contractor is to provide these services to persons who are 22 years of age or older and have a primary or secondary diagnosis of one of the following chronic diseases:** (1) artherosclerotic disease syndrome, (2) congestive heart failure, (3) coronary artery disease, (4) diabetes, (5) asthma, or (6) chronic obstructive pulmonary disease.

<u>Subcommittee Staff Recommendation.</u> It is **recommended to adopt the LAO recommendation** to eliminate funding in the current year for savings of $750,000 ($375,000 General Fund), and to reduce the budget year proposal by $1 million ($500,000 General Fund).

<u>Questions.</u> The Subcommittee has requested the DHS to respond to the following questions.

1. **DHS**, Please provide a status update on the Disease Management Pilot Project.

8. Treatment Authorization Processing—Request for More Staff

Issue. The DHS **is requesting an increase of $713,000 ($285,000 General Fund) to hire 6 permanent positions to create a "Quality Assurance and Program Integrity" unit to collect, manage, and monitor Medi-Cal utilization review data, optimize and expand the current "e-TAR" and auto-adjudication process, and improve the overall utilization review process.**

It should be noted that the DHS uses a relatively larger staff than private health plans to process TARs. **Currently the DHS utilizes about 660 positions, including positions under the EDS contract (i.e., the Medi-Cal Program's Fiscal Intermediary).** Most of these positions are in Medi-Cal Field Offices (6 statewide) and in two regional Pharmacy Units.

The DHS also uses the "Service Utilization Review Guidance and Evaluation (SURGE) system which is a computer processing system to review and adjudicate "Treatment Authorization Requests" (TARs). SURGE has been operational for several years, with a new infrastructure implemented in April 2005. Further, the **"e-TAR"** process allows provides to electronically enter a TAR request, which can then be electronically adjudicated in SURGE. The e-TAR is used for both pharmacy and medical submittals; however the use for pharmacy submittals is greater.

The DHS states that the positions and their key functions would be as follows:

- ***Staff Services Manager I.*** This position assists in planning, directing and implementing the "Quality Assurance Management Program" for the TAR adjudication process on a statewide basis. They would ensure uniformity and consistency in program implementation and compliance with state and federal regulations, guidelines and procedures through the six Medi-Cal Field Offices and two pharmacy units.
- ***Medical Consultant II.*** This would position would review TAR adjudication decisions of the field offices to assure the quality and uniformity of decisions, and monitor appeals and fair hearing outcomes for consistency in implementation of laws and regulations. In addition, they would provide technical guidance to consultants in the field, as well as providers.
- ***Nurse Consultant II.*** This position would (1) establish and maintain cooperative relationships with DHS Field Office administrators and clinical consultants to provide complex nursing and program consultation for issues with TAR adjudication, and (2) plan, organize, develop and conduct fact-based research projects on the provision of healthcare services in the fee-for-service Medi-Cal Program, including outcome measures of the TAR adjudication process.
- ***Research Analyst II.*** This position would (1) manage data for the statewide TAR adjudication utilization management program, (2) perform statistical analyses of TAR decisions statewide, and (3) prepare ad hoc studies related to various intervention methodologies for ensuring uniformity of TAR adjudications and effectiveness.
- ***Research Analyst II.*** This position would (1) develop and implement an in-depth and technical cost benefit analysis of the TAR process and determine which additional TAR categories or services that would qualify for an automation methodology utilizing advanced statistical methods, computer programming, and expert judgment, and (2) consult with management, control agencies, and federal agencies on all phases of the TAR automation.

- ***<u>Associate Governmental Program Analyst.</u>*** This position would (1) be responsible for the data management of the statewide Medical TAR Automation process, including the planning and implementation of management reports, training and supporting provider staff in the use of the database, and (2) collaborate with DHS staff and other researchers on various projects.

<u>Additional Background Information--TARs.</u> Medi-Cal requires providers to obtain prior authorization for specific medical procedures and services before Medi-Cal reimbursement can be approved. To file a TAR, providers must fill out one of several types of TAR forms and forward the TAR, usually by mail but also electronic, to the appropriate DHS TAR office (six Medi-Cal Field Offices and two Pharmacy offices). The DHS then processes the TAR to either (1) approve, (2) modify—such as quantity of service, (3) defer—return to provide for more information, or (4) deny the request.

Generally, the purpose of any prior authorization system is to (1) assist in reviewing medical necessity, (2) assist in cost control, and (3) assist in fraud detection.

<u>Additional Background Information—Budget Act of 2004.</u> The Budget Act of 2004 provided the DHS **with 18 new staff** for improvement to the TAR system. In addition, trailer bill legislation was enacted which, among other things, provides for the following:

- Enables the DHS to design and implement a sampling methodology for TARs in order to keep abreast of health care industry trends and to manage an efficient and effective Medi-Cal Program;
- Requires the DHS to provide their sampling methodology to the Legislature by July 1, 2005; and
- Directs the DHS to pursue additional means to improve and streamline the treatment authorization request process, including where applicable, those identified by independent analyses such as the July 2003 report by the CA Healthcare Foundation regarding the DHS' TAR system.

The trailer bill legislation was enacted in response to various constituency concerns that are dissatisfied and frustrated with the DHS TAR process which they contend results in financial risk to providers and medical risk to Medi-Cal recipients. Suggestions from constituency groups in the past have included **(1)** reduce the number of services that require TARs, **(2)** reduce the number of TARs processed by the DHS (such as the use of sampling), and **(3)** develop a standard set of adjudication guidelines and publish common instructions for both DHS Field Offices and providers so that the rules are clear. The intent of the 2004 trailer bill language was to move this conversation along.

<u>CA Healthcare Foundation (CHF) Report—2003.</u> This CHF Report provided a comprehensive, concrete set of recommendations. The following highlights key recommendations that were provided:

- Create comprehensive guidelines for TAR adjudication or use standard utilization management programs like other health care provider organizations do;
- Reduce the number of services that require TARs;

- Develop a specific strategy for the evaluation of pharmacy TARs;
- Develop different TAR sampling methodologies for providers.

Again, the intent of the trailer bill legislation from 2004 was to address some of these issues.

<u>Legislative Analyst's Office Recommendation—Deny the Request.</u> The LAO recommends denying the entire request. They can find no justification for the six additional staff positions as requested and note that 18 additional positions were just provided in the Budget Act of 2004.

Further, they note that the DHS indicates that the percentage of pharmacy TARs submitted using a new electronic "e-TAR" submission process rose fourfold in 2005, while the percentage of medical TARs submitted using e-TAR roughly doubled. This growth in the use of e-TAR should reduced staff workload by more than enough for the DHS to undertake its proposed new projects to improve the TAR process without additional staff as requested.

<u>Subcommittee Staff Recommendation.</u> It is **recommended to approve only three of the requested positions—Staff Services Manager I, Medical Consultant II, and the Nurse Consultant III. The remaining three positions should be denied.** (It should be noted that the state will receive enhanced federal funds (at the 75 percent match level) for the two clinical positions recommended for approval.)

The DHS needs to vastly improve its TAR processing system. The CA Healthcare Foundation Report (2003) clearly articulated the need for the DHS to restructure its antiquated system and to improve its review of the TARs. It is unfortunate that the DHS has not progressed further along in revamping its process and it appears that the only way to make advances is to provide some staff for this directed effort.

<u>Questions.</u> The Subcommittee is requesting the DHS to respond to the following questions.

1. **DHS**, Please provide an update on the sampling methodology.
2. **DHS**, Please provide a brief summary of the request.

9. Health Insurance Portability and Accountability (HIPAA)--Staff

Issue. The Subcommittee **is in receipt of a Finance Letter from the DHS is requesting position authority to establish 12.5 limited-term positions to expand their efforts to comply with the federal Health Insurance Portability and Accountability Act (HIPAA).** Expenditures of $1.3 million ($322,000 in Reimbursements from the CA Office of HIPAA, and $1 million in federal funds) will be incurred by the DHS for these positions.

The DHS currently has an approved HIPAA advanced planning document for the projects to be addressed in this Finance Letter. The DHS says they have worked closely with the federal CMS on these issues and will continue to do so. **The requested positions would be used to do the following HIPAA functions:**

- *Implement the federal "Transaction and Code Sets" rule (1.5 Limited-Term Positions).* Among other things, HIPAA requires the DHS so have the ability to send (1) monthly premium/capitation payments in a standardized electronic format to providers, and (2) enrollment information to providers in a standardized format. The DHS is using contracted resources to perform detailed assessments of these business functions and to implement a solution. There are two pieces of software associated with these changes, as well as a need to conduct data entry. **The DHS is requesting one limited-term Associate Information System Analyst and a half-time limited-term Key Data Operator for these purposes.**

- *Universal Product Number Pilot Project (8 Limited-Term Positions).* The federal CMS has approved for the DHS to demonstrate the cost-effectiveness of the "Universal Product Number" (UPN) standard for the payment of medical supplies. This project requires the DHS to replace over 4,600 local medical supply codes for HIPAA compliance, in addition to the adopt of UPN standards. This is a two-year project that will result in cost savings to the state after it is implemented. It is estimate that up $30 million (total funds) annually can be obtained through the collection of additional rebates agreed to in the contracting process. **The DHS needs eight limited-term positions as follows for this purpose:**
  - An Associate Information Systems Analyst and a Staff Information Systems Analyst (i.e., two positions) to oversee the design, development and implementation of changes to the Medi-Cal Information System to allow the use of the UPN as the billing code for medical supplies;
  - Two Associate Information Systems Analysts to support the ongoing workload associated with the UPN implementation;
  - Two Pharmacists, an Associate Governmental Program Analyst and a Nurse Consultant III (i.e., four positions) to support the negotiations and implementations of medical supply manufacturer's contracts.

- *National Provider Identifier (3 Limited Term Positions).* This rule establishes a national identifier for all providers that will be used to bill all payers, including Medi-Cal, Medicare, and private insurance. All DHS programs must be assessed and remediated for their usage of the provider ID, including the County Medical Services Program, CHDP, CCS and others.

The DHS is requesting an AGPA and two Staff Information Systems Analyst positions for this purpose.

<u>Additional Background—HIPAA and Needed State Actions.</u> HIPAA, enacted in 1996, outlines a process to achieve national uniform health data standards and health information privacy in the U.S. It requires the adoption of standards by the federal Secretary of Health and Human Services to support the electronic exchange of a variety of administrative and financial health care transactions. The federal government has published and continues to publish, multiple rules pertaining to the implementation of HIPAA. These rules will be publishes in waves and over the next several years. Among the standards are:

- Electronic transaction and data elements for health claims and equivalent encounter information, claims attachments, health care payment and remittance advice, health plan enrollment and disenrollment, health plan eligibility, health plan premium payments, first report of injury, health claim status and other items;
- Unique identifiers for individuals, employers, health plans and health care providers for use in the health care system;
- Code sets and classification systems for the data elements of the transactions identified (conversion of all local codes to national standard codes); and
- Security and Privacy standards for health information.

<u>Subcommittee Staff Recommendation.</u> It is recommended to approve the positions. No issues have been raised by the LAO or Subcommittee staff.

<u>Questions.</u> The Subcommittee has requested the DHS to respond to the following questions.

1. **DHS**, Please provide a brief summary of the request.
2. **DHS,** Please provide a brief update on the status of HIPAA implementation within the Medi-Cal Program.

<u>10. Processing for Breast and Cervical Cancer Treatment Program—More Staff</u>

<u>Issue.</u> The DHS is requesting to **(1)** convert 11 positions from limited-term to permanent status, and **(2)** add 15 new positions to continue to eliminate a backlog of applications and to address caseload increases in eligibility determinations for the Breast and Cervical Cancer Treatment (BCCTP) Program. **The budget proposes an increase of $1.9 million ($951,000 General Fund) for this purpose. No adjustments to local assistance funding are proposed by the Administration.**

The DHS contends that these 26 positions are needed to address (1) current and ongoing workload, and (2) a backlog of workload in *both* the eligibility determinations area and the eligibility redetermination area.

The DHS was originally provided 13 staff for the program in 2001, including (1) six Associate Governmental Program Analysts, (2) three information systems analysts, (3) a Staff Services Manager I, (4) a Medical Consultant II, (5) a Research Analyst II, and (6) an Office Technician.

The Budget Act of 2004 augmented this baseline level by providing 11 limited-term positions (all set to expire as of December 31, 2006) to address a backlog in applications and the review of the eligibility of participants.

First**, the DHS wants to convert the *existing* 11 limited-term positions received in the Budget Act of 2004 to permanent status.** These positions include **(1)** 8 Associate Governmental Program Analysts (AGPAs), **(2)** a Staff Services Manager I, **(3)** an Associate Medi-Cal Eligibility Analyst, and **(4)** an Office Technician. These positions would be used to work on the backlogs of both eligibility and redeterminations, and when these backlogs are completed, they would be shifted to address new redeterminations. **All of these positions are presently filled.**

Second**, the DHS is requesting an increase of 15 new positions of which four would be two-year limited-term positions and 11 would be permanent. These positions include (1)** 4 AGPAs (two-year limited-term), **(2)** a Staff Services Manager I, **(3)** 9 AGPAs, and **(4)** an Office Technician. These positions would be used to **(1)** address retroactive coverage requests received as a result of notification of the availability of retroactive coverage to current and past BCCTP eligibles, and **(2)** eliminate and stay current with the annual redeterminations.

The DHS notes the following program statistics:

- There are currently 12,900 BCCTP eligibles (2,900 State-Only Program and 10,000 federal program).
- About 225 new applications are received each month, of which 155 are for the federal program and 70 are for the State-Only Program.
- There is a backlog in making federal eligibility determinations as required. As such the DHS states that the program is not in full compliance with federal rules regarding eligibility determinations, annual redeterminations and requests for retroactive coverage.

<u>Background on Current Program Operations.</u> The Budget Act of 2001 and accompanying trailer bill legislation implemented the federal option to provide certain health care services to individuals with breast and cervical cancer. The Breast and Cervical Cancer Treatment Program (BCCTP) was implemented January 1, 2002.

The BCCTP uses an internet-based application for initial eligibility determination. Under this process, a provider conducts an initial screen for eligibility and then the DHS makes the final eligibility determination. (This method conforms to federal law which requires a governmental entity, such as a state or county government, to make final Medi-Cal eligibility determinations.)

An individual can qualify for either the "state-only" portion of the program (limited-scope benefits related to cancer treatment only) or full-scope Medi-Cal services. The DHS staff is required to evaluate all BCCTP recipients receiving full-scope, federally funded Medi-Cal services within a 45-day timeframe to ensure they meet federal criteria and are indeed eligible for federal matching funds. If the individual does not meet these criteria, they are eligible for limited-scope, cancer treatment services only (up to 18 months for breast cancer treatment and 24 months for cervical cancer treatment).

<u>Legislative Analyst's Office Recommendation—Deny 9 Positions and Provide 11.5 Positions.</u> The LAO recommends **(1)** savings of $870,000 ($435,000 General Fund) in state support by reducing the position request, ***and*** **(2)** savings of $6 million ($2 million General Fund) in local assistance due to a shift of some participants from full-scope program services to more limited state-only benefits as the DHS reviews the backlog as stated.

With respect to the state staff, the LAO recommends to (1) reject 9 positions, including 8 AGPA positions and an Office Technician**, and (2) approve 17 positions.**

The 17 positions the LAO would recommend approving, include the following:

- Establish 4 *existing* limited-term positions as permanent, including the Associate Medi-Cal Eligibility Analyst and three AGPAs. Currently, these positions expire as of December 31, 2006. The DHS proposes making these positions permanent.
- Continue 7 *existing* as limited-term positions (set to expire as of December 31, 2006) for another two-years (extension to December 31, 2008), including one Staff Services Manager I position, 5 AGPAs, and an Office Technician. The DHS proposes making these positions permanent.
- Approve 6 *new* limited-term positions, including 5 AGPAs and one Staff Services Manager I. These positions would commence as of July 1, 2006. The DHS proposes making 4 of the AGPAs as limited term, and making the remaining 11 *new* positions permanent.

The LAO also recommends savings of $6 million ($2 million General Fund) in local assistance due to a shift of some participants from full-scope program services to more limited state-only benefits as the DHS reviews the backlog as stated.

<u>Subcommittee Staff Recommendation.</u> It is recommended to **(1)** approve the DHS request to make the *existing* 11 limited-term positions permanent, **(2)** approve the DHS request to add 4 limited-term AGPAs as requested, **(3)** approve the DHS request for the Staff Services Manager I and Office Technician, and **(4)** reduce the DHS request for 9 new AGPAs to provide only 2 AGPAs. **Therefore, the overall DHS request would be reduced by 7 AGPA positions for savings of about $320,000 General Fund. This recommendation provides a total of 19 positions (15 permanent and 4 limited-term as noted).** As compared with the LAO, it provides the Office Technician position and an additional AGPA position, plus permanent status for all of the presently filled existing 11 limited-term positions.

In addition, it is recommended to concur with the LAO and reflect savings in local assistance of $6 million ($2 million General Fund). It makes sense that through the DHS processing of the backlog and redeterminations, some individuals would be shifted to limited-scope coverage.

This level of staffing would address the issues regarding the backlog and would provide the DHS with additional resources to process new applications. This is a considerable increase in staffing and should substantially facilitate application processing.

<u>Questions.</u> The Subcommittee has requested the DHS to respond to the following questions.

1. **DHS,** Please provide a brief summary of the request.

11. Vital Records Image Redaction and Statewide Access Project (VRIRSA)—Staff & Trailer Language *(See Hand Out)*

Issue. The DHS is proposing several budget adjustments to implement certain provisions contained in SB 247 (Speier), Statutes of 2002, regarding access to birth and death records. SB 247 requires the DHS to develop safety and security measures to protect against the fraudulent use of birth and death records.

These adjustments include (1) an increase of $10.8 million (Health Statistics Special Fund) in state support to hire 19 new positions and to fund certain contracts, and **(2)** an increase of $453,000 (Health Statistics Special Fund) for local assistance. **The DOF has approved the DHS' Feasibility Study Report for this proposed system.**

No General Fund support is requested. Further, no fee increases are associated with this request. **The special fees levied by SB 247 are sufficient to cover the proposed expenditures.**

In addition, the DHS is proposing trailer bill legislation to (1) delete an implementation date contained in the enabling legislation, and **(2)** delay the perforated paper requirement in order to coincide with pending federal legislation related to the Intelligence Reform Act and the Real ID Act of 2005.

First, an increase of $10.8 million (Health Statistics Special Fund) is requested in state support to **(1)** fund 19 new positions, **(2)** contract for the Vital Records Image Redaction and Statewide Access Project (VRIRSA) system development, and **(3)** purchase equipment. Of this requested total amount, $6.1 million (Health Statistics Special Fund) is *one-time only* funding.

These resources are needed to precede with SB 247 required activities and information technology functions as identified and organized into two components: (1) Statewide Access and Automated Redaction and (2) Computerization of Records. These components are shown in the table below.

2006-07	Statewide Access & Automated Redaction	Computerization of Records
Positions Requested	3 permanent positions	13 permanent positions 3 Limited-Term
Contracted Services & Equipment	$4 million	$4.4 million
Estimated Completion	July 1, 2007	December 2015
One-time local assistance funds to local registrars and county recorders	$453,000 Local Assistance	
Department of General Services (Consultant)	$8,000	

The state will contract to develop the VRIRSA system. The system will provide the redacted image or copy back to the requesting agency for issuance. The system will provide users the ability to search a special, limited index to locate a specific birth or death record and request production of an automated redacted copy. Three DHS positions are needed to work with the contractor as shown in the table above.

The state will procure a contractor to computerize all birth and death records not currently imaged on the system. State staff will perform quality checks within each step of the process to ensure that confidentiality and security are maintained and that processes are evaluated to streamline efforts on an on-going basis to improve efficiency. A total of 13 permanent positions and three limited-term positions are needed for this.

The 19 total requested positions include: (1) a Data Processing Manager III, (2) two Staff Information Systems Analyst, (3) five Staff Programmer Analyst, (4) Senior Information Systems Analyst (Supervisor), (5) seven Associate Information Systems Analysts, and (6) three limited-term Staff Programmer Analysts.

With respect to contract funds, a total of $6.7 million (Health Statistics Fund) is proposed. Of this amount, about $4 million is for the Statewide Access and Automated Redaction contract and $2.7 million is for the computerized records contract.

With respect to equipment, a total of $1.650 million (Health Statistics Fund) is proposed to purchase a "FileNET" backup system located in Richmond and to provide for storage upgrade for this system.

The local assistance funds of $453,000 (Health Statistics Fund) are a one-time only appropriation.

Additional Background. The DHS is responsible for administering and maintaining vital records in perpetuity and in an unalterable format. The DHS, Local Registrars and County Recorders have routinely issued copies of certificates of births or deaths that occur in California. A fee is charged by the Local Registrar, County Recorder and/or the DHS for each certificate requested.

There are about 45 million vital documents, some dating back to the 1800's. All of these documents have been microfilmed; however, the quality of these images is insufficient to produce clear copies for legal purposes. As such, the DHS has been creating digital images of the paper documents on a flow basis. About 15 million documents have been computerized (birth from 1985 to present, death from 1995 to present). leaving 30 million remaining.

SB 247 requires the DHS to develop safety and security measures to protect against the fraudulent use of birth and death records. The Legislature specifically included the computerization of records, redacting and removing signatures to produce an informational copy, and electronically distributing informational copies to Local Registrars and County Recorders as actions that must be taken by the DHS.

The legislation mandated these "informational" certified copies of birth and death certificates shall only be printed from a single state database, *effective January 1, 2006*. The DHS subsequently requested and received approval to amend existing law to change the implementation date to July 1, 2007 (AB 1278, Statutes of 2005).

The DHS has submitted and the DOF has approved a Feasibility Study Report (FSR) to determine the breadth and depth of actions needed to comply with the provisions of SB 247. The FSR shows that the automated redaction and distribution of birth and death certificates cannot be implemented until July 1, 2007.

In addition, not all records will be computerized and available through the system on that date. The DHS notes that the computerization effort will take several years to complete.

Legislative Analyst's Office Recommendation. The LAO recommends to **(1)** approve the 19 positions, **(2)** *reject* the Administration's proposed trailer bill language regarding the deletion of the implementation date, and **(3)** adopt Budget Bill Language as shown below. The LAO has raised no issues regarding the workload and need for the positions.

The proposed LAO Budget Bill Language is as follows:

Item 4260-001-0099

Provision 1. Funding in this appropriation for the Vital Records Image Reduction and Statewide Access Project (VRIRSA) and the related computerization of vital records is provided on the following basis:

(a) The Department of Finance (DOF) in collaboration with the Department of Health Services (DHS) and the Department of Technology Services (DTS), shall prepare a revised analysis to determine the most appropriate and cost-effective location for the production and backup services for the VRIRSA Project and the related computerization of records project;

(b) To assist in this effort, DTS shall estimate an interim rate to be charged for its support of VRIRSA infrastructure requirements;

(c) Based on this information, DOF shall develop an appropriate infrastructure implementation approach that is based on the project's cost, support and security needs and is in line with the state's data infrastructure consolidation goals;

(d) Within 30-days of is completion, DOF shall submit the revised analysis to the Chair of the Joint Legislative Budget Committee and the Chairs of the fiscal committees of both houses of the Legislature.

Subcommittee Staff Recommendation. It is **recommended to adopt the LAO recommendation in its entirety**. The positions are needed to complete the work and the request is consistent with the approved Feasibility Study Report. The trailer bill language to delete the implementation date should be rejected. An implementation date needs to remain in order to encourage progress on implementation and the DHS has already had the date changed once before.

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

1. **DHS**, Please provide a brief summary of the request, including the positions and proposed trailer bill language.

12. Clinical Laboratory Oversight—Fee Supported Staff Request

Issue. The Subcommittee **is in receipt of a Finance Letter requesting an increase of $947,000 (Clinical Laboratory Improvement Fund) to fund 14 new permanent positions to conduct activities associated with the oversight of clinical laboratories in California.**

No General Fund support is requested and no fee increases are proposed to support the positions.

The laboratory field services section of the DHS is required to implement or expand four legislatively mandated programs in 2006-07 and is requesting resources for this purpose. **The DHS states that this proposal is intended to do the following three activities:**

- Provide staff for phlebotomy certification (fourth-year) *and* medical laboratory technician licensure (first-year) as required for the implementation of recent statute;
- Expand federal Clinical Laboratory Improvement Act (CLIA) inspections of waived laboratories as funded by the federal CMS; and
- Allow full licensure and registration of clinical laboratories over the next three-years.

The specific positions and their key functions are as follows.

Phlebotomy Certification and Medical Laboratory Technician Licensure (4 New Positions). The DHS presently has four positions in this area. They are requesting four new positions including an Examiner I, an Examiner II and two Program Technicians to conduct work associated with certifying phlebotomists and to implement medical laboratory technician licensure.

The DHS is required by law to review phlebotomist and medical laboratory technician applications for accuracy and completeness. This review includes verifying the education requirements, training documents, experience requirements and examination documents. In addition, the application fee has to be processed, the state licensing database updated and a permanent file created for each person.

The medical laboratory technician licensure will be in its first year of implementation. About 1,500 persons will be licensed under this category. The phlebotomy certification will be in its fourth year of implementation and all phlebotomists in the state must by law have the new certification. The DHS expects to receive over 14,000 phlebotomy applications by the end of the 2006 and they presently have a backlog of 5,500 applications.

Expand CLIA Inspections for federal CMS (3 New Positions). The DHS is requesting three new permanent positions—two Examiner I positions, and one Examiner II position—to address new federal requirements related to the implementation of CLIA. The DHS says that existing staff is inadequate to conduct its current inspection duties, let alone to add on these additional responsibilities. These additional responsibilities include the following:

- An increase in the number of on-site compliant inspections is required due to a new federal CMS tracking system which includes the investigation of fraudulent test reporting and billing.

- An increase in enforcement actions is projected because the federal CMS has expanded their requirement for proficiency testing. (Laboratories that fail the proficiency testing will have increased enforcement actions against them by the DHS.)
- An increase in the number of on-site inspections and enforcement oversight of "waived" laboratories is needed because the federal CMS now requires more oversight of these laboratories. ("Waived" laboratories conduct tests that are the least complex procedures.)

The DHS states that these positions will also allow them to prepare for **"CLIA exemption"** (i.e., to eliminate federal oversight of California's laboratories and just have state oversight of them). It should be noted that CLIA exemption is still several years away from occurring. The DHS needs to have a fully functioning laboratory oversight program before it can bid for CLIA exemption.

It should be noted that the federal government reimburses California with an 80 percent matching grant for these positions. The state uses CLIF funds as the 20 percent match for this purpose. (The DHS has existing federal fund authority within their budget. As such, this Finance Letter only reflects the CLIF funding portion.)

Full Licensure and Registration of Clinical Laboratories (7 New Positions). The existing DHS laboratory oversight is comprised of 8.6 positions (2.6 professional staff with the remaining being clerical support). The DHS contends this level of staffing is inadequate to conduct the legislatively mandated activities of laboratory oversight. For example, they do not have staff to conduct routine onsite inspections, complaint investigations, laboratory registrations, enforcement actions, and other client support functions that should be done. Further, there are significant backlogs in all laboratory licensing and registration activities.

Therefore the DHS wants to establish additional positions to revitalize the laboratory oversight program to (1) administer a complaints and compliance program, and (2) perform laboratory inspections (both north and south). Four Examiner I positions, one Examiner II position and two Program Technicians would be used to perform these activities.

Additional Background—DHS Laboratory Field Services. The DHS administers the state's oversight of clinical laboratories and licensed laboratory personnel. They are responsible for assuring that clinical laboratories, laboratory personnel, blood banks and tissue banks comply with state and federal law. California has about 18,500 clinical laboratories and over 30,000 licensed laboratory personnel. The DHS currently has 62 existing positions in the laboratory field services section.

The DHS' activities are funded through license fees authorized by law and by reimbursement under contract with the federal CMS for serving as "state agent" for the Clinical Laboratory Improvement Act (CLIA) in California. The Clinical Laboratory Improvement Fund is the primary source of funding for the DHS in this area, along with some federal fund support and specified fees.

Legislative Analyst's Office Recommendation. The LAO has raised no issues regarding the request for the positions to address the workload needs.

However the LAO is concerned with the DHS' lack of enforcement in the clinical laboratory program and believes there may be non-compliance by clinical laboratories with federal and state requirements intended to protect the health of the public. The DHS has a broad array of enforcement tools it can use to respond to noncompliant laboratories. These include assessment and collection of civil fines, referral of violators for criminal prosecution, and a cutoff from participation in the Medi-Cal Program. However the DHS has not yet provided detailed information to the LAO regarding these aspects of enforcement.

The DHS has noted that no imposition of fines or penalties has been initiated since 2004-05 with the exception of one high profile case in the Bay Area. The DHS states that this has been due to staff shortages.

The LAO recommends that the Legislature request an audit of the enforcement component of the program by the Bureau of State Audits in 2007-08 (next budget year). The purpose of this audit would be to assess the DHS efforts at enforcing state laws and regulations for clinical laboratories.

Subcommittee Staff Recommendation. It is **recommended to approve the positions** *and to either* adopt uncodified trailer bill language requesting the Bureau of State Audits to conduct an audit of this program in 2007-08, **or** to submit a letter from the Subcommittee Members to the Joint Legislative Audit Committee for their review and consideration.

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

1. **DHS**, Please briefly describe the budget request.
2. **DHS**, Please address the LAO's concerns regarding enforcement actions. What is presently being done and what improvements do you foresee because of the staff increase?

LAST PAGE OF AGENDA.

Diane Van Maren(w) 651-4103
Senate Budget & Fiscal Review
4/24/2006

Outcomes for Senate Subcommittee No. 3: Monday, April 24th
(Use this document with the Agenda for the day.)

A. Special Order— CA Developmental Disabilities System (CADDIS) (Page 2)

- **Action.** The DDS was told by each Member of the Subcommittee to provide staff and the LAO with appropriate information regarding the "going forward" aspects of the proposal, as well as a potential "Plan B". The Chair directed the DDS to provide as much information as possible prior to the May Revision.

B. ITEMS FOR "VOTE ONLY"— Health Services *(Items 1 through 6; Pages 4 through7)*

- **Action.** Approved as noted on the Agenda for Items 1, 2, 3, and 5.
- **Vote.** 3-0

- **Action.** Approved as noted on the Agenda for Items 4 and 6.
- **Vote.** 2-1 (Senator Cox)

C. ITEM FOR DISCUSSION---Department of Health Services *(Page 8)*

1. Establish a Continuing Education Program for Environmental Health Specialists *(Page 8)*

- **Action.** Deny the request and trailer bill.
- **Vote.** 2-1 (Senator Chesbro)

2. DHS Licensing and Certification (L&C) Division Staff Increase *(Page 10)*

- **Action.** **(1)** Augmented by $434,000 (Licensing and Certification Fee) and changed the 23 HFE I positions to the more experienced Registered Nurse classification of Health Facility Evaluator Nurse; **(2)** Changed the 23 limited-term Health Facility Evaluator Nurse positions to permanent; **(3)** Adopted placeholder trailer bill legislation to establish a special fund—the Licensing and Certification Fund—and any necessary language regarding the collection of fees; **(4)** Rejected the Administration's remaining trailer bill language changes without prejudice since policy legislation is proceeding on these issues; **(5)** Adopted trailer bill language which requires the DHS to provide the Legislature with a hiring plan for these positions by no later than October 1, 2006; and **(6)** Adopted Budget Bill Language that exempts all clinical positions within the L&C Division, including but not limited to, medical, nursing and pharmacy staff, from any unallocated reductions (i.e., any reductions would have to be done through the budget process with the approval of the Legislature) (SBFR staff to provide).

<u>3. Additional Staff for Fingerprint Investigation & Proposed Trailer Bill *(Page 16)*</u>

- **Action. (1)** Approved the 14.5 positions, and **(2)** Deleted the proposed trailer bill language regarding criminal background checks since policy legislation is moving.
- **Vote.** 3-0

<u>4. Long-Term Care Rate Adjustments per AB 1629, Statutes of 2004—DHS Staff & Local Assistance Discussion (*Page19)*</u>

- **Action.** (1) Adopted the LAO recommendation to reduce the Legal Office and to use the Licensing and Certification Fund for the 5 AGPA positions, (2) Retained all other funding aspects of the DHS proposal, and (3) Adopted trailer bill legislation, in lieu of the Administration's, to more narrowly limit the language regarding the use of the quality assurance fees for payment of DHS' expenditures.
- **Vote.** 3-0

<u>5. Long-Term Care Rate Adjustment for Other Facilities—Local Assistance (*Page22)*</u>

- **Action.** Approved as proposed.
- **Vote.** 2-1 (Senator Cox)

<u>6. Aged Drug Rebates—Extend 11 Positions for One-Year (*Page23)*</u>

- **Action. (1)** Approved the DHS staff requests, ***and*** **(2)** Reduced by $15 million ($7.5 million General Fund) to reflect savings to local assistance.
- **Vote.** 3-0
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<u>7. Disease Management Pilot Program Implementation—LAO Issue (*Page24)*</u>

- **Action.** Adopted the LAO recommendation to **(1)** eliminate current-year funding for savings of $750,000 ($375,000 General Fund) and, **(2)** reduce the budget year proposal by $1 million ($500,000 General Fund).
- **Vote.** 3-0

<u>8. Treatment Authorization Processing—Request for More Staff (*Page25)*</u>

- **Action. Approved only three** of the requested six positions, including the Medical Consultant, Nurse Consultant II and Staff Services Manager I. Deleted all others.
- **Vote.** 3-0

9. Health Insurance Portability and Accountability (HIPAA)—Staff (*Page28)*

- **Action.** Approved the positions.
- **Vote.** 3-0

10. Processing for Breast and Cervical Cancer Treatment Program *(Page30)*

- **Action.** **(1)** Approved the DHS request to make the ***existing*** 11 limited-term positions permanent, **(2)** Approved the DHS request to ***add*** 4 limited-term AGPAs as requested, **(3)** Approved the DHS request for the Staff Services Manager I and Office Technician, and **(4)** Reduced the DHS request for 9 ***new*** AGPAs to provide only 2 AGPAs. Therefore, the overall DHS state support request would be reduced by 7 AGPA positions for savings of about $320,000 General Fund. **Also,** reduced by $6 million ($2 million GF) to reflect **Vote.** 3-0
- **Vote.** 3-0

11. Vital Records Image Redaction and Statewide Access Project (VRIRSA) *(Page 33)*

- **Action.** Adopted the LAO recommendation in its entirety as shown in the agenda.
- **Vote.** 3-0

12. Clinical Laboratory Oversight—Fee Supported Staff Request *(Page 36)*

- **Action.** Approved the positions, ***and*** adopted trailer bill language to have the Bureau of State Audits do an audit of this program.
- **Vote.** 3-0

SUBCOMMITTEE NO. 3 Agenda

Chair, Senator Denise Moreno Ducheny
Senator Dave Cox
Senator Wesley Chesbro

Agenda – Part "B"

Thursday, April 27, 2006
10 a.m. or upon adjournment of session
John L. Burton Hearing Room (4203)
Consultant, Brian Annis

Labor Agency and Select Departments

Department Budgets Proposed for Consent

7120 California Workforce Investment Board

The federal Workforce Investment Act (Act) of 1998 established new requirements for employment and training programs for adults, youth, and dislocated workers. Pursuant to the provisions of the Act, the Governor established a state Workforce Investment Board comprised of the Governor; two members of the Senate, appointed by the President pro Tempore; two members of the Assembly, appointed by the Speaker; and representatives of business, labor organizations, community-based organizations, schools and colleges, state agencies, and local governments, appointed by the Governor. The Board is tasked with developing workforce development programs into an integrated workforce investment system that can better respond to the employment, training, and education needs of its customers.

Proposed Budget: The Governor proposes $4.8 million (federal funds and reimbursements) and 20.9 positions for the Board's budget – a decrease of $392,000 from adjusted current year expenditures. The decrease is primarily due to a one-time federal grant of $445,000, which is included in 2005-06 expenditures, but is not assumed for 2006-07. The Administration did not submit any Budget Change Proposals for the Board.

Staff Comment: No issues have been raised with the Board's proposed budget.

Staff Recommendation: Approve the Board's Budget.

0559 Secretary for Labor and Workforce Development

The Labor and Workforce Development Agency (Agency) brings together the departments, boards, and commissions, which train, protect and provide benefits to employees. The Agency is primarily responsible for three different types of functions, labor law enforcement, workforce development, and benefit payment and adjudication. The Labor and Workforce Development Agency includes the Department of Industrial Relations, the Employment Development Department, the Agricultural Labor Relations Board (which is heard in Subcommittee #2) and the Workforce Investment Board. The Agency provides policy and enforcement coordination of California's labor and employment programs and policy and budget direction for the departments and boards.

Proposed Budget: The Governor proposes $2.2 million (reimbursements from departments, and penalty assessments) and 14.2 positions for the Secretary's budget – a decrease of $16,000 from adjusted current-year expenditures. The Agency also administratively established a new position and downgraded another position in 2005-06 and requests to make that change permanent. These position changes had a net zero affect on expenditures because two high-level part-time classifications were eliminated and two lower-level full-time classifications were established.

(see next page for issue)

Issue 1: Employer / Employee Education (BCP #1)

Description: The Administration requests an ongoing augmentation of $15,000 (Labor and Workforce Development Fund) for the purpose of funding employer/employee education efforts. This is a new expenditure for the Agency that relates to two pieces of legislation passed in 2003 and 2004.

Detail / Background: The expenditure authority requested in this BCP relates to the following two bills:

- **Assembly Bill (AB) 276 (Chapter 329, Statutes of 2003, Koretz):** This bill increased penalties for violations of specified provisions of the Labor Code and provides that 12.5 percent of the employer penalties for failure to pay wages or unlawfully withholding wages shall be placed in a fund within the Agency to be used to educate employers about state labor laws. The remainder of the penalty is to be deposited in the General Fund. The analysis for AB 276 estimated annual total penalty revenue of $800,000, with about $100,000 of that available to the Agency for education efforts.
- **Senate Bill (SB) 1809 (Chapter 221, Statutes of 2004, Dunn):** This bill allows employees to bring civil actions to recover civil penalties provided for violations of the Labor Code. These provisions are called the Private Attorneys General Act of 2004. The statute divides the penalties collected between the Agency (75 percent) and the aggrieved employee (25 percent). The Agency share is specified for education of employers and employees about their rights and responsibilities under the Labor Code. No estimate of civil penalty revenue was included in the analyses of SB 1809.

Staff Comment: The BCP indicates that no funds associated with AB 276 have materialized; however, there are several cases pending which may provide a "minimal" amount of funding to the Labor and Workforce Development Fund. The amount of penalties collected pursuant to SB 1809 was $21,000 in 2004-05. A penalty assessment of $75,000 was recently collected and Agency now anticipates revenues of $97,000 in 2005-06. Given that the Agency has a revised fund condition statement that suggests a fund balance of $118,000 at the end of 2005-06, and the analyses of AB 276 and SB 1809 anticipated revenue of a least $100,000 annually, the Subcommittee may want to increase the appropriation for education efforts.

Questions:

1. Agency, please describe the proposal.
2. Agency, please provide an updated revenue report and estimate.
3. LAO, please comment on this request and comment on the maximum expenditure out of this fund that would be fiscally prudent in 2006-07.

Recommendation: Augment this item from $15,000 to $100,000 on a one-time basis. Revenue received to date is sufficient to fund activity at the $100,000 level and making the funding one-time will allow the Agency to determine whether the 2005-06 level of revenue is sustainable.

7100 Employment Development Department

The Employment Development Department (EDD) administers services to employers, employees, and job seekers. The EDD pays benefits to eligible workers who become unemployed or disabled, collects payroll taxes, administers the Paid Family Leave Program, and assists job seekers by providing employment and training programs under the federal Workforce Investment Act of 1998. In addition, the EDD collects and provides comprehensive labor market information concerning California's workforce.

The January Governor's Budget proposed $10.8 billion ($24.7 million General Fund), a decrease of $307 million (2.8 percent) from the revised current-year budget. The change is primarily driven by a projected decrease in benefit claims due to improved economic conditions.

Fund Source				
Expenditure by Program (dollars in thousands)	2005-06	2006-07	$ Change	% Change
Employment & Employment Services	$206,209	$210,397	$4,188	2.0
Tax Collections & Benefit Payment	10,302,676	10,011,740	-290,936	-2.8
Unemployment Insurance Appeals Board	75,478	74,683	-795	-1.1
Administration	52,892	54,747	1,855	3.5
Distributed Administration	(51,194)	(51,194)	0	0.0
Employment Training Panel	37,810	40,345	2,535	6.7
Workforce Investment Act	463,541	440,412	-23,129	-5.0
National Emergency Grant Program	45,000	45,000	0	0.0
Nurse Education Initiative	750	0	-750	-100.0
Total	$11,133,162	$10,826,130	-$307,032	-2.8

(see next page for issues)

Issues for Discussion / Vote

Issue 1: Program Benefit Adjustments (October 2005 Revise)

Description: The EDD budget reflects adjusted benefit expenditures in the current year and budget year. The adjustments are a result of recent benefit claim levels and of the October 2005 forecast of future claims. The Department will submit a revised forecast for benefit expenditures as part of the May Revision.

- **Unemployment Insurance (UI):** Benefits are proposed to decrease by $458.4 million in 2005-06 and decrease by $507.7 million in 2006-07 (both relative to the 2005 Budget Act base). Additionally, operations expenditures are proposed to decrease by 142.6 personnel years and $10.2 million in 2005-06 and decrease 122.3 personnel years and $9.3 million in 2006-07.
- **Disability Insurance (DI) Program:** Benefits are proposed to increase by $185.6 million in 2005-06 and decrease by $79.7 million in 2006-07. Additionally, operations expenditures are proposed to decrease by 66.7 personnel years and $4.3 million in 2005-06 and decrease 23.9 personnel years and $1.5 million in 2006-07.
- **School Employees Fund Program:** Benefits are proposed to decrease by $35 million in 2005-06 and decrease by $41.4 million in 2006-07. No staffing changes are requested in either year.
- **Workforce Investment Act (WIA) Program:** WIA expenditures are proposed to increase by $17.8 million in 2005-06 and remain unchanged in 2006-07.

Detail / Background: In April of 2004, the Unemployment Insurance (UI) Fund exhausted its fund balance and a short-term federal loan was obtained. The loan was repaid within a few months and no interest was charged. The current benefit forecast suggests no loans will be required in 2005-06 or 2006-07. In the *Analysis of the 2004-05 Budget Bill*, the Legislative Analyst's Office suggested there is a long-term solvency problem for the UI Fund absent corrective action. The Administration has not submitted a proposal to deal with long-term UI Fund solvency. While improved economic conditions have resulted in sufficient fund balances for the short run, the fund will likely become insolvent when unemployment rises during the next recession.

Questions:

1. EDD, please describe changes in economic conditions and benefit claims that have occurred since the October forecast. Additionally, describe the outlook for future claims levels and the UI Fund balance.
2. LAO, please comment on this issue.

Recommendation: Informational only – no action required.

Issue 2: Augmentation of State Funds to Replace Federal Funds (BCPs #3, 4, & 5)

Description: The Administration requests an augmentation of $6.9 million (Employment Development Department Contingent Fund) to maintain current staffing and expenditures in the face of cuts in federal support.

The Governor's Letter to Congress: In a letter dated March 17, 2006, the Governor wrote to Congressman Ralph Regula, Chairman, Subcommittee on Labor, Health and Human Services Education and Related Agencies, Committee on Appropriations, with the following request for Labor funding:

Workforce Investment Act (WIA) Programs – Since the initial appropriation for the Workforce Investment Act (WIA) in 2000, the amount allocated by Congress has decreased in each of the last six program years. The decrease in California for WIA's three funding streams has been $196.1 million, over 31 percent. Appropriations for the Wagner-Peyser Act have also decreased in the last five years. The total decrease for California's Job Services program equates to nearly 9 percent. These constant reductions of federal appropriations significantly impair California's ability to provide employment and training services at the level necessary to meet the needs of California's changing and expanding workforce and economy. Maintaining funding for federal WIA programs at the current level is a priority for California.

Detail / Background: The state funding augmentations are requested in the following BCPs:

- **Reemployment Services for Unemployment Insurance Claimants (BCP #3):** The Administration requests $2.8 million (one-time) to maintain 36 existing staff in the One-Stop Career Centers to provide in-person services to UI claimants. This BCP requests funds to replace the federal Wagner-Peyser Reemployment Services Grant that expires in June 2006. One-Stop Career Centers provide in-person services including work search review, employment assessment, and assistance with the EDD's Internet job search website, CalJOBS, to post resumes and receive job referrals.
- **Veterans Program Supplemental Funding (BCP #4):** The Administration requests $1.5 million (three-year limited-term) to restore 19 positions in the Veterans Employment and Training Services (VETS) program. This BCP indicates that reductions in federal grants and higher staff benefit costs necessitated an Administrative elimination of 19 positions in 2005-06. EDD indicates that this restoration is necessary to preserve the level of employment services provided to over 100,000 veterans annually.
- **Unemployment Insurance Identification (ID) Alert Process (BCP #5):** The Administration requests $2.6 million to maintain 38 positions for identity verification activities in the Unemployment Insurance (UI) Program. This BCP indicates that, effective 2005, the federal government ceased funding for identity verification activities on claimants subsequently deemed eligible. EDD indicates that this BCP funding is necessary to preserve the quality of the ID verification process, which protects the integrity of the UI Trust Fund, protects employer reserve accounts, and detects UI fraud.

LAO Recommendation: In the *Analysis of the 2006-07 Budget Bill*, the LAO recommends the Legislature reject the request for Veterans Program Supplemental Funding (BCP #4). The LAO indicates that the EDD has not provided sufficient justification for the higher staffing level, and additionally is requesting funding at the top salary step instead of the mid-step which is standard – a cost difference of $300,000. Additionally, the funding source (EDD Contingent Fund) is fungible to the General Fund and the usual practice is to transfer any unspent fund balances to the General Fund. As such, the LAO indicates rejecting this proposal would benefit the General Fund by $1.5 million. The LAO indicates that another option is to fund this cost with Workforce Investment Act (WIA) funds.

Additionally, the LAO recommends adoption of the following placeholder trailer-bill language:

UI Code Sec. 325.5

It is the intent of the Legislature that state-supported Veterans Employment Training services (VETs) meet the same performance standards as those required for federal Workforce Investment Act services for veterans. Following any fiscal year in which state funds support the VETs program, the Employment Development Department shall report annually to the Legislature on the following performance measures. This report shall be provided on or before November 1.

(1) Number of Veterans receiving individualized, case managed services
(2) Rate of Veterans who receive individualized, case managed services entering employment
(3) Retention rate for Veterans who enter employment
(4) Earnings change/earnings replacement within six months for Veterans entering employment

Questions:

1. EDD, please describe, in general, the cuts in federal funding over the past six years and how that has affected EDD programs. Please explain briefly, for each of the BCPs, why the Administration feels it is necessary to backfill the federal funds with State funds.

2. LAO, please summarize your recommendations for these requests.

Recommendation: Approve the three BCP requests listed in this issue, but reduce the Veterans' Program funding (BCP #4) by $300,000, such that the positions are budgeted at mid-step instead of top-step. Additionally, adopt the LAO's placeholder trailer-bill language.

Issue 3: Automated Collection Enhancement System IT Project (BCP #2 and April Finance Letter #3)

Description: The Administration requests 2006-07 funding of $2.9 million ($2.5 million General Fund) and 15 limited-term positions for "Stage 1" of the Automated Collection Enhancement System (ACES) information technology project. Stage 1 will involve project planning and procurement. Future BCPs will request expenditure authority to implement the project in 2007-08 and beyond. EDD indicates that this is a seven-year project with a total cost in the range of $93 million. However, EDD also estimates this system will enhance the collection of penalties and back-wages and generate a total of $583 million in additional revenue over a ten-year period (and about $70 million ongoing). Approximately $53 million of the $70 million in ongoing revenue will benefit the General Fund. The Finance Letter revises the 2006-07 request down from $3.1 million in the BCP because of project schedule changes.

Detail / Background: ACES is a collection system modeled after the systems currently used by the Franchise Tax Board and the Board of Equalization. The ten-year $583 million revenue estimate noted above is based on the success of projects of a similar nature implemented by other tax and revenue organizations, both within and outside California.

EDD proposes a "benefits-based procurement" such that the vendor will be paid on a percentage of additional revenue generated by the new collection system, with a maximum dollar cap of $46 million. The remaining $48 million in project costs represent State costs in the areas of personal computers; software licenses; telecommunications; data center; training; oversight consulting; and EDD staff costs.

Questions:

1. EDD, please explain the revenue benefit, both General Fund and special fund, associated with this request?
2. LAO, please comment on this issue.

Recommendation: Approve this request.

Issue 4: Disability Insurance Automation IT Project (BCP #7)

Description: The Administration requests an augmentation of $1.8 million (special funds) and 6.7 positions to fund the first year of a four-year information technology project that is estimated to cost a total of $28.9 million. The Administration proposes to submit annual budget change proposals for project funding. The Administration indicates the system would provide greater access to services for claimants, medical providers, and employers.

Detail / Background: The Disability Insurance Automation Project – Phase 3 (DIAP3) would replace and improve functionality currently provided from key-data-entry personnel and two legacy IT systems.

The BCP notes the following problems with the existing system:

- Time consuming and labor/paper intensive processing is costly for the State and recipients.
- Ineffective safeguards for sensitive federal Health Insurance Portability and Accountability Act of 1996 (HIPAA) – covered information.
- No Internet access to allow claimants to file more promptly.

The BCP notes the following benefits with the new system:

- Maintains HIPAA "chain of trust" for medical providers who are required to be 100 percent compliant with HIPAA.
- Provides enhancements to response times and self-service options.
- Reduces approximately 67.7 positions (measured in personnel years) by 2009-10.
- Reduces fraud and abuse through the implementation of HIPAA Administration Simplification Guidelines.

With the position reductions and other efficiencies, the Feasibility Study Report (FSR) indicates a net cumulative cost that falls to $9.5 million by 2011-12. With annual net savings of almost $9.6 million in 2011-12, the FSR implies this project should pay for itself by around 2013-14.

Questions:

1. EDD, please present this request.
2. LAO, please comment on this issue.

Recommendation: Approve this request.

Issue 5: Nursing Clinical Simulators (April Finance Letter #2)

Description: The Administration requests a one-time augmentation of $4.5 million General Fund to establish six clinical simulation laboratories (at $750,000 each) that would be used to provide clinical training to nursing students.

Detail / Background: In the May Revision of the 2005-06 Budget, the Governor proposed a Nursing Education Initiative, which among other expenditures, proposed $2.5 million (General Fund) for 9 regional clinical simulator grants of up to $275,000 each. The Legislature shifted a portion of the simulator funding to other nursing programs and the final Budget Act included $750,000 for 3 clinical simulator grants. The Department indicates the cost of a simulator was underestimated in last year's request.

Staff Comment: During last year's discussion, many different options were identified to encourage schools to provide more nursing slots and encourage individuals to pursue careers in nursing. Last year's final package included: funding to forgive student loans for those who obtain a Master's Degree or Doctorate and teach in a nursing program; employer-based training of nursing assistants and aids who are considering becoming Registered Nurses; and funding for the California State University System and the California Community College System to increase nursing slots.

Staff understands that the three clinical simulator grants approved last year have not yet been awarded.

Questions:

1. EDD, what is the status of the three clinical simulators funding in the 2005 Budget Act?
2. LAO, please comment on this issue.

Recommendation: Deny the request. Last year's discussion suggested that clinical simulators were not the highest priority for nursing-education dollars and, additionally, it may be premature to fund more simulators before those funded last year can be evaluated.

Issue 6: Employment Training Panel Funding (BCP #1)

Description: The Administration requests an augmentation of $5.0 million (Employment Training Fund) for the Employment Training Panel (ETP) program and a corresponding reduction of $5.0 million (Employment Training Fund) for the Department of Social Services' CalWORKs program. Staff understands that CalWORKs has reviewed a corresponding General Fund augmentation so that CalWORKs is held harmless with this change. However, recent federal legislation may require additional funding for CalWORKs to avoid significant federal penalties.

Detail / Background: The Employment Training Panel was created in 1982 to improve the skills of California's workforce and retain businesses in the state. The ETP is funded through the Employment Training Tax, a special tax which is levied on employers who participate in the Unemployment Insurance Program. Historically, revenue has annually averaged $70 million to $100 million. The ETP program primarily funds "employer-focused" job training – more than 90 percent of ETP supports training of incumbent workers. The ETP indicates that every $1 million in ETP training funding, supports more than 85 business and 800 workers, primarily in the manufacturing and high-tech sectors. The following table shows how Employment Training Fund money has been distributed between ETP and CalWORKs in recent years ($ in millions).

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07*
ETP Appropriation	$75.8	$76.0	$76.0	$18.2	$44.0	$37.8	$40.3
Percent to ETP	65%	51%	65%	22%	48%	44%	50%
CalWORKS Appropriation	$30.0	$61.7	$30.0	$56.4	$40.0	$37.9	$32.9
Percent to CalWORKS	26%	41%	26%	68%	43%	44%	40.5%

* Proposed

Staff Comment: The Department of Social Services and the CalWORKs program will be heard by the Subcommittee on May 4. As a result of the federal Deficit Reduction Act of 2005, the state will face significant federal penalties if the CalWORKs work participation rate does not increase. To meet the higher work participation rate, additional funding may be needed above the Governor's Budget level for CalWORKs employment training. Potential funding for these services include the Employment Training Fund. There may also be changes to the CalWORKs budget with the May Revision of the Governor's Budget.

Questions:

1. LAO, please comment on this issue.

Recommendation: Keep issue open for the May Revision hearing.

7350 Department of Industrial Relations

The objective of the Department of Industrial Relations (DIR) is to protect the workforce in California; improve working conditions; and advance opportunities for profitable employment. The department enforces workers' compensation insurance laws and adjudicates workers' compensation insurance claims; works to prevent industrial injuries and deaths; promulgates and enforces laws relating to wages, hours, and conditions of employment; promotes apprenticeship and other on-the-job training; assists in negotiations with parties in dispute when a work stoppage is threatened; and analyzes and disseminates statistics which measure the condition of labor in the state.

The January Governor's Budget proposed $346.8 million ($62.6 million General Fund), an increase of $2.7 million (0.8 percent) from the current-year budget.

Expenditures by Program (dollars in thousands)	2005-06	2006-07	$ Change	% Change
Self-Insurance Plans	$3,578	$3,591	$13	0.4
Mediation/Conciliation	2,214	2,237	23	1.0
Workers' Compensation	154,398	157,726	3,328	2.2
Commission on Health and Safety and Workers' Compensation	3,133	3,068	-65	-2.1
Division of Occupational Safety and Health	85,423	87,466	2,043	2.4
Division of Labor Standards Enforcement	46,322	44,854	-1,468	-3.2
Division of Apprenticeship Standards	9,973	10,156	183	1.8
Division of Labor Statistics and Research	3,853	3,884	31	0.8
Claims, Wages, and Contingencies	35,158	33,832	-1,326	-3.8
Administration	26,729	26,993	264	1.0
Distributed Administration	(26,729)	(26,993)	-264	0.0
Total	$344,052	$346,814	$2,762	0.8

(see next page for issues)

Vote Only Issue:

Issue 1: IT Project Reappropriation (April Finance Letter #1)

Description: The Administration requests a reappropriation of $8.8 million for the Electronic Adjudication Management System (EAMS) project to accommodate unforeseen delays that occurred in the contract solicitation process. This project was approved by the Legislature with the 2004 Budget Act and has a total cost of $24 million (Workers Compensation Administration Revolving Fund). The EAMS replaces the current on-line, Vocational Rehabilitation and Disability Evaluation Unit system with a commercial-off-the-shelf case management, calendaring, document management, and cashiering solution. The Department expects annual savings of 17.3 positions (measured in personnel years) and $3.3 million, which will be redirected to cover baseline operations.

Recommendation: Approve this request.

Issue 2: Division of Labor Standards Enforcement Collections Unit (BCP #5)

Description: The Administration requests to augment the Department's budget by $561,000 (special fund) and five positions to establish a collections unit within the Division of Labor Standards Enforcement to actively pursue the wages and penalties it determines are due as a result of judgments against employers who have violated labor laws. The Administration indicates this new unit would generate enough funding to be self-sufficient. Additionally, approximately $13 million in wages would be collected to the benefit of workers and $2.5 million in penalties would be collected. The General Fund benefit would be approximately $2.0 million to $2.5 million.

Recommendation: Approve this request.

Issue 3: Pressure Vessel Safety Program (BCP #4)

Description: The Administration requests an augmentation of $1 million (special fund) and eight positions to address on-going workload in the Pressure Vessels Unit. These positions would address workload associated with Labor Code Section 7680 that requires that tanks and boilers have permits to operate. The BCP indicates 60,000 of 205,000 pressure vessels are over 6 months overdue for permit inspection and that without new staffing the number overdue will increase by 18,546 annually. Revenue generated from inspection fees would fund these positions.

Recommendation: Approve this request.

Issue 4: Facility Costs (BCP #2)

Description: The Administration requests an augmentation of two positions and $2.2 million (special fund) for unfunded facilities cost increases due to increased baseline staffing. The Department indicates it maintains 24 district offices throughout the state and 8 satellite offices. The BCP indicates that facility funding was increased with workers' compensation reform legislation (for example SB 899 allocated $817,000 to facilities); however, the funding was generalized and did not recognize special facilities needs such as additional hearing rooms.

Recommendation: Approve this request.

Discussion / Vote Issues:

Issue 1: Workers' Compensation Reform Issues (BCPs #3, 6, 7, & 9)

Description: The Administration requests four budget changes that relate to recently-enacted workers' compensation legislation:

- **Position Upgrade (BCP #3).** The Governor requests $971,000 to fund upgrades for positions in the Workers' Compensation Unit. The Department indicates that the complexity of the workload has increased with recent legislation and this merits the upgrade. Additionally, the Department hopes the upgrade will assist in retaining experienced incumbent employees and reduce vacancy rates. Proposed provisional language would tie expenditure of these funds to approval of the upgrade by the Department of Personnel Administration and/or the State Personnel Board.
- **Return-to-Work Program Staffing and Funding (BCP #6).** The Governor requests $577,000 and one position to fund payments to small employers who comply with the requirements of the Return-to-Work Program. The program was placed in statute by AB 749 (Chapter 6, Statutes of 2002) and modified by SB 899 (Chapter 34, Statutes of 2004), with the purpose of encouraging early and sustained return to work by injured employees. The requested position would review requests for reimbursement from employers, prioritize the requests, and prepare claim schedules or requests for checks from the office revolving funds for payment. While SB 899 was chaptered in 2004, the regulatory process has delayed the implementation of this program.
- **Extension of Limited-term Legal Positions (BCP #7)**. The Governor requests a two-year extension of $297,000 and four legal positions to support ongoing regulatory activities related to workers' compensation reform. The Administration indicates this workload is associated with SB 899 (Chapter 34, Statutes of 2004). The BCP indicates that 1.5 of the 5.5 originally approved legal positions would be allowed to expire; however, the 4.0 positions are requested to continue for ongoing regulatory work, Public Records Act requests, ongoing legal advice and counsel to program managers and staff, audit unit administrative hearings, and litigation.
- **Repeal of $100 Initial Lien Filing Fee (BCP #9).** The Governor requests the repeal of Labor Code Section 4903.05 (added by SB 228, Chapter 639, Statutes of 2003) that requires medical-legal providers to pay a $100 filing fee when filing an initial lien on a claim in order to assert their claim for payment for services provided. The Administration indicates this requirement "has created a workload that does not positively impact the settling of claims and instead has created a process that is inefficient for the division and the district offices." Additionally, the lien fee may be a barrier for legitimate claims by small business such as interpreters, document copy services, and transportation companies. The Administration also proposes to add language to establish a 60-day wait period for the filing of liens to discourage the practice of filing liens before allowing a reasonable period for payment. If the request is denied, the BCP indicates an additional $294,000 and 5 new positions would be required to address this workload. Staff has conferred with policy staff, and no concerns were noted with this proposal.

Detail/Background: To summarize the status of workers' compensation reform efforts, the Department provided a document titled "Governor Celebrates Workers' Compensation Success on Reform's Second Anniversary." April 19, 2006, marked the second anniversary of the enactment of SB 899. The document indicates that workers' compensation charged rates were $6.46 for every $100 in payroll in July of 2003, but by September of 2005 those rates were down to $4.42 per $100 in payroll – an actual reduction of 31.6 percent. The document notes that the Administration has promulgated "nearly all" the regulations related to SB 899; however, the following regulatory packages are still in progress:

- Return to work regulations
- Penalties for utilization review violations and Labor Code section 5814.6 penalties Medical treatment guidelines.
- Revised qualified medical evaluator regulations
- Repackaged drugs
- Official medical fee schedule

Questions:

1. DIR, please briefly present these proposals?

2. LAO, please comment.

Recommendation: Approve these requests, including trailer-bill language associated with Initial Lien Filing Fees.

Issue 2: Security at DIR Facilities (BCP #8)

Description: The Governor requests $280,000 in 2006-07, $298,000 in 2007-08, and $238,000 in 2008-09 and ongoing (all Workers' Compensation Administration Revolving Fund) to add Plexiglas to public counters at five offices and to provide additional California Highway Patrol (CHP) security coverage at two offices. The Department would also purchase employee badges for all its personnel.

Detail/Background: DIR maintains 24 district offices throughout the state and 8 satellite offices. The Department received an augmentation in 2001-02 to add a full-time CHP presence at three offices that were described as particularly vulnerable due to their layout: Anaheim, Sacramento, and Santa Monica. This proposal would add a full-time CHP presence in the Van Nuys and Los Angeles Offices. Each of these two offices has had a recent incidence of violence. The remaining 19 offices would continue to be without a full-time CHP presence, but the Department does spend about $27,000 per year on additional CHP coverage when a known risk will be present at a court hearing. The BCP indicates that this is the Division of Workers' Compensation's first effort to standardize security measures among district offices. The Division will continue to monitor security needs and determine whether specific offices have specialized needs that should be addressed in a subsequent proposal.

Senate Subcommittee #4 Hearings on Building Security: Senate Budget Subcommittee #4 discussed building security with the Department of General Services at a hearing on April 6 and with the CHP at a hearing on April 20. The State has no standard security requirement for its buildings; however, the CHP provides a security assessment and recommendation if requested. The CHP Commissioner indicated that security needs vary by building, depending on where the building is located, the nature of the business conducted in the building, and the physical layout of the facility. The Commissioner indicated that every facility should be individually assessed as opposed to a one-size-fits-all security requirement. Security is not limited to barriers and CHP officers, but can also include the alignment of work areas to entry points and private security.

Staff Comment: DIR indicates they did not request a CHP assessment of their security needs in preparing this request. The Subcommittee may want to deny this BCP and request that the Department return with the request next year after a written CHP security assessment has been obtained. To the degree DIR feels this security is essential for 2006-07, the Department can redirect existing budget resources to fund these costs. A CHP assessment may recommend other security options in addition to those requested, or recommend a less-costly security option such as private security officers.

Questions:

- DIR: Explain who assessed the security needs of the facilities included in this request.
- LAO: Please comment.

Staff Recommendation: Deny the request – consider the request again next year if the request is resubmitted and a written CHP security assessment has been performed.

Issue 3: Garment Fund Unpaid Wage Claims (Staff Issue)

Description: The Governor's budget bill appropriates $200,000 from the Garment Manufacturers Special Account (Item 7350-001-0481) for the payment of wage claims to employees when the damage exceeds the limits of the employer's bond. Revenue for this special fund account comes from a portion of each garment manufacturer's annual registration fee. Annual revenues into the account are in the range of $500,000. The Subcommittee may want to consider raising the appropriation to the level of annual revenue.

Background / Detail: The 2005 Budget Act appropriated $200,000 for the payment of garment worker wage claims. In most years, claims have fallen below $200,000. In a letter dated November 7, 2005, the Administration requested a supplemental appropriation of $988,000 so that a higher-than-anticipated level of claims could be paid. Concern has been raised about why the payment of wage claims is being artificially delayed due to a budget appropriation that is less than half of annual revenues. The Administration proposes to address this concern by adding provision 1 to Item 7350-001-0481:

1. *Upon approval by the Department of Finance and notification to the chairpersons for the fiscal committees of each house of the Legislature and the Chairperson of the Joint Legislative Budget Committee, the Department of Industrial Relations may augment this item for the payment of valid claims against and up to the fund balance.*

The proposed language goes a long way in addressing the concerns of delayed payment; however, the Subcommittee may additionally want to boost the appropriation to $500,000. This would tie approved expenditures to expected revenue and prevent any delay caused by Department of Finance approval and a 30-day legislative notification period.

Staff Comment: Some advocates have suggested statutory language to make the Garment Manufacturers Special Account continuously appropriated. An appropriation increase to $500,000 and the new budget bill language should address the problem of delayed payment that is occurring in 2005-06.

Questions:

1. DIR, please present this request.
2. LAO, please comment on this issue.

Recommendation: Approve the Administration's provisional language, but also increase the level of the appropriation from $200,000 to $500,000.

Issue 4: Transfer of Workplace Health and Safety Revolving Fund (Administration Trailer Bill Language Request)

Description: The Administration requests trailer bill language to transfer the $507,000 fund balance of the dormant Workplace Health and Safety Revolving Fund to the Workers' Compensation Administration Revolving Fund.

Background: In 1989, the Legislature created the Workplace Health and Safety Revolving Fund and directed the Department to deposit into the fund civil and administrative penalties against workers' compensation insurers, self-insured employers, and others for failure to comply with the workers' compensation system. Assembly Bill 749 (Chapter 6, Statutes of 2002, Calderon), redirects the civil and administrative penalties previously deposited in the Workplace Health and Safety Revolving Fund to the larger Workers' Compensation Administration Revolving Fund, which became the primary source of funds for the Division of Workers' Compensation. Post AB 749, the Workplace Health and Safety Revolving Fund is no longer an active fund; however, the current account balance is $507,000.

LAO Recommendation: In the *Analysis of the 2006-07 Budget Bill*, the LAO recommends that the $507,000 be transferred to the General Fund instead of the Workers' Compensation Administration Revolving Fund. The LAO notes that the Workers' Compensation Administration Revolving Fund will maintain a $65 million fund balance at the end of 2006-07, and the fund balance of the Workplace Health and Safety Revolving Fund was accumulated during the years in which the General Fund provided the bulk of Division of Workers' Compensation funding.

Staff Recommendation: Adopt the LAO recommendation – approve trailer bill language to transfer the $507,000 balance in the Workplace Health and Safety Revolving Fund to the General Fund.

Issue 5: Minimum Wage Enforcement and Staffing (Staff Issue)

Description: Last year, Senate Budget Subcommittee #5 augmented the DIR budget by $3.0 million (General Fund) and 32 positions to increase enforcement in the area of minimum wage and overtime law compliance in construction, agriculture, garment manufacturing, janitorial and restaurant employment. Budget bill language was also adopted specifying the expenditure of this augmentation. The Governor vetoed this augmentation citing the 16 positions added for DIR as part of the Economic and Employment Enforcement Coalition initiative, and the concern of General Fund costs.

Detail/Background: According to information provided last year by DIR, employment grew by 44 percent from 1983 to 2003, while Division of Labor Standards Enforcement (DLSE) staff fell from 434 to 403 over the same period. The Governor's Budget proposes 406 DLSE positions for 2006-07.

Questions:

1. LAO: Please present this issue.

Staff Recommendation: Keep this issue open for possible consideration at the May Revision hearing.

Senate Budget and Fiscal Review—Wesley Chesbro, Chair

SUBCOMMITTEE NO. 3 Agenda

Chair, Senator Denise Moreno Ducheny
Senator Dave Cox
Senator Wesley Chesbro

HEARING OUTCOMES

Agenda – Part "B"

Thursday, April 27, 2006
10 a.m. or upon adjournment of session
John L. Burton Hearing Room (4203)
Consultant, Brian Annis

Labor Agency and Select Departments

Department Budgets Proposed for Consent

7120 California Workforce Investment Board

The federal Workforce Investment Act (Act) of 1998 established new requirements for employment and training programs for adults, youth, and dislocated workers. Pursuant to the provisions of the Act, the Governor established a state Workforce Investment Board comprised of the Governor; two members of the Senate, appointed by the President pro Tempore; two members of the Assembly, appointed by the Speaker; and representatives of business, labor organizations, community-based organizations, schools and colleges, state agencies, and local governments, appointed by the Governor. The Board is tasked with developing workforce development programs into an integrated workforce investment system that can better respond to the employment, training, and education needs of its customers.

Proposed Budget: The Governor proposes $4.8 million (federal funds and reimbursements) and 20.9 positions for the Board's budget – a decrease of $392,000 from adjusted current year expenditures. The decrease is primarily due to a one-time federal grant of $445,000, which is included in 2005-06 expenditures, but is not assumed for 2006-07. The Administration did not submit any Budget Change Proposals for the Board.

Staff Comment: No issues have been raised with the Board's proposed budget.

Staff Recommendation: Approve the Board's Budget.

Action: Approved the Board's Budget on a 3-0 vote.

0559 Secretary for Labor and Workforce Development

The Labor and Workforce Development Agency (Agency) brings together the departments, boards, and commissions, which train, protect and provide benefits to employees. The Agency is primarily responsible for three different types of functions, labor law enforcement, workforce development, and benefit payment and adjudication. The Labor and Workforce Development Agency includes the Department of Industrial Relations, the Employment Development Department, the Agricultural Labor Relations Board (which is heard in Subcommittee #2) and the Workforce Investment Board. The Agency provides policy and enforcement coordination of California's labor and employment programs and policy and budget direction for the departments and boards.

Proposed Budget: The Governor proposes $2.2 million (reimbursements from departments, and penalty assessments) and 14.2 positions for the Secretary's budget – a decrease of $16,000 from adjusted current-year expenditures. The Agency also administratively established a new position and downgraded another position in 2005-06 and requests to make that change permanent. These position changes had a net zero affect on expenditures because two high-level part-time classifications were eliminated and two lower-level full-time classifications were established.

(see next page for issue)

Issue 1: Employer / Employee Education (BCP #1)

Description: The Administration requests an ongoing augmentation of $15,000 (Labor and Workforce Development Fund) for the purpose of funding employer/employee education efforts. This is a new expenditure for the Agency that relates to two pieces of legislation passed in 2003 and 2004.

Detail / Background: The expenditure authority requested in this BCP relates to the following two bills:

- **Assembly Bill (AB) 276 (Chapter 329, Statutes of 2003, Koretz):** This bill increased penalties for violations of specified provisions of the Labor Code and provides that 12.5 percent of the employer penalties for failure to pay wages or unlawfully withholding wages shall be placed in a fund within the Agency to be used to educate employers about state labor laws. The remainder of the penalty is to be deposited in the General Fund. The analysis for AB 276 estimated annual total penalty revenue of $800,000, with about $100,000 of that available to the Agency for education efforts.
- **Senate Bill (SB) 1809 (Chapter 221, Statutes of 2004, Dunn):** This bill allows employees to bring civil actions to recover civil penalties provided for violations of the Labor Code. These provisions are called the Private Attorneys General Act of 2004. The statute divides the penalties collected between the Agency (75 percent) and the aggrieved employee (25 percent). The Agency share is specified for education of employers and employees about their rights and responsibilities under the Labor Code. No estimate of civil penalty revenue was included in the analyses of SB 1809.

Staff Comment: The BCP indicates that no funds associated with AB 276 have materialized; however, there are several cases pending which may provide a "minimal" amount of funding to the Labor and Workforce Development Fund. The amount of penalties collected pursuant to SB 1809 was $21,000 in 2004-05. A penalty assessment of $75,000 was recently collected and Agency now anticipates revenues of $97,000 in 2005-06. Given that the Agency has a revised fund condition statement that suggests a fund balance of $118,000 at the end of 2005-06, and the analyses of AB 276 and SB 1809 anticipated revenue of a least $100,000 annually, the Subcommittee may want to increase the appropriation for education efforts.

Questions:

1. Agency, please describe the proposal.
2. Agency, please provide an updated revenue report and estimate.
3. LAO, please comment on this request and comment on the maximum expenditure out of this fund that would be fiscally prudent in 2006-07.

Recommendation: Augment this item from $15,000 to $100,000 on a one-time basis. Revenue received to date is sufficient to fund activity at the $100,000 level and making the funding one-time will allow the Agency to determine whether the 2005-06 level of revenue is sustainable.

Action: Augmented the appropriation to $100,000 on a 3-0 vote: $15,000 ongoing, $85,000 one-time.

7100 Employment Development Department

The Employment Development Department (EDD) administers services to employers, employees, and job seekers. The EDD pays benefits to eligible workers who become unemployed or disabled, collects payroll taxes, administers the Paid Family Leave Program, and assists job seekers by providing employment and training programs under the federal Workforce Investment Act of 1998. In addition, the EDD collects and provides comprehensive labor market information concerning California's workforce.

The January Governor's Budget proposed $10.8 billion ($24.7 million General Fund), a decrease of $307 million (2.8 percent) from the revised current-year budget. The change is primarily driven by a projected decrease in benefit claims due to improved economic conditions.

Fund Source				
Expenditure by Program (dollars in thousands)	2005-06	2006-07	$ Change	% Change
Employment & Employment Services	$206,209	$210,397	$4,188	2.0
Tax Collections & Benefit Payment	10,302,676	10,011,740	-290,936	-2.8
Unemployment Insurance Appeals Board	75,478	74,683	-795	-1.1
Administration	52,892	54,747	1,855	3.5
Distributed Administration	(51,194)	(51,194)	0	0.0
Employment Training Panel	37,810	40,345	2,535	6.7
Workforce Investment Act	463,541	440,412	-23,129	-5.0
National Emergency Grant Program	45,000	45,000	0	0.0
Nurse Education Initiative	750	0	-750	-100.0
Total	$11,133,162	$10,826,130	-$307,032	-2.8

(see next page for issues)

Issues for Discussion / Vote

Issue 1: Program Benefit Adjustments (October 2005 Revise)

Description: The EDD budget reflects adjusted benefit expenditures in the current year and budget year. The adjustments are a result of recent benefit claim levels and of the October 2005 forecast of future claims. The Department will submit a revised forecast for benefit expenditures as part of the May Revision.

- **Unemployment Insurance (UI):** Benefits are proposed to decrease by $458.4 million in 2005-06 and decrease by $507.7 million in 2006-07 (both relative to the 2005 Budget Act base). Additionally, operations expenditures are proposed to decrease by 142.6 personnel years and $10.2 million in 2005-06 and decrease 122.3 personnel years and $9.3 million in 2006-07.
- **Disability Insurance (DI) Program:** Benefits are proposed to increase by $185.6 million in 2005-06 and decrease by $79.7 million in 2006-07. Additionally, operations expenditures are proposed to decrease by 66.7 personnel years and $4.3 million in 2005-06 and decrease 23.9 personnel years and $1.5 million in 2006-07.
- **School Employees Fund Program:** Benefits are proposed to decrease by $35 million in 2005-06 and decrease by $41.4 million in 2006-07. No staffing changes are requested in either year.
- **Workforce Investment Act (WIA) Program:** WIA expenditures are proposed to increase by $17.8 million in 2005-06 and remain unchanged in 2006-07.

Detail / Background: In April of 2004, the Unemployment Insurance (UI) Fund exhausted its fund balance and a short-term federal loan was obtained. The loan was repaid within a few months and no interest was charged. The current benefit forecast suggests no loans will be required in 2005-06 or 2006-07. In the *Analysis of the 2004-05 Budget Bill*, the Legislative Analyst's Office suggested there is a long-term solvency problem for the UI Fund absent corrective action. The Administration has not submitted a proposal to deal with long-term UI Fund solvency. While improved economic conditions have resulted in sufficient fund balances for the short run, the fund will likely become insolvent when unemployment rises during the next recession.

Questions:

1. EDD, please describe changes in economic conditions and benefit claims that have occurred since the October forecast. Additionally, describe the outlook for future claims levels and the UI Fund balance.

2. LAO, please comment on this issue.

Recommendation: Informational only – no action required.

Action: Informational – no action taken.

Issue 2: Augmentation of State Funds to Replace Federal Funds (BCPs #3, 4, & 5)

Description: The Administration requests an augmentation of $6.9 million (Employment Development Department Contingent Fund) to maintain current staffing and expenditures in the face of cuts in federal support.

The Governor's Letter to Congress: In a letter dated March 17, 2006, the Governor wrote to Congressman Ralph Regula, Chairman, Subcommittee on Labor, Health and Human Services Education and Related Agencies, Committee on Appropriations, with the following request for Labor funding:

Workforce Investment Act (WIA) Programs – Since the initial appropriation for the Workforce Investment Act (WIA) in 2000, the amount allocated by Congress has decreased in each of the last six program years. The decrease in California for WIA's three funding streams has been $196.1 million, over 31 percent. Appropriations for the Wagner-Peyser Act have also decreased in the last five years. The total decrease for California's Job Services program equates to nearly 9 percent. These constant reductions of federal appropriations significantly impair California's ability to provide employment and training services at the level necessary to meet the needs of California's changing and expanding workforce and economy. Maintaining funding for federal WIA programs at the current level is a priority for California.

Detail / Background: The state funding augmentations are requested in the following BCPs:

- **Reemployment Services for Unemployment Insurance Claimants (BCP #3):** The Administration requests $2.8 million (one-time) to maintain 36 existing staff in the One-Stop Career Centers to provide in-person services to UI claimants. This BCP requests funds to replace the federal Wagner-Peyser Reemployment Services Grant that expires in June 2006. One-Stop Career Centers provide in-person services including work search review, employment assessment, and assistance with the EDD's Internet job search website, CalJOBS, to post resumes and receive job referrals.
- **Veterans Program Supplemental Funding (BCP #4):** The Administration requests $1.5 million (three-year limited-term) to restore 19 positions in the Veterans Employment and Training Services (VETS) program. This BCP indicates that reductions in federal grants and higher staff benefit costs necessitated an Administrative elimination of 19 positions in 2005-06. EDD indicates that this restoration is necessary to preserve the level of employment services provided to over 100,000 veterans annually.
- **Unemployment Insurance Identification (ID) Alert Process (BCP #5):** The Administration requests $2.6 million to maintain 38 positions for identity verification activities in the Unemployment Insurance (UI) Program. This BCP indicates that, effective 2005, the federal government ceased funding for identity verification activities on claimants subsequently deemed eligible. EDD indicates that this BCP funding is necessary to preserve the quality of the ID verification process, which protects the integrity of the UI Trust Fund, protects employer reserve accounts, and detects UI fraud.

LAO Recommendation: In the *Analysis of the 2006-07 Budget Bill*, the LAO recommends the Legislature reject the request for Veterans Program Supplemental Funding (BCP #4). The LAO indicates that the EDD has not provided sufficient justification for the higher staffing level, and additionally is requesting funding at the top salary step instead of the mid-step which is standard – a cost difference of $300,000. Additionally, the funding source (EDD Contingent Fund) is fungible to the General Fund and the usual practice is to transfer any unspent fund balances to the General Fund. As such, the LAO indicates rejecting this proposal would benefit the General Fund by $1.5 million. The LAO indicates that another option is to fund this cost with Workforce Investment Act (WIA) funds.

Additionally, the LAO recommends adoption of the following placeholder trailer-bill language:

UI Code Sec. 325.5

It is the intent of the Legislature that state-supported Veterans Employment Training services (VETs) meet the same performance standards as those required for federal Workforce Investment Act services for veterans. Following any fiscal year in which state funds support the VETs program, the Employment Development Department shall report annually to the Legislature on the following performance measures. This report shall be provided on or before November 1.

(1) Number of Veterans receiving individualized, case managed services
(2) Rate of Veterans who receive individualized, case managed services entering employment
(3) Retention rate for Veterans who enter employment
(4) Earnings change/earnings replacement within six months for Veterans entering employment

Questions:

1. EDD, please describe, in general, the cuts in federal funding over the past six years and how that has affected EDD programs. Please explain briefly, for each of the BCPs, why the Administration feels it is necessary to backfill the federal funds with State funds.

2. LAO, please summarize your recommendations for these requests.

Recommendation: Approve the three BCP requests listed in this issue, but reduce the Veterans' Program funding (BCP #4) by $300,000, such that the positions are budgeted at mid-step instead of top-step. Additionally, adopt the LAO's placeholder trailer-bill language.

Action: Approved BCP #3 & #5. Approved BCP #4, but reduced the funding by $210,000 to adjust the position funding from top-step to mid-step, and adopted the LAO placeholder trailer bill language. All on a 3-0 vote.

Issue 3: Automated Collection Enhancement System IT Project (BCP #2 and April Finance Letter #3)

Description: The Administration requests 2006-07 funding of $2.9 million ($2.5 million General Fund) and 15 limited-term positions for "Stage 1" of the Automated Collection Enhancement System (ACES) information technology project. Stage 1 will involve project planning and procurement. Future BCPs will request expenditure authority to implement the project in 2007-08 and beyond. EDD indicates that this is a seven-year project with a total cost in the range of $93 million. However, EDD also estimates this system will enhance the collection of penalties and back-wages and generate a total of $583 million in additional revenue over a ten-year period (and about $70 million ongoing). Approximately $53 million of the $70 million in ongoing revenue will benefit the General Fund. The Finance Letter revises the 2006-07 request down from $3.1 million in the BCP because of project schedule changes.

Detail / Background: ACES is a collection system modeled after the systems currently used by the Franchise Tax Board and the Board of Equalization. The ten-year $583 million revenue estimate noted above is based on the success of projects of a similar nature implemented by other tax and revenue organizations, both within and outside California.

EDD proposes a "benefits-based procurement" such that the vendor will be paid on a percentage of additional revenue generated by the new collection system, with a maximum dollar cap of $46 million. The remaining $48 million in project costs represent State costs in the areas of personal computers; software licenses; telecommunications; data center; training; oversight consulting; and EDD staff costs.

Questions:

1. EDD, please explain the revenue benefit, both General Fund and special fund, associated with this request?
2. LAO, please comment on this issue.

Recommendation: Approve this request.

Action: Approved the request on a 3-0 vote.

Issue 4: Disability Insurance Automation IT Project (BCP #7)

Description: The Administration requests an augmentation of $1.8 million (special funds) and 6.7 positions to fund the first year of a four-year information technology project that is estimated to cost a total of $28.9 million. The Administration proposes to submit annual budget change proposals for project funding. The Administration indicates the system would provide greater access to services for claimants, medical providers, and employers.

Detail / Background: The Disability Insurance Automation Project – Phase 3 (DIAP3) would replace and improve functionality currently provided from key-data-entry personnel and two legacy IT systems.

The BCP notes the following problems with the existing system:

- Time consuming and labor/paper intensive processing is costly for the State and recipients.
- Ineffective safeguards for sensitive federal Health Insurance Portability and Accountability Act of 1996 (HIPAA) – covered information.
- No Internet access to allow claimants to file more promptly.

The BCP notes the following benefits with the new system:

- Maintains HIPAA "chain of trust" for medical providers who are required to be 100 percent compliant with HIPAA.
- Provides enhancements to response times and self-service options.
- Reduces approximately 67.7 positions (measured in personnel years) by 2009-10.
- Reduces fraud and abuse through the implementation of HIPAA Administration Simplification Guidelines.

With the position reductions and other efficiencies, the Feasibility Study Report (FSR) indicates a net cumulative cost that falls to $9.5 million by 2011-12. With annual net savings of almost $9.6 million in 2011-12, the FSR implies this project should pay for itself by around 2013-14.

Questions:

1. EDD, please present this request.

2. LAO, please comment on this issue.

Recommendation: Approve this request.

Action: Approved the request on a 3-0 vote.

Issue 5: Nursing Clinical Simulators (April Finance Letter #2)

Description: The Administration requests a one-time augmentation of $4.5 million General Fund to establish six clinical simulation laboratories (at $750,000 each) that would be used to provide clinical training to nursing students.

Detail / Background: In the May Revision of the 2005-06 Budget, the Governor proposed a Nursing Education Initiative, which among other expenditures, proposed $2.5 million (General Fund) for 9 regional clinical simulator grants of up to $275,000 each. The Legislature shifted a portion of the simulator funding to other nursing programs and the final Budget Act included $750,000 for 3 clinical simulator grants. The Department indicates the cost of a simulator was underestimated in last year's request.

Staff Comment: During last year's discussion, many different options were identified to encourage schools to provide more nursing slots and encourage individuals to pursue careers in nursing. Last year's final package included: funding to forgive student loans for those who obtain a Master's Degree or Doctorate and teach in a nursing program; employer-based training of nursing assistants and aids who are considering becoming Registered Nurses; and funding for the California State University System and the California Community College System to increase nursing slots.

Staff understands that the three clinical simulator grants approved last year have not yet been awarded.

Questions:

1. EDD, what is the status of the three clinical simulators funding in the 2005 Budget Act?

2. LAO, please comment on this issue.

Recommendation: Deny the request. Last year's discussion suggested that clinical simulators were not the highest priority for nursing-education dollars and, additionally, it may be premature to fund more simulators before those funded last year can be evaluated.

Action: Rejected the request on a 3-0 vote.

Issue 6: Employment Training Panel Funding (BCP #1)

Description: The Administration requests an augmentation of $5.0 million (Employment Training Fund) for the Employment Training Panel (ETP) program and a corresponding reduction of $5.0 million (Employment Training Fund) for the Department of Social Services' CalWORKs program. Staff understands that CalWORKs has reviewed a corresponding General Fund augmentation so that CalWORKs is held harmless with this change. However, recent federal legislation may require additional funding for CalWORKs to avoid significant federal penalties.

Detail / Background: The Employment Training Panel was created in 1982 to improve the skills of California's workforce and retain businesses in the state. The ETP is funded through the Employment Training Tax, a special tax which is levied on employers who participate in the Unemployment Insurance Program. Historically, revenue has annually averaged $70 million to $100 million. The ETP program primarily funds "employer-focused" job training – more than 90 percent of ETP supports training of incumbent workers. The ETP indicates that every $1 million in ETP training funding, supports more than 85 business and 800 workers, primarily in the manufacturing and high-tech sectors. The following table shows how Employment Training Fund money has been distributed between ETP and CalWORKs in recent years ($ in millions).

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07*
ETP Appropriation	$75.8	$76.0	$76.0	$18.2	$44.0	$37.8	$40.3
Percent to ETP	65%	51%	65%	22%	48%	44%	50%
CalWORKS Appropriation	$30.0	$61.7	$30.0	$56.4	$40.0	$37.9	$32.9
Percent to CalWORKS	26%	41%	26%	68%	43%	44%	40.5%

* Proposed

Staff Comment: The Department of Social Services and the CalWORKs program will be heard by the Subcommittee on May 4. As a result of the federal Deficit Reduction Act of 2005, the state will face significant federal penalties if the CalWORKs work participation rate does not increase. To meet the higher work participation rate, additional funding may be needed above the Governor's Budget level for CalWORKs employment training. Potential funding for these services include the Employment Training Fund. There may also be changes to the CalWORKs budget with the May Revision of the Governor's Budget.

Questions:

1. LAO, please comment on this issue.

Recommendation: Keep issue open for the May Revision hearing.

Action: Kept open for the May 4 CalWORKs hearing and the May Revision.

7350 Department of Industrial Relations

The objective of the Department of Industrial Relations (DIR) is to protect the workforce in California; improve working conditions; and advance opportunities for profitable employment. The department enforces workers' compensation insurance laws and adjudicates workers' compensation insurance claims; works to prevent industrial injuries and deaths; promulgates and enforces laws relating to wages, hours, and conditions of employment; promotes apprenticeship and other on-the-job training; assists in negotiations with parties in dispute when a work stoppage is threatened; and analyzes and disseminates statistics which measure the condition of labor in the state.

The January Governor's Budget proposed $346.8 million ($62.6 million General Fund), an increase of $2.7 million (0.8 percent) from the current-year budget.

Expenditures by Program (dollars in thousands)	2005-06	2006-07	$ Change	% Change
Self-Insurance Plans	$3,578	$3,591	$13	0.4
Mediation/Conciliation	2,214	2,237	23	1.0
Workers' Compensation	154,398	157,726	3,328	2.2
Commission on Health and Safety and Workers' Compensation	3,133	3,068	-65	-2.1
Division of Occupational Safety and Health	85,423	87,466	2,043	2.4
Division of Labor Standards Enforcement	46,322	44,854	-1,468	-3.2
Division of Apprenticeship Standards	9,973	10,156	183	1.8
Division of Labor Statistics and Research	3,853	3,884	31	0.8
Claims, Wages, and Contingencies	35,158	33,832	-1,326	-3.8
Administration	26,729	26,993	264	1.0
Distributed Administration	(26,729)	(26,993)	-264	0.0
Total	$344,052	$346,814	$2,762	0.8

(see next page for issues)

Vote Only Issue:

Issue 1: IT Project Reappropriation (April Finance Letter #1)

Description: The Administration requests a reappropriation of $8.8 million for the Electronic Adjudication Management System (EAMS) project to accommodate unforeseen delays that occurred in the contract solicitation process. This project was approved by the Legislature with the 2004 Budget Act and has a total cost of $24 million (Workers Compensation Administration Revolving Fund). The EAMS replaces the current on-line, Vocational Rehabilitation and Disability Evaluation Unit system with a commercial-off-the-shelf case management, calendaring, document management, and cashiering solution. The Department expects annual savings of 17.3 positions (measured in personnel years) and $3.3 million, which will be redirected to cover baseline operations.

Recommendation: Approve this request.

Action: Approved the request on a 2-1 vote, with Senator Cox voting no.

Issue 2: Division of Labor Standards Enforcement Collections Unit (BCP #5)

Description: The Administration requests to augment the Department's budget by $561,000 (special fund) and five positions to establish a collections unit within the Division of Labor Standards Enforcement to actively pursue the wages and penalties it determines are due as a result of judgments against employers who have violated labor laws. The Administration indicates this new unit would generate enough funding to be self-sufficient. Additionally, approximately $13 million in wages would be collected to the benefit of workers and $2.5 million in penalties would be collected. The General Fund benefit would be approximately $2.0 million to $2.5 million.

Recommendation: Approve this request.

Action: Approved the request on a 2-1 vote, with Senator Cox voting no.

Issue 3: Pressure Vessel Safety Program (BCP #4)

Description: The Administration requests an augmentation of $1 million (special fund) and eight positions to address on-going workload in the Pressure Vessels Unit. These positions would address workload associated with Labor Code Section 7680 that requires that tanks and boilers have permits to operate. The BCP indicates 60,000 of 205,000 pressure vessels are over 6 months overdue for permit inspection and that without new staffing the number overdue will increase by 18,546 annually. Revenue generated from inspection fees would fund these positions.

Recommendation: Approve this request.

Action: Approved the request on a 2-1 vote, with Senator Cox voting no.

Issue 4: Facility Costs (BCP #2)

Description: The Administration requests an augmentation of two positions and $2.2 million (special fund) for unfunded facilities cost increases due to increased baseline staffing. The Department indicates it maintains 24 district offices throughout the state and 8 satellite offices. The BCP indicates that facility funding was increased with workers' compensation reform legislation (for example SB 899 allocated $817,000 to facilities); however, the funding was generalized and did not recognize special facilities needs such as additional hearing rooms.

Recommendation: Approve this request.

Action: Approved the request on a 3-0 vote.

Discussion / Vote Issues:

Issue 1: Workers' Compensation Reform Issues (BCPs #3, 6, 7, & 9)

Description: The Administration requests four budget changes that relate to recently-enacted workers' compensation legislation:

- **Position Upgrade (BCP #3).** The Governor requests $971,000 to fund upgrades for positions in the Workers' Compensation Unit. The Department indicates that the complexity of the workload has increased with recent legislation and this merits the upgrade. Additionally, the Department hopes the upgrade will assist in retaining experienced incumbent employees and reduce vacancy rates. Proposed provisional language would tie expenditure of these funds to approval of the upgrade by the Department of Personnel Administration and/or the State Personnel Board.

Action: Approved the request on a 2-1 vote, with Senator Cox voting no.

- **Return-to-Work Program Staffing and Funding (BCP #6).** The Governor requests $577,000 and one position to fund payments to small employers who comply with the requirements of the Return-to-Work Program. The program was placed in statute by AB 749 (Chapter 6, Statutes of 2002) and modified by SB 899 (Chapter 34, Statutes of 2004), with the purpose of encouraging early and sustained return to work by injured employees. The requested position would review requests for reimbursement from employers, prioritize the requests, and prepare claim schedules or requests for checks from the office revolving funds for payment. While SB 899 was chaptered in 2004, the regulatory process has delayed the implementation of this program.

Action: Approved the request on a 3-0 vote.

- **Extension of Limited-term Legal Positions (BCP #7)**. The Governor requests a two-year extension of $297,000 and four legal positions to support ongoing regulatory activities related to workers' compensation reform. The Administration indicates this workload is associated with SB 899 (Chapter 34, Statutes of 2004). The BCP indicates that 1.5 of the 5.5 originally approved legal positions would be allowed to expire; however, the 4.0 positions are requested to continue for ongoing regulatory work, Public Records Act requests, ongoing legal advice and counsel to program managers and staff, audit unit administrative hearings, and litigation.

Action: Approved the request on a 3-0 vote.

- **Repeal of $100 Initial Lien Filing Fee (BCP #9).** The Governor requests the repeal of Labor Code Section 4903.05 (added by SB 228, Chapter 639, Statutes of 2003) that requires medical-legal providers to pay a $100 filing fee when filing an initial lien on a claim in order to assert their claim for payment for services provided. The Administration indicates this requirement "has created a workload that does not positively impact the settling of claims and instead has created a process that is inefficient for the division and the district offices." Additionally, the lien fee may be a barrier for legitimate claims by small business such as interpreters, document copy services, and transportation companies. The Administration also proposes to add language to establish a 60-day wait period for the filing of liens to discourage the practice of filing liens before allowing a reasonable period for payment. If the request is denied, the BCP indicates an additional $294,000 and 5 new positions would be required to address this workload. Staff has conferred with policy staff, and no concerns were noted with this proposal.

Action: Approved the trail bill language that related specifically to the repeal of the $100 initial lien filing fee on a 3-0 vote – specifically approved Administration's amendments to Labor Code section 4603.2 and approved the repeal of Labor Code section 4903.05. Kept open the proposed language to add a 60-day wait period for the filing of a lien – specifically kept open the proposed addition of a new Labor Code section 4903.05.

Detail/Background: To summarize the status of workers' compensation reform efforts, the Department provided a document titled "Governor Celebrates Workers' Compensation Success on Reform's Second Anniversary." April 19, 2006, marked the second anniversary of the enactment of SB 899. The document indicates that workers' compensation charged rates were $6.46 for every $100 in payroll in July of 2003, but by September of 2005 those rates were down to $4.42 per $100 in payroll – an actual reduction of 31.6 percent. The document notes that the Administration has promulgated "nearly all" the regulations related to SB 899; however, the following regulatory packages are still in progress:

- Return to work regulations
- Penalties for utilization review violations and Labor Code section 5814.6 penalties Medical treatment guidelines.
- Revised qualified medical evaluator regulations
- Repackaged drugs
- Official medical fee schedule

Questions:

1. DIR, please briefly present these proposals?

2. LAO, please comment.

Recommendation: Approve these requests, including trailer-bill language associated with Initial Lien Filing Fees.

Issue 2: Security at DIR Facilities (BCP #8)

Description: The Governor requests $280,000 in 2006-07, $298,000 in 2007-08, and $238,000 in 2008-09 and ongoing (all Workers' Compensation Administration Revolving Fund) to add Plexiglas to public counters at five offices and to provide additional California Highway Patrol (CHP) security coverage at two offices. The Department would also purchase employee badges for all its personnel.

Detail/Background: DIR maintains 24 district offices throughout the state and 8 satellite offices. The Department received an augmentation in 2001-02 to add a full-time CHP presence at three offices that were described as particularly vulnerable due to their layout: Anaheim, Sacramento, and Santa Monica. This proposal would add a full-time CHP presence in the Van Nuys and Los Angeles Offices. Each of these two offices has had a recent incidence of violence. The remaining 19 offices would continue to be without a full-time CHP presence, but the Department does spend about $27,000 per year on additional CHP coverage when a known risk will be present at a court hearing. The BCP indicates that this is the Division of Workers' Compensation's first effort to standardize security measures among district offices. The Division will continue to monitor security needs and determine whether specific offices have specialized needs that should be addressed in a subsequent proposal.

Senate Subcommittee #4 Hearings on Building Security: Senate Budget Subcommittee #4 discussed building security with the Department of General Services at a hearing on April 6 and with the CHP at a hearing on April 20. The State has no standard security requirement for its buildings; however, the CHP provides a security assessment and recommendation if requested. The CHP Commissioner indicated that security needs vary by building, depending on where the building is located, the nature of the business conducted in the building, and the physical layout of the facility. The Commissioner indicated that every facility should be individually assessed as opposed to a one-size-fits-all security requirement. Security is not limited to barriers and CHP officers, but can also include the alignment of work areas to entry points and private security.

Staff Comment: DIR indicates they did not request a CHP assessment of their security needs in preparing this request. The Subcommittee may want to deny this BCP and request that the Department return with the request next year after a written CHP security assessment has been obtained. To the degree DIR feels this security is essential for 2006-07, the Department can redirect existing budget resources to fund these costs. A CHP assessment may recommend other security options in addition to those requested, or recommend a less-costly security option such as private security officers.

Questions:

- DIR: Explain who assessed the security needs of the facilities included in this request.
- LAO: Please comment.

Staff Recommendation: Deny the request – consider the request again next year if the request is resubmitted and a written CHP security assessment has been performed.

Action: Approved the 2006-07 funding request on a one-time basis on a 3-0 vote – the Administration indicated they will get a CHP security assessment and share that assessment with the Legislature prior to the expenditure of funds. (This was an information agreement - no budget bill language or trailer bill language)

Issue 3: Garment Fund Unpaid Wage Claims (Staff Issue)

Description: The Governor's budget bill appropriates $200,000 from the Garment Manufacturers Special Account (Item 7350-001-0481) for the payment of wage claims to employees when the damage exceeds the limits of the employer's bond. Revenue for this special fund account comes from a portion of each garment manufacturer's annual registration fee. Annual revenues into the account are in the range of $500,000. The Subcommittee may want to consider raising the appropriation to the level of annual revenue.

Background / Detail: The 2005 Budget Act appropriated $200,000 for the payment of garment worker wage claims. In most years, claims have fallen below $200,000. In a letter dated November 7, 2005, the Administration requested a supplemental appropriation of $988,000 so that a higher-than-anticipated level of claims could be paid. Concern has been raised about why the payment of wage claims is being artificially delayed due to a budget appropriation that is less than half of annual revenues. The Administration proposes to address this concern by adding provision 1 to Item 7350-001-0481:

1. *Upon approval by the Department of Finance and notification to the chairpersons for the fiscal committees of each house of the Legislature and the Chairperson of the Joint Legislative Budget Committee, the Department of Industrial Relations may augment this item for the payment of valid claims against and up to the fund balance.*

The proposed language goes a long way in addressing the concerns of delayed payment; however, the Subcommittee may additionally want to boost the appropriation to $500,000. This would tie approved expenditures to expected revenue and prevent any delay caused by Department of Finance approval and a 30-day legislative notification period.

Staff Comment: Some advocates have suggested statutory language to make the Garment Manufacturers Special Account continuously appropriated. An appropriation increase to $500,000 and the new budget bill language should address the problem of delayed payment that is occurring in 2005-06.

Questions:

1. DIR, please present this request.
2. LAO, please comment on this issue.

Recommendation: Approve the Administration's provisional language, but also increase the level of the appropriation from $200,000 to $500,000.

Action: Approved the Administration's budget bill language and increased the appropriation from $200,000 to $500,000 on a 3-0 vote.

Issue 4: Transfer of Workplace Health and Safety Revolving Fund (Administration Trailer Bill Language Request)

Description: The Administration requests trailer bill language to transfer the $507,000 fund balance of the dormant Workplace Health and Safety Revolving Fund to the Workers' Compensation Administration Revolving Fund.

Background: In 1989, the Legislature created the Workplace Health and Safety Revolving Fund and directed the Department to deposit into the fund civil and administrative penalties against workers' compensation insurers, self-insured employers, and others for failure to comply with the workers' compensation system. Assembly Bill 749 (Chapter 6, Statutes of 2002, Calderon), redirects the civil and administrative penalties previously deposited in the Workplace Health and Safety Revolving Fund to the larger Workers' Compensation Administration Revolving Fund, which became the primary source of funds for the Division of Workers' Compensation. Post AB 749, the Workplace Health and Safety Revolving Fund is no longer an active fund; however, the current account balance is $507,000.

LAO Recommendation: In the *Analysis of the 2006-07 Budget Bill*, the LAO recommends that the $507,000 be transferred to the General Fund instead of the Workers' Compensation Administration Revolving Fund. The LAO notes that the Workers' Compensation Administration Revolving Fund will maintain a $65 million fund balance at the end of 2006-07, and the fund balance of the Workplace Health and Safety Revolving Fund was accumulated during the years in which the General Fund provided the bulk of Division of Workers' Compensation funding.

Staff Recommendation: Adopt the LAO recommendation – approve trailer bill language to transfer the $507,000 balance in the Workplace Health and Safety Revolving Fund to the General Fund.

Action: Kept issue open for the May Revision.

Issue 5: Minimum Wage Enforcement and Staffing (Staff Issue)

Description: Last year, Senate Budget Subcommittee #5 augmented the DIR budget by $3.0 million (General Fund) and 32 positions to increase enforcement in the area of minimum wage and overtime law compliance in construction, agriculture, garment manufacturing, janitorial and restaurant employment. Budget bill language was also adopted specifying the expenditure of this augmentation. The Governor vetoed this augmentation citing the 16 positions added for DIR as part of the Economic and Employment Enforcement Coalition initiative, and the concern of General Fund costs.

Detail/Background: According to information provided last year by DIR, employment grew by 44 percent from 1983 to 2003, while Division of Labor Standards Enforcement (DLSE) staff fell from 434 to 403 over the same period. The Governor's Budget proposes 406 DLSE positions for 2006-07.

Questions:

1. LAO: Please present this issue.

Staff Recommendation: Keep this issue open for possible consideration at the May Revision hearing.

Action: Kept issue open for possible consideration at the May Revision. Also heard testimony on Cal-OSHA staffing and kept that issue open for possible consideration at the May Revision.

SUBCOMMITTEE NO. 3 Agenda

Chair, Senator Denise Moreno Ducheny
Senator Dave Cox
Senator Wesley Chesbro

Thursday, April 27, 2006
10:00 a.m. or Upon Adjournment of Session
Room 4203

Consultant: Dave O'Toole

"A" AGENDA

Item Number and Title **Page**

Discussion Items

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.

VOTE-ONLY BUDGET ITEMS

8950 Department of Veterans Affairs

The Department of Veterans Affairs has three primary objectives: (1) provide comprehensive assistance to veterans and dependents of veterans in obtaining benefits and rights to which they may be entitled under state and federal laws; (2) afford California veterans the opportunity to become homeowners through loans available to them under the Cal-Vet farm and home loan program; and (3) provide support for California veterans' homes where eligible veterans may live in a retirement community and where nursing care and hospitalization are provided.

The department operates veterans' homes in Yountville (Napa County), Barstow (San Bernardino County), and Chula Vista (San Diego County). The homes provide medical care, rehabilitation, and residential home services. With $50 million in general obligation bonds available through Proposition 16 (2000), $162 million in lease-revenue bonds (most recently amended by AB 1077 [Chapter 824, Statutes of 2004]), and federal funds, new homes will be constructed in West Los Angeles, Lancaster, Saticoy, Fresno, and Redding.

The Governor's budget funds 1,608.6 positions (including 139.1 new positions) and budget expenditures of $314.7 million for the department, including the veterans' homes.

For the three veterans' homes, the Governor proposes an eight percent funding increase, as shown below.

Home	Funding 2005-06*	Proposed Funding 2006-07*
Yountville	$72,536	$78,797
Barstow	11,890	12,387
Chula Vista	23,988	25,895
TOTALS	$108,414	$117,079

(*dollars in thousands)

VOTE-ONLY ITEMS

A. COBCP: Yountville Veterans Home Infrastructure Study

The Department of Veterans Affairs requests $500,000 to conduct a comprehensive engineering and infrastructure study at the Yountville Veterans Home. This study is expected to determine where capital outlay funds are needed at the 105 year-old campus. The department reports that no comprehensive study of veterans home capital outlay needs has been conducted for the past 25 years.

B. BCP: Supplemental Medical Insurance – Part B
The Department of Veterans Affairs requests $116,000 General Fund to pay for increased Supplemental Medical Insurance Part B costs. This appropriation would cover the increased cost increment set by the federal government annually when setting benefit levels. The majority of Veterans Home residents are recipients of this federal benefit.

C. BCP: Increase for Outside Medical Expense at Veterans Homes
The Department of Veterans Affairs requests a baseline increase of $66,000 to fund Medicare Part A and Part B deductibles and co-pays at all three homes. This appropriation would cover the increased cost increment set by the federal government annually when setting benefit levels. The majority of Veterans Home residents are recipients of this federal benefit.

D. BCP: Veterans' Home Barstow- Workers' Compensation Adjustment
The Department of Veterans Affairs requests increased expenditure authority of $975,000 General Fund to meet anticipated Workers' Compensation costs in the budget year. Workers' compensation costs have increased greatly in the last few years, in part due to an unaddressed backlog of overdue claims.

E. BCP: Barstow Veterans' Home – Increased Personal Services Costs.
The Department of Veterans Affairs requests $129,000 General Fund for increased costs associated with food and security services. The Department asserts that these additional costs were caused by the enactment of Government Code Section 19134, which established mandatory minimum benefits for employees in those classifications.

F. BCP: Veteran's Home Chula Vista – Contracted Services
The Department of Veterans Affairs requests $419,000 General Fund to address increased costs for janitorial, food service, and security services. The Department asserts that these additional costs were caused by the enactment of Government Code Section 19134, which established mandatory minimum benefits for employees in those classifications.

G. Finance Letter: Federal Per Diem COLA Adjustments for Veterans' Homes
The Department of Veterans Affairs requests $1.045 million in Federal Trust Fund expenditure authority in order to recognize USDVA per diem COLA adjustments. The USDVA has appropriated an additional $689,000 at Yountville, $92,000 at Barstow, and $264,000 at Chula Vista Veterans' Home. Approval of this request will generate General Fund savings of an equal amount.

H. BCP: Veteran's Home Fund Construction Team
The Department of Veterans Affairs requests the extension of two positions for three additional years, at a cost of $211,000 (Veterans' Home Fund). These positions were established for the purpose of supporting the Veterans Home Development Program through grants management, design development, construction management, and community relations.

I. BCP: Standards Compliance Coordinator
The Department of Veterans Affairs requests $129,000 General Fund to establish a standards compliance coordinator position which will oversee licensing and certifications, assure compliance with other regulatory standards, and integrate these activities with a quality assurance program.

J. BCP: Northern California Veterans Cemetery Operations
The Department of Veterans Affairs requests $20,000 General Fund to augment funding for landscaping and grounds maintenance of the Northern California Cemetery. In accordance with United States Department of Veterans' Affairs guidelines, the state must maintain and operate the cemetery.

VOTE on Vote-Only Issues A through J:

DISCUSSION ITEMS

1. Finance Letter: Position Funding Realignment from Farm and Home Program
The Department of Veterans Affairs requests a permanent General Fund augmentation of $2.117 million to realign funding for positions that had been funded out of the Farm and Home Program. The Bureau of State Audits has expressed support for this realignment.

Staff Comment: The BSA Audit from May 2000 noted that, "a rapid decline in the population of eligible California veterans and limited funding threaten the long-term viability of the California Veterans Farm and Home Purchase Program." Since that time, program activity has dropped further, while the DVA has not evidently reduced staff to reflect decreased workload. This request represents $2.117 in position expense for positions redirected to other purposes more appropriately funded by General Fund.

The department reports that the Farm and Home Loan Program has reduced positions (including 55 in 2003) pursuant to the decline in workload, as well as redirected positions to address the steep workload increase caused by the opening of the Barstow Veterans Home in 1995 and Chula Vista in 2000. Rather than charge the General Fund for that additional workload, the department has used Farm and Home Loan Program funds.

Staff Recommendation: HOLD OPEN the Finance Letter and request the DVA report on:

1. The dollar value and number of positions that have been redirected from the Farm and Home Program since 1999 to work on General-funded programs.
2. The dollar value and number of positions reduced from the Farm and Home Loan Program—pursuant to identifiable workload reductions—since 1999.

2. Finance Letter: Veterans Home Information System Maintenance and Support
The Department of Veterans Affairs requests $336,000 General Fund for ongoing maintenance and support of the Veterans Home Information System (VHIS). The department has encountered contractural problems with the existing vendor, MediTech, that they seek to remedy by contracting with a prime vendor, Centennial. Centennial will

then subcontract with MediTech. The $330,000 will fund the 20 percent increase with Centennial.

Staff Comment: This additional funding is necessary because the existing vendor, MediTech, does not want to sign a new contract with the state of California due to its Information Technology General Provisions. Specifically, MediTech does not want to be held liable for twice the amount of the system purchase price for damages to the state committed by their equipment. To maintain and operate the VHIS, the state must contract with a prime vendor for $336,000, and will receive no additional services.

Staff Recommendation: APPROVE the Finance Letter and request the department report on what steps the department will take to avoid contracting with vendors who won't comply with the state's IT General Provisions.

VOTE:

3. COBCP: Yountville Recreation Building Renovation

The Department of Veterans Affairs requests $8.3 million to renovate the recreation building at the Yountville Veterans Home. Renovations will improve the functionality of the gym, museum, bar, bowling alley, and other aspects of the facility, as well as resolve handicap accessibility issues and update fire/life/safety protections. This project is expected to receive approximately $12 million in federal funds.

Staff Comment: In a prehearing meeting it was learned that a fire had recently occurred at the recreation facility, after the BCP was submitted. The fire caused considerable damage and significantly amplified the priority for making the proposed renovations.

Staff Recommendation: APPROVE the COBCP and request the department explain how the fire will change the prioritization of this project, relative to other veterans home projects in the state.

VOTE:

4. BCP: Veterans Benefits Outreach

The Department of Veterans Affairs requests $250,000 General Fund and one position to establish outreach programs to ensure veterans are aware of their benefits. According to the USDVA, California veterans receive less compensation and pension benefits than the national average.

Staff Comment: Staff notes that the county veterans service officers and the nongovernmental (volunteer) veterans service officers assert that they could carry out some of the same outreach activity described in the request at a lower cost.

One statutory obstacle to allowing volunteer veterans service organizations to conduct outreach is Military and Veterans Code Section 699.1. That section requires full funding of county veteran service organizations before volunteer veterans service organizations may be funded for any purpose. Specifically, the county veteran service officers would have to receive an appropriation of $5 million in order for the statutory authority to fund volunteers to occur.

Staff also notes that a portion of this activity is already occurring with existing resources. Specifically, the department has been redirecting $15,000 to reach new veterans with, "Thank You for Your Service" letters. The BCP includes $30,000 for this purpose.

Staff Recommendation: HOLD OPEN and request the DVA report on the particular benefits and efficiencies they would bring to outreach efforts relative to county veterans service officers and volunteer veterans service organizations efforts.

5. BCP: Salary Savings Adjustment for Barstow, Chula Vista, and Yountville Veterans Homes

The Department of Veterans Affairs requests $1.7 million General Fund to reduce salary savings by an amount equivalent to 27.8 nursing positions. This adjustment would recognize the significant overtime work of 24-hour care staff at the Veterans Homes and under funding of personal services budgets.

The Administration asserts that such exemptions would be consistent with existing practice for other 24-hour care state facilities. This proposal would not result in actual nurses being hired, but rather a reduction to the current salary savings rate used for the veterans homes. This BCP seeks a lower rate in order to recognize overtime commitments that reduce available funding.

LAO Comment: (From the *Analysis of the 2006-07 Budget*):

> ***Background.*** *Salary savings is the amount of reduced expenditures by a department when a position is vacant or filled at a lower salary level than the budgeted level. For example, if the salary for a position is $4,000 per month, then the department saves $4,000 (plus some salary driven benefit costs) each month that the position is vacant. Every department is expected to have some salary savings as a result of normal turnover and delays in filling positions. The Governor's budget traditionally includes an assumption of salary savings for each department, and departmental appropriations are reduced accordingly. A typical level of savings is 5 percent. The budget estimates current-year salary savings of about 4.5 percent for each of the three veterans' homes.*
>
> ***Department Proposes to Exempt Classifications From Salary Savings.*** *The department proposes to exempt certain positions from estimated salary savings. This proposal results in increased costs of $1.7 million across the three veterans' homes. Specifically, the proposal exempts about 20 classifications involved in direct patient care, including (1) nursing positions that require 24 hours of coverage each day and (2) other positions that may or may not require 24-hour coverage, such as dentists, nurse instructors, occupational therapists, and radiologic technicians. According to the department, the rationale for the proposal is to ensure adequate 24-hour coverage, to accommodate absences due to vacation or illness, and to provide time off for staff members who are required to monitor patients outside of normal administrative business hours.*
>
> ***Exemption of Positions Not Justified.*** *The department's proposal for wholesale exemption from salary savings for new and existing direct care positions is not adequately justified. Aside from providing general concerns about coverage, the request contains no analysis of specific positions that have experienced trouble with providing*

care. Other state hospital facilities are budgeted with standard salary savings. For example, the Department of Mental Health-which also provides 24-hour direct patient care in its hospital facilities-budgets salary savings for its staff. Departments are generally expected to use management strategies to accommodate coverage issues, such as using overtime, adjusting schedules to accommodate after-hours workload, coordinating vacation schedules, and other similar approaches. In some instances, if a department is unable to meet staffing demands with these methods, it can request additional positions based on specific workload information.

Reject Proposal for Salary Savings Exemption. *We recommend the Legislature reject the proposal for wholesale exemption of direct care staff from salary savings at the veterans' homes. If the department provides evidence of coverage problems for specific positions that cannot be resolved through a management approach, it could resubmit a more refined proposal.*

Staff Comment: The request for exemption from statewide salary savings practice for 27.8 positions is an unrelated solution to the significant hiring and retention problem. The preliminary report of the Department of Personnel Administration's (DPA) "Total Compensation Survey" contains two major findings that merit mentioning here:

- *The State lags the private sector in all medical and related occupations. The greatest private sector lag is for occupational therapists, where the lag is 39 percent.*
- *In the auditor and registered nurse classifications, the State salaries lag behind other employers – public and private. For auditors, the lag is 7 – 8 percent; for RNs, it's 3 – 5 percent . (These lags do not reflect recent pay increases for RNs resulting from a federal court order.)*

The solution to these staffing challenges should come from a broader perspective that incorporates management solutions, better identification of overtime commitments, and specific classification compensation adjustments.

Staff notes that several of the positions requested this year include no salary savings. This was done to reflect the salary savings policy change underlying this proposal. Those adjustments are discussed in issues below.

Staff Recommendation: HOLD OPEN the BCP and request the department, LAO, and DOF identify an alternative methodology to address the hiring and retention challenges for nursing positions.

6. BCP: Yountville Veterans Home – Increased Food Budget

The Department of Veterans Affairs requests $132,000 General Fund ongoing to augment the food budget at the Yountville Veterans Home. Allowances per day have remained unchanged at $5.75/day per resident since 1999-00. The department proposes to increase the rate to $6.72/day.

Staff Comment: The proposed 17 percent food budget augmentation at the Yountville Veterans Home is based on DGS Price Letter calculations. Price Letter figures for foodstuffs are based on a statewide rate, applied regardless of function or location of a facility. A more instructive comparison may be comparing a similar facility, such as the nearby Sonoma Developmental Center, which budgets $8.00/day for their patients.

Staff Recommendation: HOLD OPEN the BCP and request the department explain how Price Letter adjustments are applicable Veterans Homes, as opposed to adjusting food allocations based on facilities with a similar function, such as the Sonoma Developmental Center.

7. BCP: Yountville Veterans Home: Open Renovated Annex I for Alzheimer's and Dementia Patients

The Department of Veterans Affairs requests $3.8 million General Fund and 75.7 positions to open the newly rebuilt and renovated Annex 1 for Alzheimer's and Dementia patients. The Yountville Veterans Home plans to open this facility to serve 40 patients on July 1, 2006, and the remaining 35 patients on January 1, 2007. A corresponding augmentation of $1.3 million ($371,000 General Fund) and 33.5 positions will staff and backfill two nursing wards with other patients after the existing Alzheimer's and Dementia Unit is vacated.

Staff Comment: The request includes $1000 per classification (for a total of $32,000) to advertise in local newspapers and professional journals. These advertising allotments will target everything from nursing assistants to stock clerks to launderer assistants.

The state's normal position advertising process is through a centralized service operated by the State Personnel Board. A specific funding request for position advertising is not consistent with other departments and has no apparent precedent.

The DVA has included position advertising funding in several BCP requests. Efficiencies such as advertising several positions or several locations for the same position in the same publication, were not recognized in the proposals.

The department has explained that the proposed positions are difficult to fill, and extraordinary measures are needed. Nonetheless, without a clear justification that recognizes the varying costs per classification, by location, and other efficiencies, the department should redirect for this purpose.

Staff Recommendation: AMEND the proposal by reducing operating expense funding by $32,000 to remove classification advertising funding.

VOTE:

8. BCP: Yountville Veterans Home: Re-open Skilled Nursing Wards 1A and 1B

The Department of Veterans Affairs requests 33.5 positions and $1.262 million ($371,000 General Fund) to re-open Wards 1A and 1B as a skilled nursing unit at the Yountville Veteran's Home in January 2007. The full year cost of this proposal is $2.5 million. This reopening will allow the facility expand its available skilled nursing unit beds from 1160 to 1200. The existing skilled nursing unit operates at near capacity and has a waiting list of over 300 persons.

Staff Comment: The position request does not include a reduction for salary savings. Consistent with the discussion in issue #5, salary savings should be budgeted at five percent and any funding shortfalls addressed with a specific proposal. Furthermore, since these positions will not be filled at the start of the budget year, recognition of a five percent salary savings is especially appropriate in the first year.

This request includes $5000 for advertising expenditures. Consistent with issue #7, these costs are unsupportable as an augmentation. The department should consider redirections, for this purpose.

Staff Recommendation: AMEND the request by eliminating funding for advertising and adjusting the salary savings level to five percent.

VOTE:

9. BCP: Behavioral Wellness Programs at Veterans' Homes
The Department of Veterans Affairs requests $1.0 million General Fund and 11 positions to establish a baseline for the Behavioral Wellness Program at the Yountville, Barstow, and Chula Vista Veterans Homes. These positions will focus on early detection of psychiatric disorders in younger residents, particularly post traumatic stress disorder. Healing strategies will include psychiatry, psychology, and substance abuse treatment.

Staff Comment: This request includes $8000 for advertising expenditures. Consistent with issue #7, these costs are unsupportable as an augmentation. The department should consider redirections, for this purpose.

Staff Recommendation: REDUCE the BCP request by $8000.

VOTE:

10. BCP: Barstow Veterans Home—Intermediate Care Facility to Full Capacity
The Department of Veterans Affairs requests to expand available beds from 40 to 60 at the intermediate care facility at the Barstow Veterans Home. The department will add 10.6 positions and augment by $1.334 million ($906,000 General Fund). The 20 beds were voluntarily shut down in 2003 after a series of incidents involving mistreatment of residents at the Barstow facility. The Department of Health services restored the Barstow Veterans Home authority to begin reopening a nursing facility in April 2005.

Staff Comment: The position request does not include a reduction for salary savings. Consistent with the discussion in issue #5, salary savings should be budgeted at five percent and any funding shortfalls addressed with a specific proposal. Furthermore, since these positions will not be filled at the start of the budget year, recognition of a five percent salary savings is especially appropriate in the first year.

A 2003-04 negative BCP, which recognized the closure of the specialized nursing facility at the Barstow Veterans Home, shows a minimal loss of non-consultant, non-equipment, operating expense (OE) related to the 174 positions lost. Specifically, only $47,000 was reduced along with those positions. At an absolute minimum, each position reduction should have been accompanied by an OE reduction of $3000 per position, or $522,000.

The DVA has disclosed that since the closure of the Barstow skilled nursing facility in October 2003, the Home has redirected approximately $311,000 in operating expense to temporary help. On an annualized basis, the department has redirected approximately $120,000/year from available OE to temp help.

Based on this information, the OE funding requested with the ten new positions, $405,000, should be reduced by $355,000 ($522,000 - $120,000 - $47,000) to reflect available OE funds.

Staff Recommendation: REDUCE the request to reflect five percent salary savings and operating expense funding of $50,000.

VOTE:

11. BCP: Veteran's Home Barstow – Staffing Adjustment for Certified Nursing Assistants.
The Department of Veterans Affairs requests 4.2 positions and $233,000 General Fund to conform to federal staffing requirements for certified nursing assistants at the intermediate care facilities at the Barstow Veterans Home. Total required staffing is 16 positions.

Staff Comment: The DVA has acknowledged an error in budgeting facilities costs. The original BCP included $10,000 for facilities costs that were subsequently determined to be unnecessary.

The position request does not include a reduction for salary savings. Consistent with the discussion in issue #5, salary savings should be budgeted at five percent and any funding shortfalls addressed with a specific proposal. Furthermore, since these positions will not be filled at the start of the budget year, recognition of a five percent salary savings is especially appropriate in the first year.

Staff Recommendation: REDUCE the operating expense budget by $10,000 and adjust personal services funding to recognize five percent salary savings.

VOTE:

Senate Budget and Fiscal Review—Wesley Chesbro, Chair

SUBCOMMITTEE NO. 3 Agenda

Chair, Senator Denise Moreno Ducheny
Senator Dave Cox
Senator Wesley Chesbro

Thursday, May 4, 2006
(10 am or Upon Adjournment)
John L. Burton Hearing Room (4203)
Consultant, Anastasia Dodson

Discussion Agenda

Due to the volume of issues testimony will be limited. Please be direct and brief in your comments so that others may have the opportunity to testify. Written testimony is also welcome and appreciated. Thank you for your consideration.

5180 Department of Social Services (DSS)

Issue 1: CalWORKs Panel Discussion – Improving CalWORKs and Implementing the Federal Deficit Reduction Act

The California Work Opportunity and Responsibility to Kids (CalWORKs) program provides cash benefits and welfare-to-work services to low-income children and their parents or caretaker relatives. In 2006-07 the estimated average monthly caseload is 488,000 families.

CalWORKs Program Achievements:

- Hundreds of thousands of families are working and off time-limited aid since 1995. More adults on aid are working, and they are earning more under CalWORKs.
- The use of Temporary Assistance for Needy Families (TANF) and state MOE funding outside of CalWORKs has saved the state $9.5 billion General Fund since 1996.
- CalWORKs encourages work and self-sufficiency while maintaining a safety net for low-income children.

CalWORKs Program Challenges:

- The state's Work Participation Rate (WPR) will be well below federal standards in October 2006. It will be very challenging for the state to meet the federal WPR, and if it fails the state may be liable for to up to $350 million in federal penalties in 2008-09, with penalties increasing over time.
- An increasing proportion of families on aid have low skills, are not job ready, and have multiple barriers, such as domestic violence, substance abuse, or mental health issues.
- In most cases earnings among CalWORKs leavers are not significantly higher than earnings among current CalWORKs families that are employed.
- A number of families are reaching the 60 month time limit without sufficient earnings to transition off aid.
- A number of families are sanctioned and have their grants reduced for noncompliance, though their sanctions are often cured in a few months. Concern has been expressed by advocates that sanctions are applied too frequently and inappropriately in some counties.

CalWORKs Program Options for Change: (see Issue 7 for further details)
- Management and Data Improvements
- Policy and Practice Changes
- TANF/MOE Changes

Federal Deficit Reduction Act of 2005: TANF Provisions

- Reauthorized TANF Program through FFY 2010
- Caseload Reduction Credit Rebased from FFY 1995 to FFY 2005
- MOE-Funded Cases Included in Work Participation Rate (WPR)
- New State Penalty for Failure to Verify Work Participation
- Expanded Range of MOE-Countable Programs
- New Marriage Promotion Funding
- Federal Emergency Regulations to be released June 30, 2006, and effective October 1, 2006, will define:
  - Specific types of cases included in WPR.
  - Countable work activities.
  - Case reporting and documentation requirements.

Panel 1 (90 minutes)

- CharrLee Metsker, Department of Social Services (DSS)
- Frank Mecca, County Welfare Directors Association (CWDA)
- Phil Ansell, Los Angeles County Department of Public Social Services
- Todd Bland, Legislative Analyst's Office
- Linda Michalowski, California Community Colleges

Panel 2 (45 minutes)

- Mike Herald, Western Center on Law and Poverty
- Diana Spatz, LIFETIME
- Scott Graves, California Budget Project
- Nancy Strohl, Child Care Law Center
- Patty Siegel, California Resource and Referral Network

Public Testimony (45 minutes)

Background Information for CalWORKs Discussion

The remaining materials in this agenda are provided as background for the hearing discussion. Please see the Index at the end of the agenda for a detailed list of topics. In addition, the Subcommittee members and Panelists each have a supplemental packet with caseload charts, examples of client experiences, and the County Welfare Directors Association (CWDA) White Paper on CalWORKs reform.

Issue 2: Federal TANF Requirements and Funding

California Work Opportunity and Responsibility to Kids (CalWORKs) Program

Program Description. 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 minimum basic standard of adequate care, having less than $2,000 in resources, and having a car valued at $4,650 or less. The average family of three must have an annual net income below $12,389, or 77 percent of the federal poverty level, to be eligible for CalWORKs. Under state law, adults in single-parent families are required to participate in welfare-to-work activities and perform a minimum of 32 hours of work or work-related activities per week. Two parent families are required to participate for 35 hours per week. Adults have a lifetime limit of five years (60 months) in CalWORKs.

CalWORKs was established by the Legislature and Governor in 1997, in response to the federal Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA). PRWORA created the Temporary Assistance for Needy Families (TANF) program, which replaced the Aid to Families with Dependent Children (AFDC), Emergency Assistance (EA), and Jobs Opportunities and Basic Skills Training (JOBS) programs. PRWORA significantly changed federal welfare policy, and gave states more flexibility in designing their welfare programs under TANF. CalWORKs is California's TANF program.

PRWORA established four purposes for state TANF programs: (42 USC 601)

> "The purpose of this part is to increase the flexibility of States in operating a program designed to-
>
> 1. **Provide assistance to needy families so that children may be cared for in their own homes or in the homes of relatives;**
>
> 2. **End the dependence of needy parents on government benefits by promoting job preparation, work, and marriage;**
>
> 3. **Prevent and reduce the incidence of out-of-wedlock pregnancies and establish annual numerical goals for preventing and reducing the incidence of these pregnancies; and**
>
> 4. **Encourage the formation and maintenance of two-parent families."**

The Department of Social Services (DSS) provides statewide oversight for CalWORKs, and counties operate the program. Counties determine eligibility and provide case management, employment training, and supportive services, including substance abuse, mental health, and domestic violence services, child care, transportation assistance, and other work supports.

Funding Summary. CalWORKs is funded through an annual federal Temporary Assistance for Needy Families (TANF) block grant of $3.7 billion, plus $2.7 billion in state and county funds to meet a federal Maintenance of Effort (MOE) requirement. The state's TANF grant and MOE are based on the level of welfare spending in the state in 1994. The MOE may be adjusted downward for achievement of certain work participation goals. Under PRWORA, MOE countable state spending must be for aided families or for families who are otherwise eligible for assistance (purposes 1 and 2 above). PRWORA restricted countable spending that promotes the formation and maintenance of two-parent families and teen pregnancy prevention (purposes 3 and 4 above) for low-income families only. This restriction was changed in the Deficit Reduction Act (see discussion in Deficit Reduction Act section below).

Federal law permits the expenditure of TANF funds on a variety of programs and activities. Unexpended TANF funds can be carried over indefinitely into future years. Permitted TANF expenditures include:

- Any program designed to meet the four purposes of TANF listed above.

- Any purpose permitted under the AFDC program or under AFDC Emergency Assistance (EA). (For example, AFDC-EA could be used for juvenile probation.)

- Up to 10 percent of TANF funds may be transferred to the Title XX Social Services Block Grant and then expended in accordance with Title XX federal rules.

- Up to $961 million in TANF funds may be transferred to the Child Care and Development Block Grant (CCDBG) to fund child care for CalWORKs families.

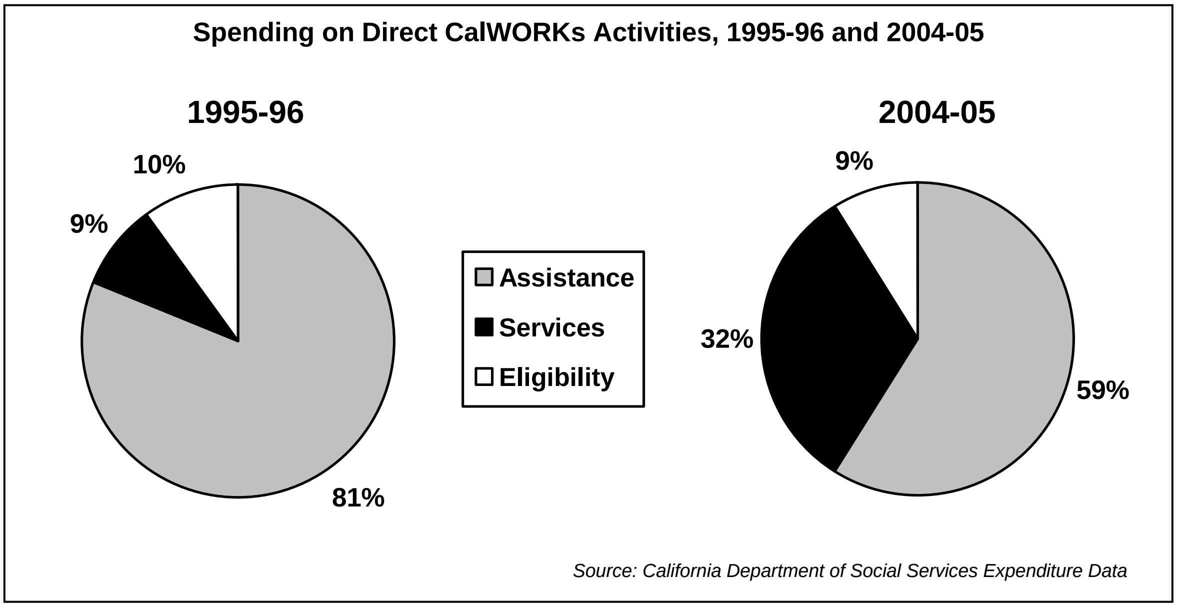
TANF and MOE Expenditures (dollars in thousands)

	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06 Nov 05	2006-07 Nov 05	**Change 98-99 to 06-07**
CalWORKs Program (Actuals)	**5,452,465**	**5,644,025**	**5,228,224**	**5,065,838**	**5,234,305**	**4,726,460**	**4,979,740**	**5,016,200**	**4,902,818**	**-549,647**
Grants	3,728,895	3,409,184	3,110,591	3,128,454	2,998,104	3,058,377	3,272,331	3,196,005	3,147,574	**-581,322**
Eligibility Determination	518,317	563,063	539,640	554,945	499,797	477,145	477,510	511,709	492,289	**-18,083**
Employment Services	450,275	569,167	659,554	725,821	766,605	593,585	668,253	716,113	688,935	**222,839**
Child Care	360,733	524,046	571,661	537,866	548,577	486,112	451,267	483,587	465,234	**112,375**
Substance Abuse/Mental Health	21,212	67,947	96,778	98,753	118,377	111,241	110,378	108,786	108,786	**87,574**
County Share of Admin/Svcs	80,807	82,345	70,220	63,071	65,344	53,410	61,429	57,462	54,292	**-26,515**
Performance Incentives- budgeted	373,031	510,618	250,000	20,000	302,844	0	0	0	0	**-373,031**
Probation	**201,413**	**201,413**	**201,413**	**201,413**	**201,413**	**201,413**	**67,138**	**0**	**0**	**-201,413**
KinGAP	**0**	**0**	**25,519**	**69,859**	**76,232**	**88,318**	**94,308**	**98,098**	**100,046**	**100,046**
Non-CalWORKs MOE in CDSS and Other Depts	**708,502**	**745,249**	**811,055**	**876,788**	**761,915**	**793,250**	**727,370**	**827,755**	**806,824**	**-2,179**
State Support	**29,016**	**26,714**	**26,592**	**29,198**	**23,979**	**27,242**	**27,462**	**26,057**	**25,514**	**-3,502**
Total TANF transfers	**284,965**	**531,654**	**606,149**	**497,376**	**636,521**	**675,546**	**475,396**	**805,574**	**852,631**	**567,666**
Non-CalWORKs Transfers	0	0	5,339	0	70,793	100,135	85,579	190,819	188,928	**188,928**
Transfers to Stage 2, Tribal TANF & Reserve	284,965	531,654	600,810	497,376	565,548	575,411	389,817	614,755	663,703	**378,738**
Total Available Funding	**7,257,991**	**7,493,964**	**6,977,772**	**6,942,486**	**7,309,214**	**6,949,361**	**6,972,437**	**7,048,143**	**6,677,722**	**-580,269**
Total TANF/MOE Expends	**6,665,092**	**7,142,164**	**6,880,658**	**6,708,379**	**6,916,571**	**6,472,469**	**6,584,068**	**6,763,465**	**6,677,722**	**12,630**
NET TANF Carry-over Funds	592,899	351,800	97,114	234,107	392,643	476,892	388,369	284,678	0	**-592,899**
CalWORKs Contribution to the General Fund	***708,502***	***745,249***	***1,021,913***	***1,126,647***	***1,088,940***	***1,163,238***	***1,087,321***	***1,296,570***	***1,275,344***	***566,842***

Funding for CalWORKs employment services, child care, and eligibility determination is provided to the counties in a block grant known as the "single allocation." Counties have the discretion to move these block grant funds among program elements to address specific local needs.

The chart above shows how TANF and MOE funds have been spent since 1998-99. As the chart shows, while a large amount of TANF/MOE was spent on CalWORKs each year, a significant amount was spent on other, non-CalWORKs programs, such as KinGAP, Probation, Child Welfare, and Foster Care. The amount spent on these programs is summarized in the last line, "CalWORKs Contribution to the General Fund." **A total of $9.5 billion in TANF/MOE funds was spent on non-CalWORKs programs in place of General Fund from 1998-99 through 2006-07.**

Of the amount of TANF/MOE spent on CalWORKs, spending has shifted away from cash assistance and toward employment services, as shown in the below charts comparing actual spending on cash assistance, services and eligibility operations in 1995-96 and 2004-05. “Services” spending includes child care, transportation, case management, job search, vocational assessment, job training, mental health and substance abuse treatment, services to assist with domestic violence and learning disabilities and other services aimed at helping CalWORKs clients find and maintain employment.



2006-07 Governor’s Budget

The budget proposes total TANF/MOE funding of $6.4 billion ($4.9 billion of which will be spent on the CalWORKs program and $1.5 billion to support non-CalWORKs federally allowable activities). This constitutes a $111 million, or 2.2 percent, decrease in CalWORKs expenditures from the current year. Note also that the Administration is proposing a $32 million decrease in CalWORKs funding in the current year, compared to the 2005 Budget Act.

- **Scale Back 2004-05 Welfare Reform Results (SB 1104).** The 2004-05 human services trailer bill (SB 1104) strengthened client work participation requirements. The Governor’s Budget assumes that the SB 1104 program reforms will have a minimal effect in 2005-06, and that $147 million in anticipated grant savings due to increased client work hours will not materialize. The Administration also proposed to reduce the current year allocation to counties by $113 million, due to lower than anticipated child care costs. The Governor’s Budget proposes trailer bill language to implement the current year reduction. Counties suggest that making a significant mid-year reduction in funding for CalWORKs prevents effective program management, and destabilizes local CalWORKs programs. Under current law, unspent single allocation funds eventually revert to the TANF reserve, however, counties have up to nine months to file supplemental claims.

- **Use TANF to Backfill Federal Disallowance for Child Welfare Services (CWS).** The budget proposes to shift a combined total of $58 million in current and budget year TANF funding from CalWORKs to CWS - Emergency Assistance Program, to backfill a federal funding disallowance in CWS. On March 9th the Subcommittee discussed this issue, and expressed concerns that the current year TANF transfer may not be consistent with Legislative intent in the 2005 Budget Act. The LAO has suggested the following Budget Bill Language be added to the 2006-07 budget bill, to clarify that Legislative review is needed before TANF may be shifted to other programs:

  Add paragraph (c) to Section 8.50 as follows:

  > (c) Paragraph (a) of this Section does not apply to federal Temporary Assistance for Needy Families (TANF) block grant funds. Any expenditure of TANF funds in excess of what is authorized in this act is subject to the notification procedures and requirements set forth in Section 28.00, Provision 4 of Item 5180-101-0001, or Item 5180-403, whichever is applicable.

- **Reduce CalWORKs Single Allocation.** The budget reduces $40 million in funding to counties for CalWORKs employment services, eligibility determination, and child care.

- **Delay Pay for Performance.** The 2005-06 Budget Act established performance measures for the CalWORKs program, and provided a $30 million TANF setaside in 2006-07 for counties that meet performance goals. The Administration now proposes to reduce that savings, eliminate the setaside, and delay implementation of Pay for Performance due to the delay in SB 1104 welfare reforms described above.

- **Prospective Budgeting/Quarterly Reporting (CalWORKs and Food Stamps).** The 2002-03 Budget Act shifted the routine eligibility review period for CalWORKs and Food Stamp clients from monthly to quarterly reporting. This change was expected to result in grant increases and eligibility determination savings due to fewer reported income changes. However, counties have indicated that eligibility savings are less than previously estimated, primarily due to the time needed to process mid-quarter change reports. The Administration has recently requested an additional $7.8 million TANF in the current year to reflect additional costs identified in recent county time studies.

DSS Issue 3: Deficit Reduction Act of 2005

Federal Deficit Reduction Act of 2005: TANF Provisions

- Reauthorized the TANF Program through FFY 2010
- Caseload Reduction Credit Rebased from FFY 1995 to FFY 2005
- MOE-Funded Cases Included in Work Participation Rate (WPR)
- Expanded Range of MOE-Countable Programs
- Federal Emergency Regulations to be released June 30, 2006, and effective October 1, 2006, will define:
    - Specific types of cases included in WPR.
    - Countable work activities.
    - Case reporting and documentation requirements.
- New State Penalty for Failure to Verify Work Participation
- New Marriage Promotion Funding

The federal Deficit Reduction Act of 2005, approved by Congress and the President in February 2006, effectively increased the state's required work participation rate to 50 percent for all CalWORKs cases, and 90 percent for two-parent cases. The state's work participation rates are currently 23 percent for all cases and 32 percent for two-parent cases. The new work participation rate requirements will become effective October 1, 2006, in Federal Fiscal Year (FFY) 2007. The Act also authorized the federal Secretary of Health and Human Services to issue emergency regulations to establish the types of aid cases included in the work participation rate, define federally-countable work activities, and establish reporting and documentation requirements to verify client work hours. Finally, the Act increases funding for child care; California's share is estimated to be approximately $25 million per year.

Calculation of Federal Work Participation Rate (WPR)

To avoid a federal penalty, states must meet an "All-Families" work participation rate (WPR) of 50 percent, and a "Two-Parent Families" WPR of 90 percent, subject to adjustment for any caseload reduction credit. These rates were established in PRWORA and were not changed by the Deficit Reduction Act.

However, prior to the Deficit Reduction Act, the WPR was based only on TANF-funded cases. MOE-funded cases were excluded. This allowed states to avoid penalties for not meeting the two-parent 90 percent WPR by using MOE funds instead of TANF funds for two-parent cases. California, like many other states, excluded two-parent families from the All-Families WPR calculation by using only MOE funds for those cases. Since the state did not have any TANF-funded two-parent cases, it effectively avoided the two-parent WPR requirement and penalty.

MOE-Funded Cases No Longer Excluded: Subject to certain exceptions, the Deficit Reduction Act requires both TANF and MOE-funded cases with aided adults to be included in the All-Families WPR calculation, effective FFY 2007. This means that two-parent families will now be included in the All-Families WPR (50 percent participation rate required), and that the state must also meet a 90 percent participation rate for the Two-Parent caseload. Note that if the state meets the All-Families WPR but not the Two-Parent WPR, the penalty would be reduced by about 85 percent because the amount of the penalty is tied to the relative size of the two-parent caseload in comparison to the overall caseload.

All-Families Work Participation Rate (WPR): 50 Percent Requirement

Numerator	=	Number of families with aided adult participating in countable activities for 30 hours (single parent)* or 35 hours (two-parent) per week
Denominator		Number of families with aided adult**

* 20 hours for a single parent with a child under age 6
**Excludes single parents with children under age 1, Tribal TANF cases, and possibly also cases sanctioned for less than 3 months in a 12 month period.

Two-Parent Work Participation Rate (WPR): 90 Percent Requirement

Numerator	=	Number of two-parent families with aided adults participating in countable activities for 35 hours per week
Denominator		Number of two-parent families with two aided adults***

***Excludes Tribal TANF cases, and possibly also cases sanctioned for less than 3 months in a 12 month period. A two-parent family with a disabled parent is considered a one-parent family in the WPR calculation.

California's Work Participation Rate Since FFY 2007

All-Families WPR+	FFY 1997	FFY 1998	FFY 1999	FFY 2000	FFY 2001	FFY 2002	FFY 2003	FFY 2004	FFY 2005	FFY 2006	FFY 2007
Required WPR	25.00%	30.00%	35.00%	40.00%	45.00%	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%
Caseload Reduction Credit	5.50%	12.20%	26.50%	32.10%	38.60%	43.30%	44.20%	46.10%	44.9%*	44.9%**	1%?
Adjusted Required WPR	19.50%	17.80%	8.50%	7.90%	6.40%	6.70%	5.80%	3.90%	5.10%*	5.1%**	49%?
California's Actual WPR	29.70%	36.60%	42.20%	27.50%	25.90%	27.30%	24.00%	23.10%	23.9%*	23.9%**	25%?

+ Includes both Single- and Two-Parent cases from FFY 1997 – FFY 1999, only Single-Parent cases from FFY 2000 – FFY 2006, and both Single- and Two-Parent cases in FFY 2007
* Preliminary
** Estimated

Calculation of Caseload Reduction Credit

Prior to the Deficit Reduction Act, the caseload reduction credit was based on the caseload reduction since FFY 1995, the base year established in PRWORA. States are allowed to reduce their required WPR by the rate of caseload reduction since the base year. Most states, including California, would not have met the required WPR for FFY 2001-FFY 2006 absent the caseload reduction credit. For example, since California's caseload dropped by 43.3 percent between 1995 and 2002, the state's All-Families WPR requirement was reduced from 50 percent to 6.7 percent in 2002. California's actual WPR of 27.3 percent in FFY 2002 exceeded the adjusted required WPR of 6.7 percent.

Base Period Reset to FFY 2005: The Deficit Reduction Act set FFY 2005 as the new base year for the caseload reduction credit. This would substantially increase the effective WPR that states are required to meet. States whose caseload have not declined or have increased since FFY 2005 would have to meet the maximum WPR starting in FFY 2007, which begins October 1, 2006. The CalWORKs caseload has leveled off in recent years and is not expected to significantly decline without program changes.

Countable Work Activities and Verification Requirements

Required Hours of Work: To comply with federal work participation rates, adults must meet an hourly participation requirement each week. For single-parent families with a child under age 6, the weekly participation requirement is 20 hours. The requirement goes up to 30 hours for single parents in which the youngest child is at least age 6. For two-parent families the requirement is 35 hours per week. The participation hours can be met through unsubsidized employment, subsidized employment, certain types of training and education related to work, and job search (for a limited time period).

Federal TANF Work Activities Requirements

The Federal participation requirement for "all families" is 30 hours of work activities per week, 20 hours of which must be spent in "core" work activities. After the 20-hour requirement has been met, the remaining 10 hours may be spent in "non-core" activities. However, single parents with a child under six, and up to 30% of teen parents participating in activities 13 and 14 below, meet the federal participation requirement by participating 20 hours per week.*

Core Activities

1) Unsubsidized employment
2) Subsidized private-sector employment
3) Subsidized public-sector employment
4) Work experience (if sufficient private sector employment is not available)
5) On-the-job training
6) Job search and job readiness assistance
   - Maximum of 6 weeks may be counted in any fiscal year
   - Maximum of 4 consecutive weeks in any fiscal year per individual
   - Not more than once during a fiscal year, a county may count three or four days of job search and job readiness assistance during a week as a full week of participation
7) Community service programs
8) Vocational educational training (twelve-month lifetime total)
9) Providing child care services to an individual who is participating in a community service program

Non-Core Activities

12) Job skills training directly related to employment
13) Education directly related to employment (for individuals with no high school diploma or certificate of high school equivalency)
14) Satisfactory attendance at a secondary school or in a course of study leading to certificate of general equivalence

* The federal participation requirements for two-parent families is 35 hours of work activities per week, 30 hours of which must be spent in "core" work activities. However, up to 30% of teen parents participating in activities 13 and 14 above meet the federal participation requirement by participating 20 hours per week.

New Federal Regulatory Authority: The Deficit Reduction Act gives the Secretary of the U.S. Department of Health and Human Services new authority to promulgate regulations concerning "verification of work and work eligible individuals." This gives the Secretary specific authority to define:

- Work participation activities
- How participation in these activities is documented
- How participation is reported
- Whether nonaided adults residing with children that are aided with TANF or MOE funds may be subject to work requirements. Currently cases with children and an unaided adult are known as child-only cases and are not subject to the WPR calculation. If the future regulations from the Secretary specify that adults in child-only cases are subject to work participation, then meeting federal work requirements would be even more difficult.

These regulations are to be released by June 30, 2006, and will be effective October 1, 2006, at the beginning of Federal Fiscal Year 2007.

General Accountability Office (GAO) Review of TANF Countable Activities

GAO Report Finds Work Participation Measurements are Inconsistent Across States: Congress provided the US HHS Secretary with the new regulatory authority described above as a result of an August 2005 GAO report on TANF work participation measurement. The report compared 10 states, including California. Findings include:

- Differences in how states define the 12 categories of work that count toward meeting TANF work participation requirements have resulted in some states counting activities that other states do not count and, therefore, in an inconsistent measurement of work participation across states.
- The US HHS guidance to states lacks specific criteria for determining the appropriate hours to report. States are making different decisions about what to measure. As a result, there is no standard basis for interpreting states' rates, and the rates cannot effectively be used to assess and compare states' performance.
- California was more conservative than the other states in what activities it counted toward the federal WPR. The only problem noted for California was a lack of guidance to counties on the type of documentation needed to support reported hours of work activities.

States Covered by the GAO Review That Count Certain Activities toward Meeting the Federal Work Participation Rate

Activity	Reviewed states that count the activity as federal work participation
Caring for a disabled household or family member	Georgia, Maryland, New York, Washington, Wisconsin
Substance abuse treatment	Kansas, Maryland, Nevada, New York, Washington, Wisconsin
Domestic violence counseling	Nevada, Washington, Wisconsin
Other mental health counseling	Kansas, Nevada, New York, Washington, Wisconsin
English as a second language	Kansas, Nevada, New York, Ohio, Pennsylvania, Washington, Wisconsin

Source: GAO review of 10 states' TANF documents and interviews with the states' TANF officials.
Note: In the limited circumstance that counseling is related to employment and is given to a recipient along with employment services by the same service provider, Ohio counts hours spent in substance abuse treatment, domestic violence counseling, and other mental health counseling toward meeting the federal work participation rate, according to an Ohio official.

More Spending Countable Toward the MOE Requirement

The Deficit Reduction Act expands the definition of what types of state spending may be used to meet the MOE requirement. Currently, countable state spending must be for aided families or for families who are otherwise eligible for assistance. The Act allows state expenditures designed to prevent out-of-wedlock pregnancies or promote the formation of two-parent families (TANF purposes 3 and 4) to count toward the MOE requirement even if the target population is not otherwise eligible for aid. Essentially, the Act removes the requirement that countable spending that promotes the formation and maintenance of two-parent families and teen pregnancy prevention be on behalf of low-income families. The implications of this change are not yet known, but further information may be provided in the forthcoming federal regulations.

Federal Penalties and Increased MOE

Work Participation Rate Penalty and MOE Increase: If the state fails to meet the work participation rate requirements in FFY 2007, it is subject to a penalty of up to a 5 percent reduction in the federal TANF grant, or approximately $173 million, depending on the degree on non-compliance. The state would be required to backfill the penalty amount with General Fund resources. This penalty increases each year, to a maximum of 21 percent of the TANF grant. The penalty for FFY 2007 performance could be payable as early as state fiscal year 2008-09.

Estimated Federal Penalty
for Failure to Meet Minimum Work Participation Rate

Measurement Year	Percent of TANF Grant	Maximum TANF Penalty	Payable FFY	Payable SFY
FFY 2007	5%	$153 million GF	FFY 2009	2008-09
FFY 2008	7%	$214 million GF	FFY 2010	2009-10
FFY 2009	9%	$276 million GF	FFY 2011	2010-11
FFY 2010	11%	$337 million GF	FFY 2012	2011-12
FFY 2011	13%	$398 million GF	FFY 2013	2012-13

Note: Projected penalty amounts above reflect TANF transfers included in the Governor's Budget; penalties would change if TANF transfers changed.

In addition, if the state fails to meet the work participation rate requirements, the state would also be required to increase General Fund MOE spending by approximately $180 million. This is because PRWORA requires an MOE spending level equal to 80 percent of 1994 state welfare program expenditures, except if the state meets the required WPR, in which case the MOE is reduced to 75 percent of 1994 expenditures. California's practice has been to budget an MOE level of 80 percent of 1994 expenditures, and then budget the net savings from a 75 percent MOE level two years later, after federal certification that the state has met the required WPR.

As shown in the table below, if the state fails to meet the required WPR for Federal Fiscal Year 2007 (which begins October 1, 2006), the effective budget impact would occur in state fiscal year 2009-10, when the state would not be able to budget for the $180 million net savings from a 75 percent MOE level.

Increased State MOE
for Failure to Meet Minimum Work Participation Rate

Measurement Year	MOE Increase	SFY Budget Impact
FFY 2007	$180 million GF	SFY 2009-10
FFY 2008	$180 million GF	SFY 2010-11
FFY 2009	$180 million GF	SFY 2011-12
FFY 2010	$180 million GF	SFY 2012-13
FFY 2011	$180 million GF	SFY 2013-14

Work Participation Verification Penalty: If the state fails to establish or comply with the work participation verification procedures released by the federal HHS Secretary on June 30, 2006, California will be subject to a penalty of between one and five percent of the federal TANF grant, based on the degree of non-compliance. This is in addition to the WPR penalty. DSS indicates the new verification and oversight requirements will likely increase state and county data collection requirements and require programming changes in the four county automated consortia systems to add new data reporting elements.

Estimated Federal Penalty
for Failure to Verify Work Participation

Measurement Year	Minimum TANF Penalty	Maximum TANF Penalty	Payable FFY	Payable SFY
FFY 2007	$31 million GF	$153 million GF	FFY 2009	2008-09
FFY 2008	$31 million GF	$153 million GF	FFY 2010	2009-10
FFY 2009	$31 million GF	$153 million GF	FFY 2011	2010-11
FFY 2010	$31 million GF	$153 million GF	FFY 2012	2011-12
FFY 2011	$31 million GF	$153 million GF	FFY 2013	2012-13

Note: Projected penalty amounts above reflect TANF transfers included in the Governor's Budget; penalties would change if TANF transfers changed.

Note that the amount of the federal penalties may vary depending on TANF transfers to Title XX, Tribal TANF, and CCDF programs. Also, as previously noted, if the state meets the All-Families WPR but not the Two-Parent WPR, the penalty would be reduced by about 85 percent because the amount of the penalty would be tied to the relative size of the two-parent caseload in comparison to the overall caseload.

Corrective Compliance Plan: Maximum total penalty and increased MOE exposure is $306 million General Fund in 2008-09, and $547 million in 2009-10. However, the state may be able to negotiate a corrective compliance plan with the federal HHS Secretary for either the WPR penalty or the work verification penalty. Corrective compliance plans would reduce or eliminate the federal penalties but also require the state to comply with federal requirements to keep the penalty in abeyance. The increased MOE cannot be waived by the Secretary.

Current state law provides that counties are responsible for up to 50 percent of the federal penalty, although state law also provides that counties may be provided relief if the department determines that there were circumstances beyond the county’s control. Current statute may not require counties to backfill the penalty amount with county resources, so allocating the penalty to counties may effectively reduce funding for local CalWORKs programs, if counties choose not to backfill the penalty.

DSS Issue 4: Family Descriptions and Caseload Information

CalWORKs Caseload Description

Enrollment Trends: After peaking in March of 1995, CalWORKs enrollment has dropped by 48 percent through 2005. The caseload decline is due to a combination of demographic trends (such as decreasing birth rates for young women), California's economic expansion, and welfare reform changes since 1996. After years of declines, enrollment flattened in 2003-04, and has remained relatively stable since then. As of November 2005, caseload was projected to decrease by 1.4 percent in 2005-06, and increase by 0.9 percent in 2006-07. Average monthly enrollment was estimated to be 488,000 cases in 2006-07. However, since November, caseload has declined more than anticipated, and the May Revision caseload estimates will likely show a small caseload decline compared to November estimates.

Caseloads are dynamic, with substantial movement in and out of the program. Each month 18,000-19,000 families enter the program, and roughly the same number of families leave each month. Over the past ten years, the proportion of families enrolled in the Welfare-to-Work portion of the program has declined, primarily due to the large number of cases that have left the program.

The main reasons families leave CalWORKs are:

1. Employment or family income increase. Note that families who leave CalWORKs due to excess income often do not submit their final participation report to the counties, and therefore are sometimes counted as exiting due to non-compliance (category 3 below).

2. Change in household composition: No longer an eligible child in the home; got married; or parent, spouse, or partner returned home.

3. Frustration with program rules or paperwork; not complying with program requirements; no longer wanted or needed welfare; or welfare benefit not enough to continue receipt of benefits.

The significant number of families that have left CalWORKs due to earnings has been partially offset by an increase in the number of cases without an aided adult.

CalWORKs Clients with Multiple Barriers: The proportion of families needing mental health, substance abuse, and/or domestic violence services has also increased. The percent of Welfare-to-Work clients receiving these services increased from 1.2 percent in October 1999 to 6.9 percent in October 2005. Research in Kern and Stanislaus counties found that more than half of the CalWORKs clients surveyed reported they had experienced domestic abuse, were found to have one or more mental health issues, and/or had abused alcohol or other drugs. About 80 percent reported experiencing domestic violence at some time in their lives, with one-quarter of the respondents identifying domestic violence as the current barrier to employment. In addition to these significant concerns, nearly 44 percent of those interviewed had not achieved a high school diploma, and about half had no driver's license.

CalWORKs Families are Diverse: As listed below in the Glossary of Major CalWORKs Case Definitions, CalWORKs families include a broad range of family circumstances and composition. For example:

- pregnant and parenting teens
- older parents and grandparents caring for children
- single- and two-parent families
- parents working, going to school, or in training programs full-time
- parents participating in some combination of part-time work, school, and/or job training
- refugee families (many initially lack English language and other basic job skills)
- families with substance abuse, mental health, domestic violence, and/or learning disability issues
- parents without high school diplomas (40% of adults in CalWORKs lack a diploma)
- families where children or adults are ill or disabled
- parents with extensive work experience or job skills
- parents with no work experience or job skills
- families who have received aid for many years, and have exceeded the five-year time limit
- families who have never received aid before, and stay in the program for a short time

CalWORKs Families are Dynamic: CalWORKs families' circumstances and case status may change frequently. Major change factors include:

- beginning/termination of employment or education/training programs
- changes in hours or wages of employment or education/training
- birth of a child, teen pregnancy, or removal of a child from the case at age 18
- departure or return of a parent to the household
- family relocation, such as for seasonal employment, homelessness, etc.
- improvements/declines in behavioral or physical health of a child or parent

Often when families apply for aid they are in crisis. Some need an exemption or good cause deferral to resolve the crisis. As they stabilize they may participate in time-limited activities, such as job search or training, and then work full- or part-time, perhaps in conjunction with other Welfare-to-Work (WTW) services. Alternatively, in some cases parents begin working right away, or were already working when they applied for aid.

Note also that counties have different local demographic and economic situations that affect participation activities and rates. For example, counties in the central valley with seasonal agricultural jobs have clients that regularly transition between work and other activities each year. In rural areas without extensive public transit systems, clients may have to travel long distances to work, and face particular difficulties if they do not have reliable cars.

Glossary of Major CalWORKs Case Definitions

Single-Parent and Two-Parent Cases (230,000 cases): Grant includes children and parents.

- **Non-Exempt:** Single- or two-parent family required to participate under state and federal rules. Eligible for Welfare to Work (WTW), Behavioral Health (mental health, domestic violence, alcohol and drug treatment), Child Care, and other support services.
    - **Timed-Out (36,000 cases):** Non-Exempt families with their federal 60-month clock expired, but state CalWORKs clock not expired. Federal clock started December 1, 1996.
    - **Good Cause:** Non-Exempt families where the county has granted a temporary exemption from participation. Most common examples include illness, disability, lack of transportation, child care problems, emotional problems, domestic abuse, attendance at employment/school/training, and legal problems.
- **Federal Exempt (19,000 cases):** Single parent with a child under age one. Exempt from participation under federal rules. Eligible for WTW and other services only if the parent volunteers to participate.
- **CalWORKs Exempt (36,000 cases):** Families not exempt from participation under federal law, but exempt under state law. Includes parents under age 16 or 60 and older, 16 and 17 year old parents in high school, parents physically or mentally unable to participate for at least 30 days, and parents caring for a disabled family member. Eligible for WTW and other services only if the parent volunteers to participate. Note that a substantial number of Exempt clients leave aid prior to the expiration of their exemption period, perhaps because they have resolved the crisis that led them to apply for aid.
- **On Aid Less than 60 days (22,000 cases):** WTW orientations are provided within 60 days of a client being determined eligible for aid. Federal participation rates are low among initial applicants, as they often have not yet had their WTW orientation. Clients are eligible for services once they are determined eligible.

Sanctioned Cases (55,000 cases): Families where the parent(s) has not complied with various reporting or activity requirements, and the county has reduced the grant to exclude the parent(s) from the case. Sanctions are progressive – with each incidence of noncompliance the sanction period is increased. Clients are generally eligible for WTW and other services if they cure their sanction or comply with their WTW plan.

Safety-Net Cases (28,000 cases): Families with federal and state 60-month clock expired. State clock started January 1, 1998. Grants are reduced to reflect removal of parent(s) from assistance calculation. Eligible for two years of child care if participating in WTW plan.

Child-Only Cases (169,000 cases): Grant amount calculation includes only children, not adults.

- **SSI Parent (44,000 cases):** Disabled parent(s) eligible for SSI.

- **Non-Citizen Parent (70,000 cases):** Generally, citizen children with ineligible non-citizen parents. 92% of adults have been in the US five years or longer.

  - 73% Refugee
  - 16% Permanently Residing in US Under Color of Law
  - 11% Other

- **Non-Needy Caretaker Relative (32,000):** Persons requesting child-only grants for related children in their care (72% grand/great-grandparents).

CalWORKs Sanction Policy: If a client has been notified that he/she has not met program requirements, they are given opportunities to come back into compliance before the county imposes a sanction. At the first occurrence of a sanction, the grant continues at the reduced level until the client comes into compliance. At the second occurrence, the sanction continues for three months until the sanction is cured, whichever is longer. At the third and subsequent occurrences, the sanction must last for six months or until the sanction is cured, whichever is longer. If a client is sanctioned more than once, the reduced benefit must be paid directly to any applicable vendors for rent and utilities.

Client sanction rates vary by county. Research indicates that some sanctioned families may be participating, and may even be meeting the federal participation requirements, but are sanctioned because they have not complied with reporting or orientation requirements.

Federal Participation by Case Type (Point-in-Time): The chart on the following page shows how the state’s actual work participation rate would be calculated under the Deficit Reduction Act provisions that include two-parent families in the All-Family rate calculation, using FFY 2004 data. The average monthly number of single- and two-parent cases required to participate is 229,939. Of those cases, an average of 57,526 cases (25 percent) participated in federally-countable activities for a sufficient number of hours per week each month to qualify as meeting the work participation rate. This calculation uses a point-in-time methodology to measure participation rates. However, families in CalWORKs shift from one category to another as family circumstances change, and the diversity and dynamic nature of CalWORKs families reduces the usefulness of point-in-time measurements.

TANF Participation by Case Type (Based on FFY 2004)

CalWORKs Caseload Category	**Number of Cases**	**Percent of Total Cases**	**In Proposed WPR?**
Caseload Required to Meet Federal Participation Rate:			
Single Parent Cases (per federal definition)	193,360		Yes
Two Parent Cases (per federal definition)	36,579		Yes
All Families Required To Participate (Federal Denominator)	**229,939**	45.9%	
Cases Exempt from Federal Participation Rate (Single Custodial Parent with Child Under One Year of Age)	18,982	3.8%	
Cases with Unaided Adults:			
Safety Net	28,000	5.6%	Unknown
Child Only	169,338	33.8%	Unknown
Sanction	54,557	10.9%	Likely
TOTAL CALWORKS CASELOAD	**500,816**		
	Number of Cases	**Percent of Cases Included in Federal WPR**	**In Proposed WPR?**
Breakdown of All Families Required to Participate:			
Meet Federal Participation Rate	57,526	25.0%	Yes
Participating in Federal Activities, But Not Meeting Federal Participation Rate	38,583	16.8%	Yes
Exempt (Per state CalWORKs provisions) – Less Cases with Single Custodial Parent with Child Under Age One	35,818	15.6%	Yes
Non-Compliant (CalWORKs)	24,123	10.5%	Yes
On Aid Less Than 60 Days	21,750	9.5%	Yes
“Other” (Not participating at all or participating only in non-federally allowable activities)	52,139	22.7%	Yes
TOTAL CASES	**229,939**		

Key Excerpts from County Welfare Directors Association (CWDA) White Paper

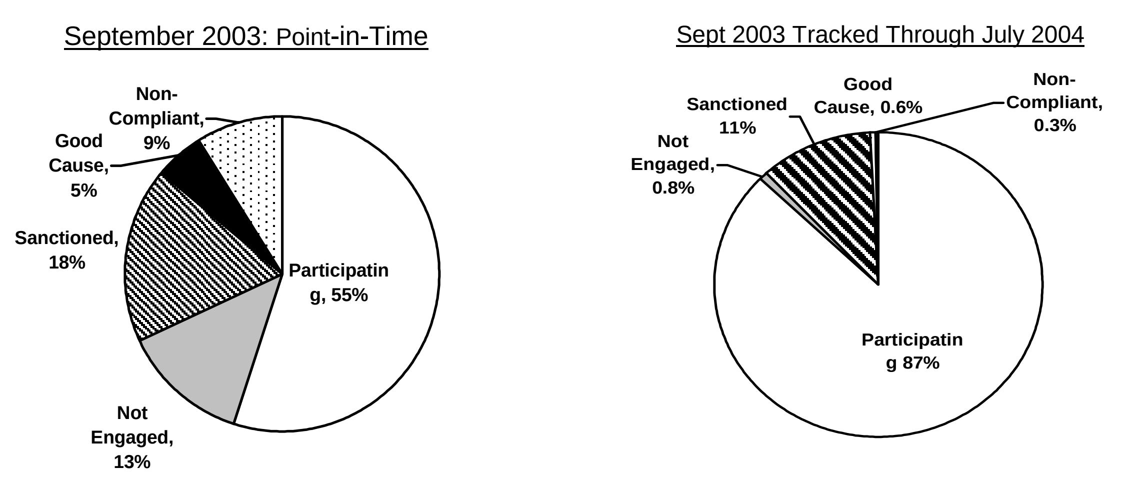
The County Welfare Directors Association (CWDA) conducted research among various county CalWORKs programs over the past six months, and has recently published a "white paper" document summarizing the results. The key findings on caseload trends and patterns from the paper are included below.

Client Participation Trends and Patterns. Many clients are participating part-time and/or mixing state and federal activities. One-fifth of the adult caseload is exempt from participating in Welfare-to-Work activities under state law. Finally, the "not participating" group is diverse; just because a client is not participating at a point in time does not mean they are disengaged from the program.

- Point-in-time participation measurements ignore many other measures of success.
- Participants today have greater access to employment services than in 1995.
- Working participants earn more today than in 1994, even after accounting for inflation.
- Viewing participation over time paints a more complete picture than point-in-time data.

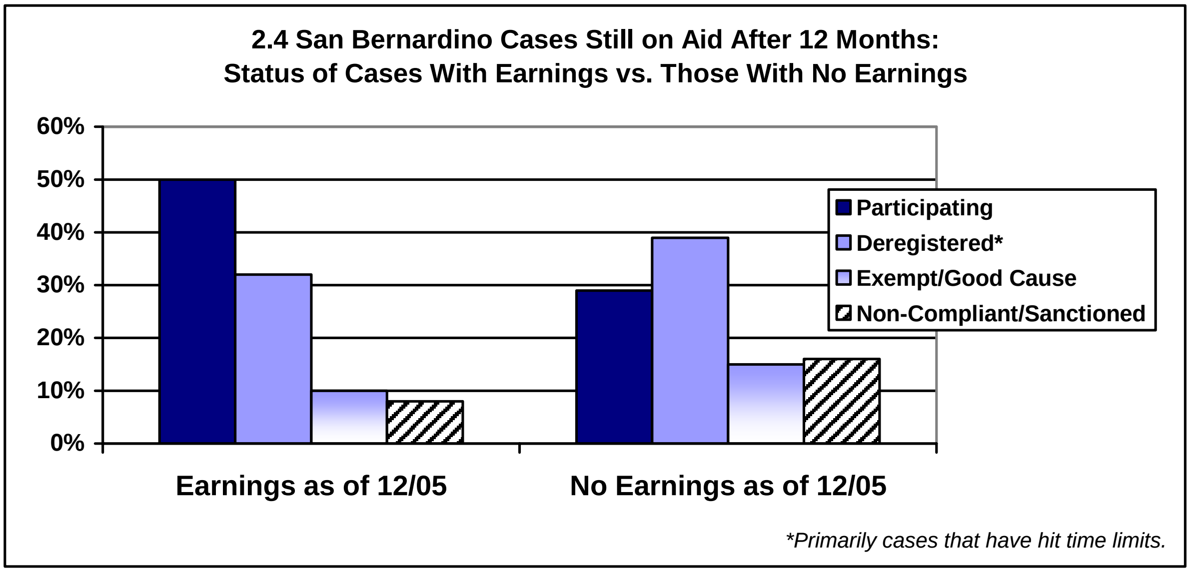
Riverside County: The pie charts below paint two very different pictures of program participation. The chart on the left shows point-in-time caseload data; while the chart on the right shows cases tracked over time. As the chart on the right shows, the overwhelming majority of Riverside County's Welfare-to-Work participants during the study time period were engaged, received an exemption from participation or left the program. Over the 10-month period, only 13 percent of the Welfare-to-Work clients did not participate in the program in any way.

2.3 Riverside County Caseload – Point-in-Time vs. Tracked Over Time



San Bernardino County: To further measure what happens to cases over time, San Bernardino County recently conducted a longitudinal analysis of a group of about 7,900 clients who were working as of December 2004. Following these cases over 12 months, the county analyzed the clients' status as of December 2005.

Over the 12-month period, the county found that 56 percent of the clients had left aid at some point during the year, mostly due to their income being over program limits. Of the 44 percent who received assistance without any discontinuances during the 12-month period, two-thirds (2,341) continued to report earnings, and one-third (1,199) had no earnings at the end of the 12-month period (December 2005). The chart below summarizes the status of the 3,540 participants who remained on the caseload as of December 2005.

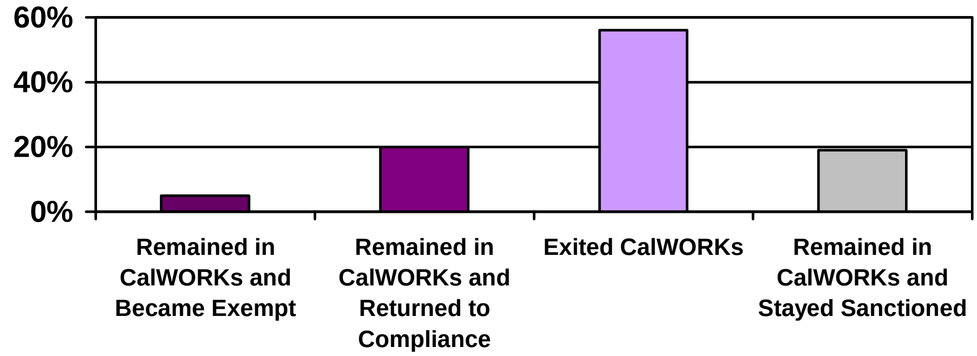


The chart above shows that the recipients who remained on aid without any discontinuances and continued to have earnings at the end of the 12-month period (left set of bars) were far less likely to be sanctioned than those without earnings (right set of bars). This suggests that participants who remain continuously on the program and maintain consistent employment are more likely to comply with participation requirements and less likely to experience a sanction.

Los Angeles County: In response to concerns about sanctioned participants, Los Angeles County conducted a longitudinal analysis of recipients who entered the program between June and November 2002, following these recipients for 18 months. The county found that most of the sanctioned participants were sanctioned before they participated in any Welfare-to-Work activity at all. Almost two-thirds of those who were sanctioned had failed to attend their scheduled Orientation session. The participants who did attend Orientation were much less likely to be sanctioned than those who did not attend Orientation.

The chart below shows the status of a group of participants who were sanctioned between September 2002 and February 2003, one year after they first became sanctioned.

2.5 Program Status of Los Angeles Welfare-to-Work Participants One Year After Being Sanctioned



Similar to the Riverside and San Bernardino studies, the Los Angeles analysis found that over time, most sanctioned participants returned to compliance, became exempt or left the CalWORKs program altogether. The Los Angeles findings also are similar to the Riverside and San Bernardino studies, showing the dynamic nature of the caseload and the large percentage of recipients who leave the program over a given period of time.

CalWORKs Family Example

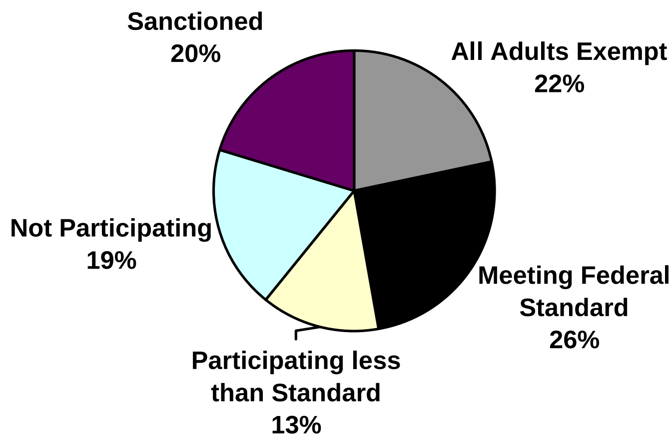
Madge is a single mother of 15 year old Jeremiah and 11 year old twins Quinten and Quana. All of the children are doing well in school while Madge attends community college to earn an Associates Degree in Administrative Justice. She maintains a full time academic schedule, cares for her children and her home, and works 20 hours a week as a student assistant in the financial aid department at the College.

Madge has used available resources to benefit her family as they strive towards self-sufficiency. Madge receives section 8 housing and has maintained her residence since July 2003. Madge has received CalWORKs funds to help with car repairs and to advance her educational goals. Madge filed for the Earned Income Tax Credits this year and received a $2,110 return.

When Madge graduates this year with her Associates Degree she wants to re-enter the workforce full-time.

The chart below shows the participation levels in the 15 counties surveyed by CWDA for the purposes of the white paper, as of November 2005.[1] It shows that 26 percent of the adults required to participate (unless given an exemption or other good-cause reason for not participating) were doing so for enough hours to meet the federal requirements. Another 13 percent were participating for less than the federal standards.

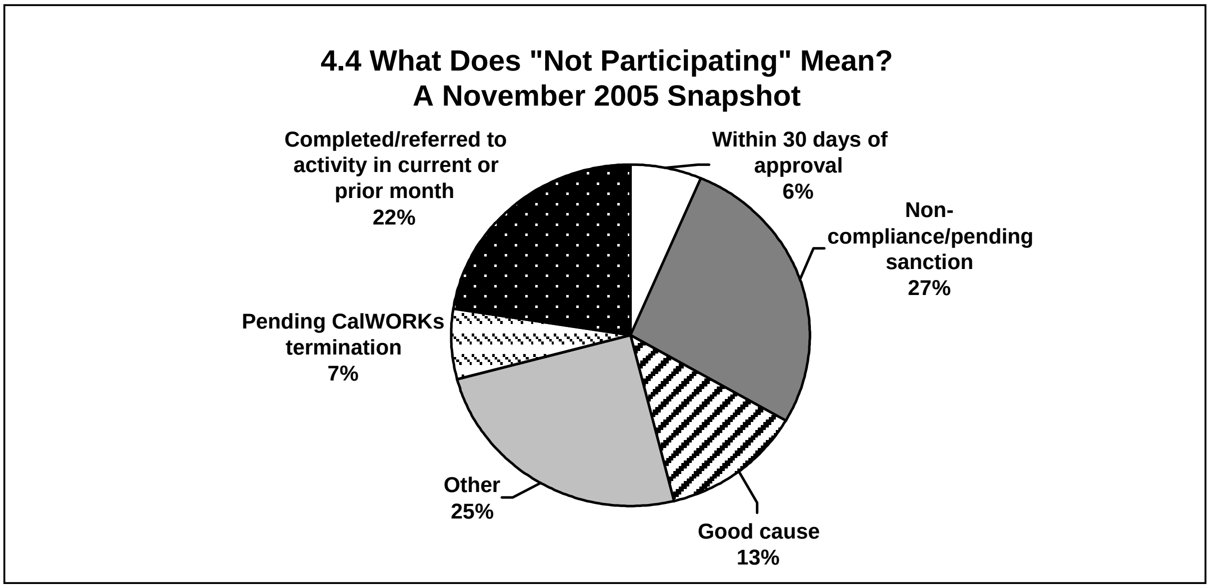
4.3 CalWORKS Participation By Category, November 2005



The "not participating" group is diverse; just because someone is not participating at a given point in time does not mean they are disengaged from the program. The CWDA data review collected more detailed information about the cases that were labeled as "not participating" during the month of November 2005. Digging deeper into the reasons for non-participation shows that more than a quarter of recipients are either new to the program (6 percent), are about to leave the program (7 percent), or have been given good cause for not participating (13 percent).

[1] Participating counties included: Fresno, Humboldt, Kern, Los Angeles, Mendocino, Monterey, Riverside, San Bernardino, San Diego, San Francisco, Santa Barbara, Santa Cruz, Stanislaus, Sutter, and Yuba.

Chart 4.4 demonstrates this diversity, suggesting that any efforts to engage the "not participating" group will need to recognize the subgroups within this category.



The group includes individuals who are new to the program, those who have good cause for not participating, those who completed or were referred to an activity during the current or prior month – but who have not yet begun a new activity – as well as those who will be leaving the CalWORKs program within a short period of time.[2] It also includes non-compliant participants and those whose sanctions have not yet been activated, but are pending.

Most counties were not able to break their caseloads into finer detail than the categories listed in chart 4.4, which explains the relatively large "other" category (25 percent). Counties that were able to further define their caseloads reduced the "other" category to less than 14 percent of cases not participating. The data from these counties, including Los Angeles County, indicates that a significant percentage of the cases in the "other" category are likely between assigned activities, and therefore would not count as participating for purposes of the state's federal work participation rate.

Note also that the "good cause" category essentially represents another group of exempt clients, who would not be considered participating for purposes of the federal rate but are not disengaged from the program, as might otherwise be assumed without delving deeper into the data. The diversity among the "not participating" group and the potentially substantial number of cases who are between activities at any given point in time suggests that strategies to engage clients in useful, temporary activities when they are between their formal assignments could be worthwhile. For example, a person waiting for a particular course to begin at the local community college might be encouraged to enroll in a short-term training program to learn a related software application.

[2] This latter group is shown as "Pending CalWORKs Deregistration" in Chart 4.4.

DSS Issue 5: CalWORKs County Operations and Funding

County Case Study: Los Angeles County Sanction Research and Pre-Sanction Home Visit Project

A 2005 Los Angeles County study of sanctions among CalWORKs clients found that:

- Almost two-thirds of sanctioned WTW clients are sanctioned when they fail to show up for their orientation session.

- The most prevalent reasons identified for this failure to participate are lack of adequate transportation and child care, and failure to receive notifications in a timely manner.

As a result of the study's findings, the county developed a detailed action plan, which included improvements in communication, child care and transportation coordination, and eventually implementation of a home visit outreach project.

The GAIN Sanction Home Visit Outreach Project (GSHVO) uses special caseworkers (not the routine eligibility or WTW caseworker) to perform a three-step outreach and home visit process for clients at risk of being sanctioned. The special caseworkers are not the client's normal eligibility or WTW caseworker, but senior staff who provide focused case management to resolve a variety of issues. The process includes:

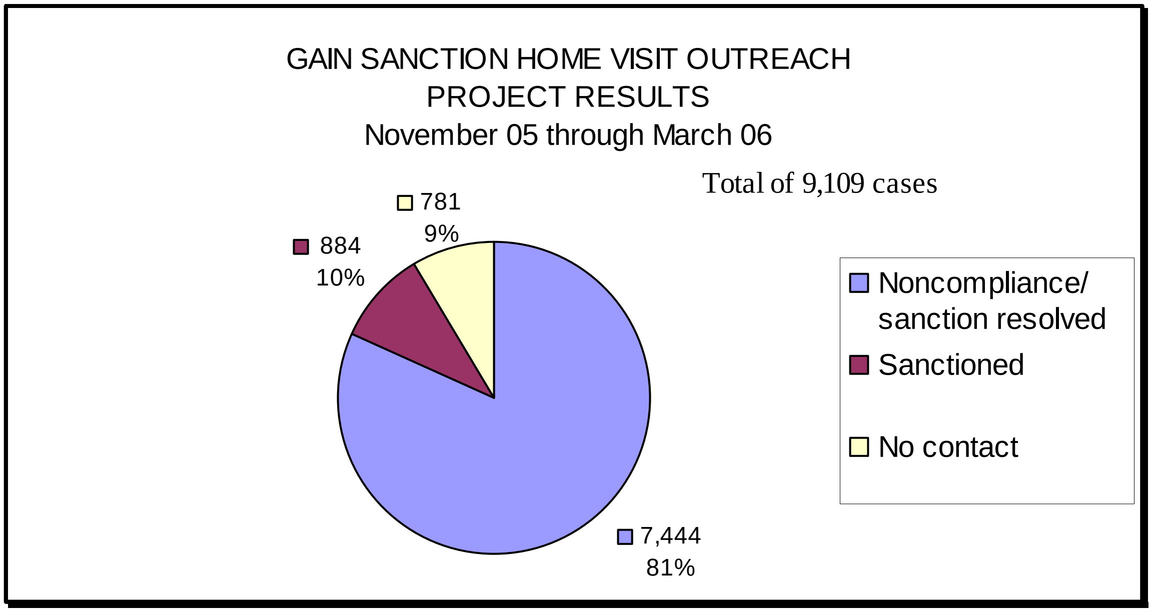
1. Clients at risk of sanction are mailed a letter advising them that a home visit has been scheduled, and that they may call the special caseworker to resolve the situation or reschedule the visit.

2. The special caseworker calls the client the day before the home visit, to see if the situation can be resolved over the phone.

3. If there is no response to the letter or telephone call, the caseworker visits the client's home to try to contact the client, resolve the situation, and engage the client in WTW activities.

Home visits are not scheduled for clients when domestic violence issues have been disclosed.

The results of the GSHVO Project have been very positive – over 9,100 clients have been served through this project, and 81 percent of those clients have resolved their noncompliance/sanction issues. In addition, the total number of new sanctions imposed in the county has declined in February and March 2006.



The chart above identifies the outcome for those clients who have been served by the project since it was implemented countywide, but does not include pending cases where there is no outcome yet. For example, clients who have been sent a letter, but have not yet received a home call are not included in the data.

NEW SANCTIONS IMPOSED			
Month/Year	**1st Sanction**	**Subsequent**	**Totals**
October 2005	1,336	683	2,019
November 2005	1,350	760	2,110
December 2005	1,359	702	2,061
January 2006	1,411	712	2,123
February 2006	1,120	609	1,729
March 2006	981	634	1,615

The chart above shows the number of sanctions imposed each month. The project does not currently include participants who are facing a second or subsequent sanction, so the impact of the project is only on newly-imposed first sanctions. The drop in new sanctions reflects the impact of the project, but the County anticipates the impact to be even greater once they have staffed-up to the point that no one in LA County receives a first sanction without being served through the project.

LOS ANGELES COUNTY
GAIN SANCTION HOME VISIT OUTREACH PROJECT
NOVEMBER 2005 THROUGH MARCH 2006
APRIL 2006

CASES ASSIGNED TO PROJECT		
Month/Year	Cases	Percentage
November 2005	752	6.2%
December 2005	2,016	16.6%
January 2006	2,631	21.6%
February 2006	3,236	26.6%
March 2006	3,525	29.0%
Totals	**12,160**	100.0%

PERCENTAGE OF CASES IN GSHVO CATEGORIES - LAST 3 MONTHS			
	Noncompliance	Pending sanction	1st sanction
January 2006	83.9%	2.5%	13.6%
February 2006	86.9%	3.7%	9.4%
March 2006	89.6%	2.7%	7.7%

TOTAL CASES AND DISPOSITION OF CASES		
	Cases	Percentage
Resolved before contact	3,755	30.9%
Resolved by telephone contact as a result of letter	3,859	31.7%
Resolved by home visit	714	5.9%
Total resolved cases	8,328	68.5%
Pending cases (letters, phone calls and home visits*	3,051	25.1%
Unresolved cases - pt. not home or incorrect address*	781	6.4%
Totals	**12,160**	**100.0%**

* These cases could lead to sanctions.

RESULTS OF RESOLVED CASES		
	Cases	Percentage
Participation/agreement to participate	2,473	29.7%
Good cause	2,050	24.6%
Exemption	968	11.6%
Opted for sanction	884	10.6%
Employment	553	6.6%
Homeless	540	6.5%
Agency error	456	5.5%
Cash Aid terminated	323	3.9%
Other	81	1.0%
Totals	**8,328**	100.0%

Other Examples of Innovative County Welfare-To-Work Programs

- The "Limited English Proficient (LEP) Education and Training Program," developed in Los Angeles County, couples intensive English language immersion with specific vocational skills training in selected fields to help participants enter jobs with greater opportunities for wage advancement. The training programs focus on local labor market needs and are often linked directly to the needs of specific employers.

- "Work Plus," a unique program in Riverside County for working CalWORKs clients, focuses on promoting self-sufficiency by increasing earnings potential through participation in training and education. Program staff use creative methods to more effectively connect clients with existing training and education systems, such as community colleges, work force development programs, and vocational schools.

- The "Accelerated Skills in Industry Program," created in Stanislaus County, offers participants the opportunity to receive training in such industries as manufacturing, construction, automotive, and printing. This effort is a collaboration between multiple agencies, in which caseworkers work one-on-one with participants to strengthen basic education skills, provide targeted training and job retention services, and offer paid work experience and job development services for graduates.

- The "Pre-Construction Skills Training Program," a Stanislaus County innovation, provides participants with classroom instruction and hands-on work experience in one of the area's fastest growing industries. This effort is a multi-agency partnership with the Habitat For Humanity that educates participants in all phases of construction, while providing them with the supportive services -- such as child care, transportation, and ancillary assistance -- necessary to ensure successful completion of the program.

- The "Housing Investment Project's (HIP) Self-Sufficiency Program," developed in San Mateo County, provides housing and other supportive services to single parents trying to succeed in the workforce. Helping to stabilize housing for these families eliminates a tremendous impediment to success. Families can instead focus on locating, retaining and advancing in jobs, and completing education that will allow them to leave the welfare system.

- The Sacramento Works One Stop Career Center is a partnership between the Sacramento Employment and Training Agency (SETA), the Department of Human Assistance, the Los Rios Community College District, the Employment Development Department, the California Association of Employers, and local community-based organizations and employers. The Career Center coordinates a variety of programs, including job club/job search, the Rewards Program, and the Manufacturing Boot Camp. The Boot Camp is conducted by the California Association of Employers (CAE) and employers in the Sacramento area, and provides job seekers with hands-on, pre-employment skills training, much of which is transferable to other industries.

- "Fast Track to Work" is a Santa Cruz County partnership providing a full range of student services to CalWORKs participants, including specialized counseling, advocacy, early enrollment assistance, adaptation of Education Plans to meet Welfare-To-Work requirements, and classes in work readiness and financial literacy. The program is a model for how community colleges and county welfare agencies can work together to maximize educational access and retention for CalWORKs participants.

- The California Association for Microenterprise Opportunity (CAMEO) will describe self-employment programs and services provided to emerging microentrepeneurs: training and technical assistance, consulting, access to credit, and asset development. According to CAMEO, microenterprises are usually started with less than $35,000 and employ five or fewer people, yet "these small businesses are actually the greatest job generator during all business cycles."

Funding for County Operations

Counties note that the methodology used to fund CalWORKs no longer reflects actual program caseloads and costs. This has led to a program budget that is not reflective of funding needs or spending abilities across the 58 county CalWORKs programs. As shown in the table below, the Governor's Budget provides $79.3 million less in 2006-07 for county operations than the actual 2004-05 spending level. Budget reductions since 2000-01 have reduced county operations funding by $448 million annually. This includes $268 million not provided for cost of doing business increases, and $180 million direct cuts to CalWORKs county operations.

	2006-07 ALLOCATION PROPOSED		**2004-05 ACTUAL SPENDING**		**DIFFERENCE**
	Based on Gov's Budget		**Total Expenditures**		
CalWORKs SINGLE ALLOCATION					
Eligibility	$216.0	million	$478.1	million	($262.1)
Cal Learn	$26.4	million	$25.6	million	$0.8
Child Care	$483.3	million	$456.3	million	$27.0
Employment Services	$796.4	million	$641.4	million	$155.0
TOTAL	**$1,522.1**	**million**	**$1,601.4**	**million**	**($79.3)**

As a result of reduced single allocation funding:

- County staff for CalWORKs has been reduced. Staffing reductions between 2001-02 and 2003-04 ranged from .3 percent in Tehama County to 38.1 percent in Los Angeles County, according to a California Budget Project survey.

- Cuts since 1999-00 have impacted county staffing decisions differently, with some counties using attrition or shifting staff to other programs in order to accomplish staffing reductions, while other counties have laid workers off. Due to differences in caseload and priorities among counties, these cuts have impacted the various eligibility and employment services functions differently.

Budgeting Methodology for County Operations Funding: Prior to 2001-02, the state used the Proposed County Administrative Budget (PCAB) process to develop the annual budget for program operations in CalWORKs and other health and human service programs. The PCAB process required counties to project their needs for the coming year and scrutinized counties' assumptions in order to build the statewide CalWORKs budget. Funding increases to reflect the increased cost of doing business have been suspended since 2000-01. As a result of the lack of updated budget methodology, state budget staff have no basis for checking assumptions about the cost to implement program enhancements (such as the universal engagement and core/non-core requirements enacted as part of the 2004-05 budget) or the savings associated with program changes like quarterly reporting for CalWORKs clients.

The CWDA indicates that the budget for county operations no longer represents actual program funding needs and spending abilities across counties. Basing the CalWORKs budget on actual costs is necessary for counties to implement the basic program, as well as the policy and practice changes enacted in response to TANF reauthorization.

CWDA, the California State Association of Counties, and the Urban Counties Caucus have also requested that the Subcommittee adopt placeholder trailer bill language to fund the actual cost to counties to administer human services programs and Medi-Cal beginning in the 2007-08 budget. Funding for county human service programs has been frozen at the 2000-01 level (2001-02 for child welfare services). Since that time, actual county cost increases have not been funded – forcing counties to annually absorb more than $568 million (all funds) in increases in utilities, transportation health care, retirement, and salary increases.

DSS Issue 6: CalWORKs Design and Performance

Overall CalWORKs Design and Achievements

The Manpower Demonstration Research Corporation (MDRC) conducted a multi-year evaluation of the Minnesota Family Investment Project, with which California's CalWORKs program shares many characteristics. Some of the findings from the final MDRC report and a follow-up at six years after the project's implementation[3] include:

- The combination of financial incentives and work requirements led to "strikingly consistent" positive impacts on single-parent families, across a range of outcomes for children, families and adults. This includes a dramatic decline in domestic abuse, a modest increase in marriage rates and better performance in school with fewer behavioral problems for children. At the six-year mark, these improvements continued to be seen in the most disadvantaged families, in several subgroups of single-parent families and among children of long-term welfare recipients.

- Both single-parent and two-parent families saw increased earnings and reduced poverty as a result of the program, with the most positive and long-lasting gains for the most disadvantaged families. A higher percentage of families on the program began to combine work and welfare, rather than relying solely on public assistance.

- Financial incentives such as earned income disregards can lead to long-lasting increases in family income, and even temporary increases in income can benefit children over the long term. The MDRC also found that the positive effects on earnings and family income are largest and most sustained when financial incentives are combined with work requirements – as California's program does.

CalWORKs Program Achievements:

- Hundreds of thousands of families are working and off time-limited aid since 1995. More adults on aid are working, and they are earning more under CalWORKs.

- The use of Temporary Assistance for Needy Families (TANF) and state MOE funding outside of CalWORKs has saved the state $9.5 billion General Fund since 1996.

- CalWORKs encourages work and self-sufficiency while maintaining a safety net for low-income children

[3] Virginia Knox, Cynthia Miller & Lisa A. Gennetian (2000), "Reforming Welfare and Rewarding Work: A Summary of the Final Report on the Minnesota Family Investment Program," MDRC; Lisa A. Gennetian, Cynthia Miller & Jared Smith (2005), "Turning Welfare into a Work Support: Six-Year Impacts on Parents and Children from the Minnesota Family Investment Program," MDRC. Reports available at www.mdrc.org

Although California has a good design, it can be improved

Outcome Concerns:

1. Employment among CalWORKs families has begun to decline. 36.6% of aided non-exempt adults had earnings in 2004, compared to 38.3% in 2003. (Pay for Performance Measure #1)

2. The state's federal WPR is below the federal minimum of 50%, which may result in federal penalties. Current WPR is estimated at 23% for single parent cases, and 32% for two-parent cases. (Pay for Performance Measure #2)

3. Earnings among CalWORKs leavers are not significantly higher than current CalWORKs families, although that number is increasing. In 2004 only 16.2% of leavers had earnings 2.5 times higher than the mean earnings of current CalWORKs cases. (Pay for Performance Measure #3)

Family Earnings Measure	**2000**	**2001**	**2002**	**2003**	**2004**
CalWORKs Leavers with Earnings	60.8%	58.2%	53.6%	54.6%	53.9%
CalWORKs Leavers with Earnings equal or above 2.5 times the mean earnings of current CalWORKs families	13.1%	11.4%	12.7%	12.7%	16.2%

4. The number of families reaching the CalWORKs five-year time limit continues to grow. Caseload for the CalWORKs Safety Net category has grown from 5,000 families in January 2003 to 39,000 families in November 2005.

Factors Contributing to Outcome Concerns

The outcomes above are not due to a single factor within the CalWORKs program or its families. The outcomes are the result of a variety of program design and operation factors, demographics, and caseload characteristics. CalWORKs is a complex, multi-faceted, dynamic program. Different factors affect different counties and different families at different times.

Operational Factors:

- Insufficient outreach or case management, particularly for cases disengaged or at risk of sanction. Additional funding, combined with operational efficiencies, can help prevent sanctioned and disengaged clients.

- Case and data coordination problems between Eligibility, WTW, and Child Support staff within counties can lead to client frustration and disengagement, as well as inaccurate client records.

- Insufficient transportation and child care (particularly for infants, non-traditional work hours, or ill child) in some counties or areas reduce client participation.

- Data Collection Problems. The state needs better information about why clients are in particular case categories, how policy changes affect client engagement and participation, and how client characteristics and outcomes vary by county. Recent improvements in data reporting will allow the federal WPR for each county to be available on a monthly basis starting in July 2006. However, relatively little information is routinely available statewide or for each county about the reasons CalWORKs clients are in distinct case categories, such as Exempt, Good Cause, Sanctioned, Partially Participating, or the "other" category seen in some charts above.

  In addition, some clients who are working are not known by the county to be working. These clients could help the state meet its work participation rate if that information could be collected and documented.

Design Factors:

- Prior to the Deficit Reduction Act, there was a lack of incentive for state and county performance improvement.

- The CalWORKs earned income disregard may phase out too soon, and may not provide enough incentive for clients to increase their hours to 30/35 hours per week.

- Families with shared housing or other housing support have a reduced incentive to cure their sanctions.

Caseload/Family Dynamic Factors:

- Parents (especially mothers) want to be with their children, especially young children. In addition, low-wage jobs provide little incentive for parents to justify being away from their kids and working long hours.

- Generational poverty and environmental factors such as lack of role models or mentors lead to increased likelihood of receiving aid among young adults raised in families on aid or in foster care.

- Lack of economic opportunity in some communities.

- Low education level is a significant barrier to better employment and higher earnings (40% of aided adults do not have a HS diploma or GED).

- Client barriers: Substance abuse, depression, disability, domestic violence, homelessness – some families with multiple barriers are just hanging on, and can't begin to meet participation requirements until they have resolved some of these issues. However, many clients with multiple barriers persevere and become self-sufficient, though some may need additional services and time to do so.

- A larger proportion of CalWORKs families have more barriers and are harder to reach since the 1995-2001 caseload decline. More of the clients in the program are those with the most barriers, and the least success and self-confidence in their ability to be self-sufficient.

- Some refugees have very low education, communication, and life skills. Fresno County, for example, received a large number of Hmong refugees in the summer/fall of 2005. Some of these refugees are struggling to integrate into the community, and lack basic life skills, let alone job skills. For example, many do not read/write in their own language, do not speak English, need orientation on how to use public transit, and are not "job ready."

Special Focus: Child Care Concerns and Needs for CalWORKs Clients

Child care plays a key role in supporting client participation in Welfare-to-Work activities – the availability of quality care affects parents' decisions and abilities to participate in WTW. For example:

- Clients may need assistance with short-term or one-day child care while attending orientations and other short-term WTW activities.

- Many CalWORKs clients have complicated work and commute schedules and work during non-traditional hours, when child care is difficult to find.

- The shortage of infant care and of ethnic and linguistically diverse care can discourage some clients from participating in WTW programs.

A quality child care program near a client's home or work can make a tremendous difference in the ability of the client to stay employed or in school, and can help them achieve self-sufficiency.

As more CalWORKs parents participate in WTW activities, both the number of child care providers (licensed and licensed-exempt) and the hours of child care provided will need to increase. Most child care funding for CalWORKs families is included in the California Department of Education (CDE) budget, which is heard in Budget Subcommittee No. 1. Key issues in the CDE budget for child care include:

- **State Median Income (SMI):** The SMI used for the purpose of determining eligibility and fees for subsidized child care has not been updated since 2000 when it was set at $2,925 per month for a family of three based on 1998 California income data. Although state law requires that the SMI be updated annually this has not happened. Over the last five years the income eligibility limits have been frozen either administratively or through the state budget.

The income limit for subsidized child care eligibility was originally set at 75 percent of SMI, but due to the freeze it is now effectively at 57 percent of the state median income. As CalWORKs families increase their income through work, their grants decline and are eventually terminated, though they remain eligible for subsidized child care until their incomes reach the income limit. **Concerns have been raised that the lower income limit may result in some families "incoming out" of subsidized child care before they are able to achieve long-term self-sufficiency.**

- **Regional Market Rate (RMR):** The 2002-03 Budget Act directed CDE and DSS to develop a new methodology to be used for an updated RMR survey designed to reimburse child care voucher providers (including license-exempt providers) serving children on subsidized child care. The new methodology was supposed to address problems in the previous RMR surveys. **Advocates have expressed concern that the zip code clusters used in the new reimbursement rates resulted in a disproportionate disadvantage to child care providers and the children they care for in lower-income communities and communities of color.** The Administration is still considering what action to take on this issue.

- **Title 5 Child Care Providers:** These providers contract directly with CDE to provide high-quality child care and preschool. Title 5 providers include certain Family Child Care Homes (FCCHs) and child care centers, including preschool. The Standard Reimbursement Rate (SRR) is the maximum daily per-child payment earned by subsidized child care center-based programs. The SRR for 2005-06 is $30.04. Title 5 providers have the highest standards in terms of staff ratios and education requirements and measuring children's progress using the CDE's Desired Results system. From 1975-2000, Title 5 centers received either no COLA or a COLA that was substantially less than the increase in the cost of living. Concerns have been raised that the low reimbursement rates limit the number of Title 5 providers. CDE notes that 33 of 825 providers have recently relinquished their contracts with CDE, due to the low reimbursement rates. **The reduction in Title 5 providers may make it difficult for the state to have a sufficient number of licensed providers in the context of the need for increased CalWORKs client participation.**

- **Trustline:** Trustline is a background check clearance database for individual child care providers. Trustline registration is required for CalWORKs State One child care providers. **Concerns have been raised about the need to reduce applicant processing time through Trustline.**

Issue 7: CalWORKs Improvement Efforts and Options

Current Improvement Efforts for CalWORKs

- **DSS Visits to Counties:** In response to the limited results of 1104 and the TANF changes in the Deficit Reduction Act, DSS, in conjunction with CWDA, conducted a series of site visits to six county CalWORKs programs in April. The visits included discussions with management and line staff to identify current and best practices, as well as case file reviews. The results are not yet available.

- **Stakeholders Workgroup:** DSS is hosting an ongoing workgroup for CalWORKs stakeholders to discuss options to respond to the TANF changes in the Deficit Reduction Act. The first meeting was April 21st. Four subgroups are currently meeting, and the full group will reconvene on May 5th.

    - SubGroup One: Funding Options
    - SubGroup Two: Program Changes to Increase Engagement
    - SubGroup Three: Sanctions/Non-compliance
    - SubGroup Four: Data Collection/Verification

- **Cost Estimates for Some Options:** The department is currently preparing caseload and cost estimates for some of the options listed below.

- **CWDA Data Reports and Recommendations:** Counties undertook a series of efforts to develop a report containing basic, current information about the program and recommendations for policymakers. Their efforts have included:

    - Collecting, reviewing, and analyzing selected county data and other research on CalWORKs participation, recipient characteristics and sanctions.

    - Surveying counties, including counties chosen for sustained high performance relative to their peers as well as counties that volunteered to participate, regarding their participation reporting practices and promising engagement strategies.

    - Joint efforts with DSS to visit several county Welfare-to-Work programs and identify potential best practices for improving engagement and participation.

    - Developing policy and practice recommendations aimed at increasing participation in CalWORKs Welfare-to-Work activities and increasing the level of engagement among non-participating recipients, in a manner that is consistent with the core elements of the CalWORKs program.

CalWORKs Improvement Options

1. **Management and Data Improvement Options:**

a) **Best Practices:** DSS and counties must jointly identify and share best practices to improve client engagement and participation, case coordination, and data coordination and accuracy. Improving the initial appraisal and orientation process is particularly important for engaging new cases. In addition, smaller counties and those in more remote areas may need assistance in developing community resources that offer a wider variety of work and work-related activities. Counties should also consider ways to recognize and encourage clients who are close to or meeting federal requirements.

b) **CalWORKs Steering Committee:** Reconstitute the CalWORKs steering committee established in 1997, to review ongoing CalWORKs improvement efforts and federal TANF changes, and make recommendations for statewide policy changes as needed.

c) **Master Plan for CalWORKs Data Needs:** The state needs a long-term strategy to improve CalWORKs data collection and reporting, to develop more detailed information on how, when, and why clients are or are not meeting federal participation requirements. This strategy could incorporate new data fields that are available on automation systems that have recently been implemented: CalWIN and C-IV. Note that this option was recommended by the LAO in 2003-04.

d) **Improve the Federal WPR Calculation Process:** Counties use a survey process known as the "Q5" to measure federal participation rates. Improvement of this process should be considered on an expedited basis, to ensure that all clients that are meeting the federal requirements are included in the state's WPR.

e) **Improve Documentation and Verification:** Counties and the state must continue efforts to ensure that all participation hours are properly documented and captured. In addition, the state and counties must be ready to modify verification and reporting processes in response to the federal regulations to be issued on June 30, 2006. The department has suggested that part of its stakeholder workgroup process will be to prepare a team to respond quickly when the regulations are issued. The new regulations must be implemented by October 1, 2006.

Additional funding for automation system changes may be needed on an expedited basis to comply with the federal regulations. The Subcommittee may wish to include additional funding and Budget Bill Language in the 2006-07 budget for automation changes.

2. **Policy and Practice Change Options:** Some options would require budget and statutory changes, and others could be implemented administratively or as needed in certain counties. Note that overall, early engagement is a key strategy to increase participation.

   a) **Reinstate Pay for Performance:** Reinstate the Pay for Performance program, and consider adding new measures as needed. "What gets measured gets done."

   b) **Restore TANF/MOE for Case Management and Employment Services:** This funding is needed to maintain current participation rates, since the state's WPR has been *declining* since 2000. This restoration could be funded with TANF shifted back from Child Welfare Services, Foster Care, and KinGAP.

   c) **Improve the County Funding Process:** Amend the annual budget development process for county operations to reflect actual program funding needs, similar to the previous PCAB process. In addition, amend the current year county funding adjustment process to improve the accuracy of budget estimates of TANF/MOE expenditures. Both the annual budget development process and the current year adjustment process could allow counties to be confident they have the resources they need to increase the WPR, and the state to be confident that resources are being used effectively.

   d) **Require Counties to Backfill Penalty Pass-Through:** Current state law provides that counties are responsible for up to 50 percent of the federal penalty, although state law also provides that counties may be provided relief if the department determines that there were circumstances beyond the county's control. Current statute may not require counties to backfill the penalty amount with county resources, so allocating the penalty to counties may effectively reduce funding for local CalWORKs programs, if counties choose not to backfill the penalty. State law could be amended to require counties to backfill any passed-through federal penalty.

   e) **Increase Client Participation in Vocational Education:** Federal law permits 15 percent of the 50 percent WPR (net 7.5 percent of cases) to be met through vocational education. However, only 3.5 percent of CalWORKs participants are in vocational education, compared to 4.9 percent nationally.

   f) **Restore Community College CalWORKs Funding:** Approximately 40,000 CalWORKs clients are community college students, though only a small portion are in work-study, due to funding reductions in 2002-03. Increasing the funding for work-study would open up new job opportunities for CalWORKs clients, and allow them to work closer to where they attend school. An additional option is to provide funding for short-term curriculum development, for programs such as vocational English as a Second Language. A study by CLASP of CalWORKs participants in community college programs showed that the more education a CalWORKs student obtained in community college, the greater their increase in earnings from before they entered college. Annual MOE funding for community colleges has been $34.6 million since 2002-03, but was previously $65 million in 2000-01 and 2001-02.

g) **Shift Employment Training Fund (ETF) Resources to the Employment Training Panel (ETP):** Some or all of the ETF resources currently used to support county employment services for CalWORKs could be shifted back to the ETP, which would provide employment training for CalWORKs clients. The ETP indicates this funding would be used to provide training for CalWORKs clients for pre-apprenticeship positions in construction, and entry-level positions in health care, hospitality, and other industries. ETF funding has been shifted to the DSS CalWORKs budget for a number of years to support CalWORKs employment training. The Governor's Budget proposed a total of $33 million ETF be shifted to DSS in 2006-07.

h) **Expand the use of the Family Violence Option (FVO):** Under the FVO, states can waive work requirements for families with domestic violence experience, and reduce federal penalties attributable to the domestic violence waivers granted to families. Though serious incidents of domestic violence impact a quarter of the families, less than 400 clients are granted waivers in any month.

i) **Ensure that reasonable accommodation is provided in WTW activities for clients with disabilities:** This option can help reduce client frustration and improve engagement in WTW activities. For example, a person with a learning disability could be able to count study hours and attend vocational education for more than 12 months if they are needed to accommodate the disability.

j) **Make WTW Orientation a Condition of Eligibility:** Early engagement is a key strategy to increase participation. Implementation of this option would require operational and facility changes in some counties to collocate more staff and services. Requiring an orientation so quickly may increase initial engagement for some families, though it may also delay aid to families in crisis.

k) **Bridging Activities for Waiting Clients:** Encourage clients waiting for training or education programs to participate in "bridging" welfare to work activities until their other programs begin. This may help those clients meet federal requirements sooner than they would otherwise.

l) **Offer Partial Exemption for Certain Single Parents with Child Under 6:** Single parents with a child under age 6 who meet certain hardship criteria could be offered a partial state exemption to require only 20 hours of participation, to encourage them to participate 20 hours per week and meet the federal requirements. Over 5,000 single parents with a child under 6 are currently participating 10-19 hours per week.

m) **Increase Engagement Before Sanction:** Call clients, send letters, and make home visits before applying sanctions, similar to the Los Angeles County Home Visit project.

n) **Increase Engagement at Redetermination for Sanctioned Cases:** Use the annual redetermination meeting as an opportunity to encourage participation and identify client needs and barriers, eligibility for exemption, potential fraud, child welfare concerns, and other issues.

o) **Sanction Amnesty or Earn Back Program:** Enable sanctioned families who come back into compliance during a specific time period to "earn back" some or all of their sanction over time through continued satisfactory participation, as a means to encourage ongoing participation.

p) Encourage or require families sanctioned for six months to pick up their grant check in person and meet with caseworker.

q) **Increase Earned Income Disregard:** The earned income disregard could be increased to a flat 67 percent of earnings, with 100 percent of income up to $100 per month disregarded. This option would result in additional grant costs, and would keep families in the CalWORKs program longer and continue to "tick" their 60-month aid clocks. However, this option would increase the incentive for families to increase their employment hours, particularly for clients working some hours but not enough hours to meet the federal WPR requirements.

3. **TANF/MOE Funding Changes:** Includes options to add-in and take-out cases from CalWORKs and/or TANF/MOE.

a) **Assistance for the Working Poor (Add-In):** Provide a small monthly "work allowance" grant ($25 - $100) to employed families not currently in CalWORKs. Eligibility for this grant could include former CalWORKs families who are working, or all working low-income families who apply for the grant.

b) **Allow More Working Two-Parent Families into CalWORKs (Add-In):** This option would eliminate the "100 Hour Rule" for two-parent working families. Two parent applicants are currently ineligible for CalWORKs if one of the adults in the family worked more than 100 hours in the previous month, irrespective of the amount they received. Because these families are working, they can more quickly meet the 35 hour participation requirement. The cost of this proposal is unknown, but the department indicates it would be significant.

c) **Move Two Parent Families Out of CalWORKs Funding (Take-Out):** Use non-MOE General Fund for the grant costs of Two-Parent families that are not meeting the WPR (or all Two-Parent families). By funding their grant costs outside of TANF/MOE funds, these families would be removed from the numerator and the denominator of the WPR. Federal law requires states to achieve a 90 percent participation rate for two-parent families, and provides a penalty for non-compliance.

d) **Shift TANF/MOE Funds out of KinGAP and Child Welfare/Foster Care Emergency Assistance:** In recent years the amount of TANF/MOE funding used for KinGAP and the Child Welfare/Foster Care Emergency Assistance programs has increased to $300 million annually. However, at this point it may be more appropriate to fund all or part of these programs with non-MOE General Fund, and use the TANF/MOE for CalWORKs to help increase the work participation rate. Families in these programs are not factored into the WPR, although they are included in the caseload reduction credit calculation. Removing these families from TANF/MOE funding would increase the state's caseload reduction credit.

e) **Create a State-only CalWORKs Program for Key Client Groups (Take-Out):** This option would use non-MOE General Fund to fund grant costs for certain client groups that generally do not meet the federal participation requirements, and would otherwise be included in the denominator but not the numerator of the WPR. Additional MOE-eligible expenditures would be counted in place of the MOE costs shifted to the General Fund, for no net General Fund impact. These shifts might also increase the state's caseload reduction credit. Suggested client groups include:

i. Disabled parents, parents caring for a disabled family member, and other adults who are exempt from WTW under state law but not exempt under federal law.
ii. Parents and relative caregivers who are engaged in mental health, substance abuse, or domestic violence services.
iii. CalWORKs applicants in the month of application and the month in which they are approved for assistance.

Issue 8: Index of CalWORKs Background Topics and Materials

Index of CalWORKs Background Materials

Work Participation Rate

California's Work Participation Rate

All Families Work Participation	FFY 1997	FFY 1998	FFY 1999	FFY 2000	FFY 2001	FFY 2002	FFY 2003	FFY 2004	FFY 2005*
Required Participation Rate	25.00%	30.00%	35.00%	40.00%	45.00%	50.00%	50.00%	50.00%	50.00%
Caseload Reduction Credit	5.50%	12.20%	26.50%	32.10%	38.60%	43.30%	44.20%	46.10%	44.90%
Adjusted Participation Rate	19.50%	17.80%	8.50%	7.90%	6.40%	6.70%	5.80%	3.90%	5.10%
California's Work Participation Rate	29.70%	36.60%	42.20%	27.50%	25.90%	27.30%	24.00%	23.10%	23.90%

* Preliminary Caseload Reduction Credit and Work Participation Rate

TANF Participation by Case Type (Based on FFY 2004)

CalWORKs Caseload Category	Number of Cases	Percent of Total Cases	In Proposed WPR?
Caseload Required to Meet Federal Participation Rate:			
Single Parent Cases (per federal definition)	193,360		Yes
Two Parent Cases (per federal definition)	36,579		Yes
All Families Required To Participate (Federal Denominator)	**229,939**	45.9%	
Cases Exempt from Federal Participation Rate (Single Custodial Parent with Child Under One Year of Age)	18,982	3.8%	
Cases with Unaided Adults:			
Safety Net	28,000	5.6%	Unknown
Child Only	169,338	33.8%	Unknown
Sanction	54,557	10.9%	Likely
TOTAL CALWORKS CASELOAD	**500,816**		
	Number of Cases	**Percent of Cases Included in Federal WPR**	**In Proposed WPR?**
Breakdown of All Families Required to Participate:			
Meet Federal Participation Rate	57,526	25.0%	Yes
Participating in Federal Activities, But Not Meeting Federal Participation Rate	38,583	16.8%	Yes
Exempt (Per state CalWORKs provisions) – Less Cases with Single Custodial Parent with Child Under Age One	35,818	15.6%	Yes
Non-Compliant (CalWORKs)	24,123	10.5%	Yes
On Aid Less Than 60 Days	21,750	9.5%	Yes
"Other" (Not participating at all or participating only in non-federally allowable activities)	52,139	22.7%	Yes
TOTAL CASES	**229,939**		

Comparison of the Federal and State Work Activities

<table>
<tr><th>Current Federal TANF Work Activities Requirement</th><th>Current State CalWORKs Work Activities Requirement</th></tr>
<tr><td>

The Federal participation requirement for "all families" is 30 hours of work activities per week, 20 hours of which must be spent in "core" work activities. After the 20-hour requirement has been met, the remaining 10 hours may be spent in "non-core" activities. However, single parents with a child under six, and up to 30% of teen parents participating in activities 13 and 14 below, meet the federal participation requirement by participating 20 hours per week.*

<u>CORE ACTIVITIES</u>

1) Unsubsidized employment
2) Subsidized private-sector employment
3) Subsidized public-sector employment
4) Work experience (if sufficient private sector employment is not available)
5) On-the-job training
6) Job search and job readiness assistance
   - Maximum of 6 weeks may be counted in any fiscal year
   - Maximum of 4 consecutive weeks in any fiscal year per individual
   - Not more than once during a fiscal year, a county may count three or four days of job search and job readiness assistance during a week as a full week of participation
7) Community service programs
8) Vocational educational training (twelve-month lifetime total)
9) Providing child care services to an individual who is participating in a community service program

<u>NON-CORE ACTIVITIES</u>

12) Job skills training directly related to employment
13) Education directly related to employment (for individuals with no high school diploma or certificate of high school equivalency)
14) Satisfactory attendance at a secondary school or in a course of study leading to certificate of general equivalence

*** The federal participation requirements for two-parent families is 35 hours of work activities per week, 30 hours of which must be spent in "core" work activities. However, up to 30% of teen parents participating in activities 13 and14 above meet the federal participation requirement by participating 20 hours per week.**

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The State participation requirement for "all families" (adult in a one-parent assistance unit) is 32 hours of work activities per week, 20 hours of which must be spent in "core" work activities. The remaining 12 hours may be spent in "non-core" activities.*

<u>CORE ACTIVITIES</u>

1) Unsubsidized employment
2) Subsidized private-sector employment
3) Subsidized public-sector employment
4) Work experience (if sufficient private-sector employment is not available)
5) On-the-Job training
6) Grant-based on-the-job training
7) Supported work or transitional employment
8) Work study
9) Job search and job readiness assistance (generally, up to four consecutive weeks)
10) Community service programs
11) Self-employment
12) Vocational education and training (twelve-month lifetime total)

<u>NON-CORE ACTIVITIES</u>**

13) Adult basic education (welfare-to-work activity which includes instruction in reading, writing, arithmetic, high school proficiency, or general education development certificate instruction, and English-as-a-Second-Language)
14) Job skills training directly related to employment
15) Education directly related to employment
16) Satisfactory progress in a secondary school
17) Mental health, substance abuse, domestic violence services
18) Vocational education and training (post 12-months)
19) Other activities necessary to assist an individual in obtaining employment
20) Participation required by the school to ensure the child's attendance
21) Non-credited study time (at the county's option, and when specified in the county's CalWORKs plan, hours in this activity may be included in the WTW plan)

*** The State participation requirement for an adult in a two-parent assistance unit is 35 hours of work activities per week, 20 hours of which must be spent in "core" work activities. The remaining 15 hours may be spent in "non-core" activities.**

**** Under certain circumstances, some non-core activities may count toward the core-activity requirement.**

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Federal Work Participation Hours by All Family Participation Status
Source: 2004 Q5 Work Participation database (TANF/SSP Combined)[1/]

Federal Work Participation Hours (includes paid and unpaid hours)	Does NOT Meet Federal "All Family" Work Participation Requirements[2/]				Total	
	20 Hour Requirement: Single Custodial Parent Cases With Child<6		30 Hour Requirement: All Others			
	Cases	Percent	Cases	Percent	Cases	Percent
Cases NOT Meeting Federal WP	69,215	100.0%	103,198	100.0%	172,413	100.0%
0 hours[3/]	58,785	84.9%	75,045	72.7%	133,830	77.6%
1-9 hours	3,326	4.8%	4,769	4.6%	8,095	4.7%
10-19 hours	5,563	8.0%	10,254	9.9%	15,817	9.2%
20-29 hours[4/]	357	0.5%	12,401	12.0%	12,758	7.4%
30 or more hours[4/]	1,184	1.7%	730	0.7%	1,913	1.1%
					38,583	0

Federal Work Participation Hours (includes paid and unpaid hours)	Meets Federal "All Family" Work Participation Requirements[2/]				Total	
	20 Hour Requirement: Single Custodial Parent Cases With Child<6		30 Hour Requirement: All Others			
	Cases	Percent	Cases	Percent	Cases	Percent
Cases Meeting Federal WP	27,378	100.0%	30,148	100.0%	57,526	100.0%
0 hours	0	0.0%	0	0.0%	0	0.0%
1-9 hours	0	0.0%	0	0.0%	0	0.0%
10-19 hours	0	0.0%	0	0.0%	0	0.0%
20-29 hours[5/]	7,836	28.6%	73	0.2%	7,909	13.7%
30 or more hours	19,542	71.4%	30,075	99.8%	49,617	86.3%

[1/] Data includes combined TANF and SSP one and two parent cases (i.e., ties to projected 25% All Families Work Participation Rate).

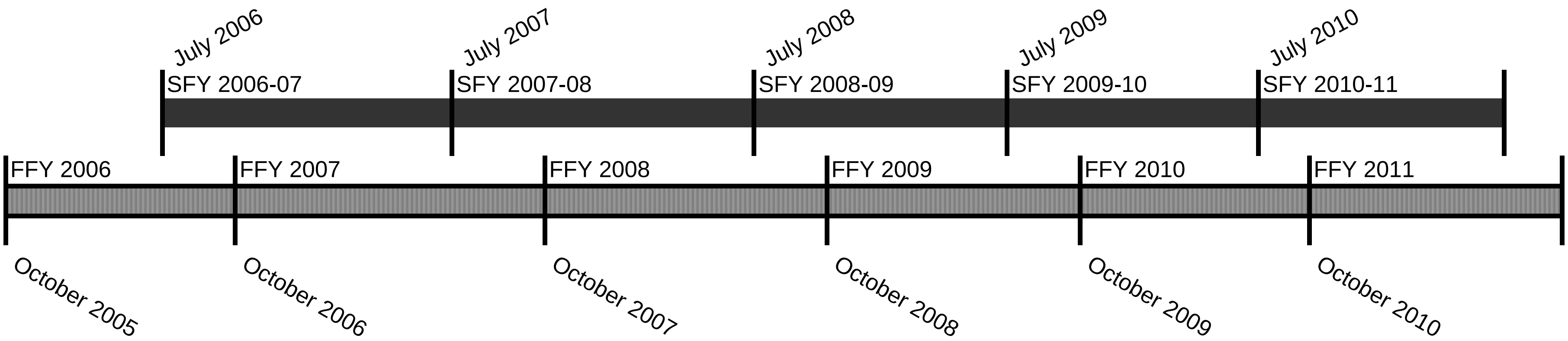
[2/] All Family work participation rules and requirements were used in the determination of "meeting" or "not meeting" the Federal Work Participation Requirements. Hourly requirements: Single Custodial Parent--20 hours; All Others--30 hours.

[3/] Of the 133,830 cases with no federal allowable work participation hours, approximately 1.5 percent are participating in state-allowable work activities.

[4/] Cases with over 20 hours of participation that are not meeting the work participation requirements participate in non-core activities (i.e., employment related training and school attendance) without sufficient core hours to 'count' towards the hourly participaton requirement.

[5/] The 73 "All Other" cases with 20-29 work participation hours that are meeting the federal requirement are cases with at least one teen parent who do not have a high school diploma etc.;is not a single custodial parent; and is participating in secondary school or education directly related to employment.

Federal Fiscal Year (FFY) and State Fiscal Year (SFY) Comparison



If California Does Not Meet Federal Work Participation Rate Requirements:

Measurement Year	**MOE Increase**	SFY Budget Impact	**Maximum TANF Penalty**	Payable FFY	Payable SFY
FFY 2007	$180 million GF	SFY 2009-10	$153 million GF	FFY 2009	SFY 2008-09
FFY 2008	$180 million GF	SFY 2010-11	$214 million GF	FFY 2010	SFY 2009-10
FFY 2009	$180 million GF	SFY 2011-12	$276 million GF	FFY 2011	SFY 2010-11
FFY 2010	$180 million GF	SFY 2012-13	$337 million GF	FFY 2012	SFY 2011-12
FFY 2011	$180 million GF	SFY 2013-14	$398 million GF	FFY 2013	SFY 2012-13

If California Does Not Meet Federal Work Participation Verification Requirements:

Measurement Year	**Minimum TANF Penalty**	**Maximum TANF Penalty**	Payable FFY	Payable SFY
FFY 2007	$31 million GF	$153 million GF	FFY 2009	SFY 2008-09
FFY 2008	$31 million GF	$153 million GF	FFY 2010	SFY 2009-10
FFY 2009	$31 million GF	$153 million GF	FFY 2011	SFY 2010-11
FFY 2010	$31 million GF	$153 million GF	FFY 2012	SFY 2011-12
FFY 2011	$31 million GF	$153 million GF	FFY 2013	SFY 2012-13

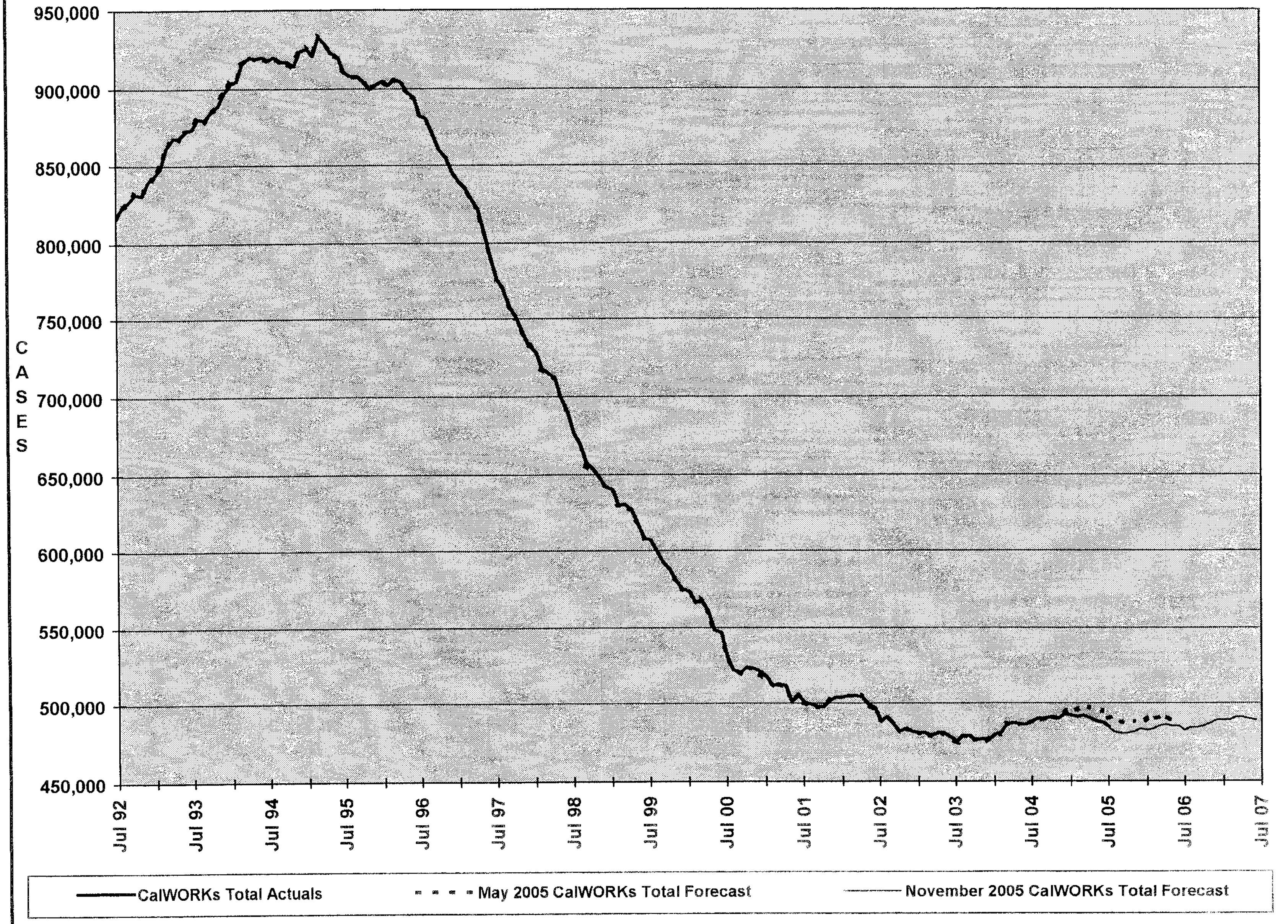
Note: Federal TANF Penalty amounts are calculated using TANF block grant less transfers to Title XX, Tribal TANF, and Child Care Development Fund. Figures above are based on Governor's Budget TANF transfers, which could change in May Revision or the Budget Act.

ACF 202 - FFY 2006
Attachment G
Caseload Reduction Credit

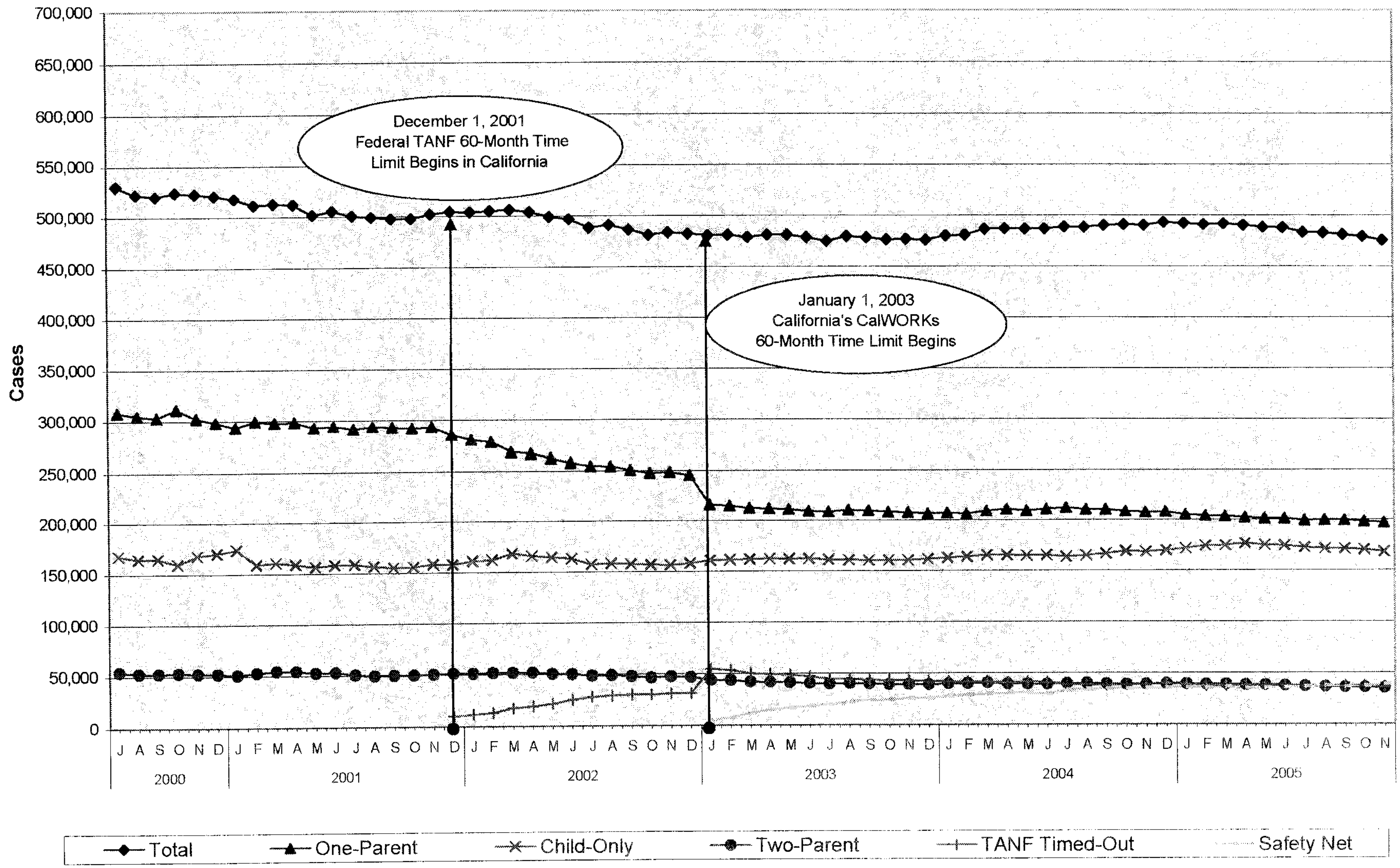
	2 Parent	Zero Parent	All Other	Timed Out	Safety Net	CalWORKs Subtotal	CalWORKs EA Foster Care	EA/GA CWS	Kin-GAP	Total	FFY 1995 Caseload	Caseload Decline	Caseload Reduction Credit
Oct-04	39,266	168,879	208,677	38,648	35,276	490,746	3,703	27	14,618	509,094			
Nov-04	39,375	168,388	208,003	38,978	35,427	490,171	3,350	30	14,612	508,163			
Dec-04	39,912	169,724	208,163	39,585	35,670	493,054	3,372	36	14,713	511,175			
Jan-05	39,627	171,563	205,380	39,316	35,887	491,773	3,167	18	14,741	509,699			
Feb-05	39,157	174,089	204,175	37,721	35,643	490,785	2,687	20	14,869	508,361			
Mar-05	39,132	174,630	203,625	37,905	36,400	491,692	3,431	20	14,810	509,953			
Apr-05	38,377	176,743	202,587	37,715	34,862	490,284	3,476	25	14,717	508,502			
May-05	38,250	174,877	201,562	38,127	35,525	488,341	3,429	25	14,753	506,548			
Jun-05	37,787	174,470	201,411	38,128	35,950	487,746	3,087	21	14,680	505,534			
Jul-05	37,019	172,394	199,314	37,681	36,881	483,289	3,023	0	14,329	500,641			
Aug-05	36,651	171,366	199,781	37,578	37,510	482,886	3,468	0	14,859	501,213			
Sep-05	36,207	171,127	199,775	37,309	36,623	481,041	3,403	0	14,630	499,074			
Total	460,760	2,068,250	2,442,453	458,691	431,654	5,861,808	39,596	222	176,331	6,077,957			
12 Month Average						488,484				506,496	919,471	412,975	44.9%

Caseload Trends

CALIFORNIA WORK OPPORTUNITY AND RESPONSIBILITY TO KIDS (CalWORKs) TOTAL TREND FORECAST, NOVEMBER 2005 SUBVENTION



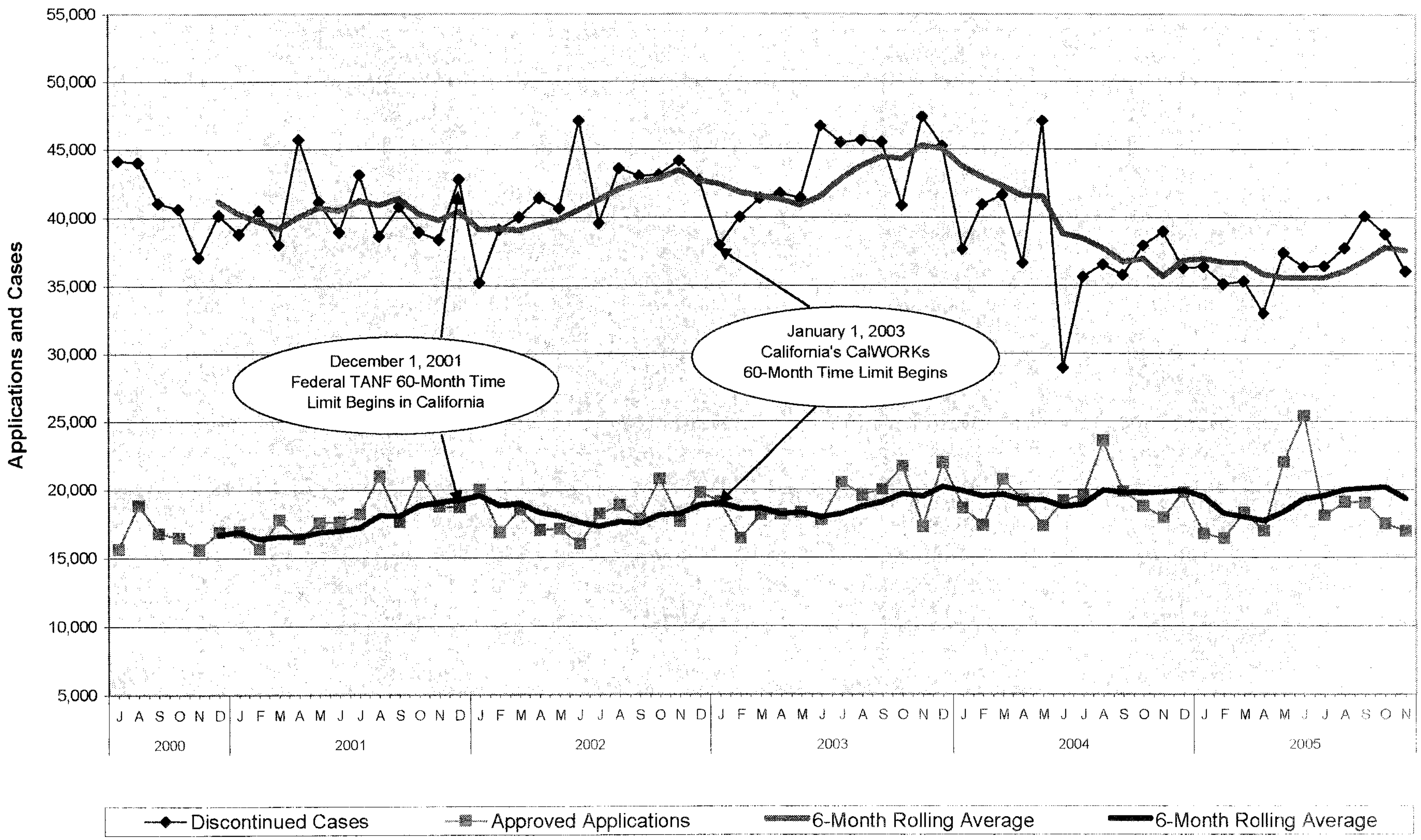
CalWORKs Program
Caseload by Category
July 2000 - November 2005



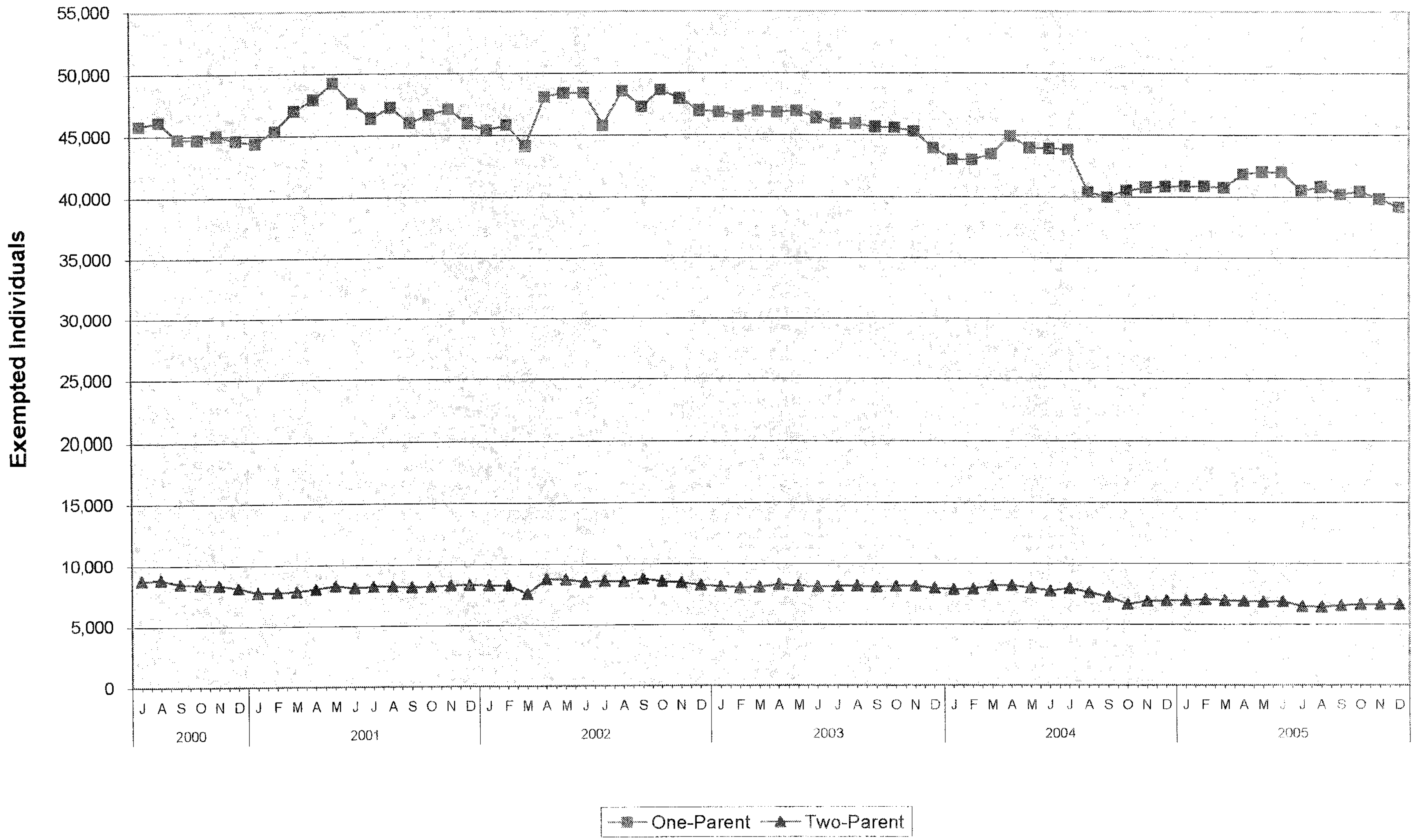
Source: CA 237 CW

Released: February 10, 2006

CalWORKs Program
Discontinued Cases and Approved Applications
July 2000 - November 2005



CalWORKs Welfare-to-Work Program
Two-Parent and One-Parent[a/] Exemptions
July 2000 - December 2005[b/]



a/ One-Parent also known as All Other
b/ Prior month data: Alameda (12/05), Siskiyou (12/05), Sonoma (9/05-12/05)

Source: WTW 25 and WTW 25A

Released: February 14, 2006

Statewide Sanction Rates
For the period beginning January 1, 2005 through December 31, 2005

	1-Parent AU Percentage of individuals in sanction	**2-Parent AU** Percentage of individuals in sanction	**1-Parent and 2-Parent AU** Percentage of individuals in sanction
Statewide	**23.17%**	**18.08%**	**21.91%**
Alameda	15.06%	14.49%	14.94%
Alpine	37.50%	14.93%	19.28%
Amador	24.07%	24.87%	24.23%
Butte	12.91%	7.80%	11.32%
Calaveras	24.52%	21.44%	23.76%
Colusa	36.00%	22.01%	33.48%
Contra Costa	24.71%	16.85%	23.39%
Del Norte	5.34%	5.23%	5.31%
El Dorado	14.74%	8.79%	13.38%
Fresno	33.03%	34.89%	33.67%
Glenn	29.11%	12.34%	24.51%
Humboldt	29.62%	19.40%	26.73%
Imperial	20.90%	17.10%	20.02%
Inyo	22.13%	39.46%	26.77%
Kern	22.27%	15.16%	20.41%
Kings	25.16%	21.21%	24.10%
Lake	26.55%	19.84%	24.54%
Lassen	20.00%	10.07%	17.29%
Los Angeles	31.51%	25.41%	30.20%
Madera	18.49%	15.22%	17.60%
Marin	29.23%	24.31%	28.42%
Mariposa	15.20%	15.74%	15.37%
Mendocino	20.59%	25.08%	22.00%
Merced	23.86%	15.89%	21.24%
Modoc	4.11%	0.00%	4.03%
Mono	8.33%	9.33%	8.55%
Monterey	28.53%	29.38%	28.71%
Napa	29.14%	22.87%	28.13%
Nevada	22.75%	14.78%	21.12%
Orange	19.10%	7.23%	15.63%
Placer	3.35%	5.62%	3.86%
Plumas	34.83%	20.89%	32.12%
Riverside	19.55%	24.14%	20.24%
Sacramento	1.46%	0.57%	1.16%
San Benito	13.50%	7.35%	12.03%
San Bernardino	18.62%	15.06%	17.97%
San Diego	31.04%	16.34%	27.74%
San Francisco	15.51%	9.71%	13.96%

Statewide Sanction Rates
For the period beginning January 1, 2005 through December 31, 2005

	1-Parent AU Percentage of individuals in sanction	**2-Parent AU** Percentage of individuals in sanction	**1-Parent and 2-Parent AU** Percentage of individuals in sanction
Statewide	**23.17%**	**18.08%**	**21.91%**
San Joaquin	20.80%	15.58%	19.41%
San Luis Obispo	24.07%	17.03%	22.43%
San Mateo	16.40%	7.51%	14.55%
Santa Barbara	15.05%	14.98%	15.03%
Santa Clara	17.49%	10.08%	15.26%
Santa Cruz **(a)**	11.27%	8.21%	10.72%
Shasta	34.93%	28.28%	33.08%
Sierra	1.26%	11.46%	5.10%
Siskiyou	15.50%	17.15%	16.01%
Solano	4.03%	4.69%	4.18%
Sonoma	31.81%	32.90%	32.02%
Stanislaus	20.08%	14.04%	18.36%
Sutter	24.90%	20.25%	23.61%
Tehama	28.01%	17.71%	24.99%
Trinity	25.33%	21.60%	23.79%
Tulare	11.07%	9.04%	10.34%
Tuolumne	18.00%	10.65%	16.01%
Ventura	14.21%	11.92%	13.84%
Yolo	11.65%	6.55%	9.76%
Yuba	19.53%	9.60%	16.39%

(a) missing data for June 2005

Total Enrollees = the total number of individuals who were enrolled in the program, at any time, during the report month, including individuals who are in unsubsidized employment for the required number of hours, but who may not have signed a WTW plan as well as individuals not participating because of "good cause." This number includes individuals in noncompliance, but not those in sanction.

Percentage of individuals in sanction = individuals in sanction ÷ (total enrollees + individuals in sanction).

Data pulled from the WTW 25 & 25A reports for January 2005 through December 2005.

P4P Draft Measure #1, CalWORKs Cases with EDD Earnings Adjusted for WTW 25 Exempts and WTW 25/A Self Employed and Work Study

2003

	Cases w/ Adults	Exempt Adults WTW 25	Sanctions WTW 25	Adjusted Cases w/ Adults*	Cases w/ EDD Earnings	Self-Employed WTW 25/A	Work Study WTW 25/A	Adjusted Cases w/ EDD Earnings**	% w/ Earnings	Rank	Adjusted % w/ Earnings	Rank
Total	252,151	46,061	44,855	250,945	91,647	3,659	827	96,134	36.3%		38.3%	
Alameda	7,578	1,042	1,606	8,142	2,175	330	0	2,506	28.7%	53	30.8%	55
Alpine									27.3%	55	40.6%	31
Amador	114	60	18	72	40	5	0	44	34.7%	38	61.3%	2
Butte	1,807	449	388	1,746	668	24	45	737	37.0%	24	42.2%	28
Calaveras	176	74	50	153	66	4	0	69	37.4%	22	45.4%	18
Colusa	63	23	27	67	25	0	1	26	39.7%	13	38.7%	37
Contra Costa	3,655	637	677	3,694	1,213	50	29	1,291	33.2%	44	35.0%	48
Del Norte	418	82	14	350	111	7	0	118	26.6%	57	33.7%	51
El Dorado	455	145	39	349	161	20	1	182	35.4%	34	52.2%	3
Fresno	11,047	1,353	3,889	13,583	3,738	35	32	3,805	33.8%	40	28.0%	57
Glenn	192	50	44	186	81	1	1	82	42.0%	5	44.3%	22
Humboldt	848	233	280	895	256	9	6	270	30.2%	50	30.2%	56
Imperial	2,025	205	21	1,842	843	8	52	903	41.6%	6	49.0%	5
Inyo	47	16	4	35	15	10	0	25	32.4%	46	70.2%	1
Kern	6,574	2,233	1,873	6,214	2,407	100	35	2,542	36.6%	26	40.9%	30
Kings	1,169	202	272	1,238	399	6	3	408	34.1%	39	32.9%	53
Lake	703	249	173	626	251	2	8	260	35.7%	33	41.5%	29
Lassen	221	57	42	206	80	5	4	88	36.0%	27	43.0%	26
Los Angeles	105,481	15,820	18,602	108,263	36,782	1,046	0	37,829	34.9%	36	34.9%	49
Madera	1,367	251	210	1,326	502	17	12	530	36.7%	25	40.0%	32
Marin	344	133	77	288	123	5	2	131	35.8%	29	45.4%	19
Mariposa	93	21	21	92	33	9	1	42	35.7%	32	46.1%	17
Mendocino	669	225	150	594	239	20	1	259	35.7%	31	43.6%	24
Merced	3,207	1,365	1,524	3,366	1,220	43	33	1,296	38.0%	19	38.5%	38
Modoc	80	15	3	68	30	1	1	32	37.5%	21	46.4%	16
Mono	18	7	4	15	7	0	0	7	40.0%	11	48.9%	7
Monterey	1,773	454	392	1,712	733	24	11	768	41.4%	8	44.9%	21
Napa	142	70	87	160	55	1	4	59	38.5%	17	37.2%	40
Nevada	208	81	51	178	70	10	3	83	33.5%	43	46.4%	15
Orange	7,182	999	1,057	7,240	3,300	40	98	3,438	45.9%	1	47.5%	12
Placer	631	75	73	629	262	7	1	269	41.5%	7	42.8%	27
Plumas	55	21	24	58	19	0	1	20	35.2%	35	35.0%	46
Riverside	9,610	2,312	1,884	9,182	4,234	238	2	4,474	44.1%	2	48.7%	8
Sacramento	15,227	2,194	439	13,472	6,078	246	19	6,343	39.9%	12	47.1%	13
San Benito	302	19	34	317	117	3	3	123	38.8%	15	38.9%	36
San Bernardino	19,014	5,026	2,823	16,812	7,449	638	146	8,234	39.2%	14	49.0%	6
San Diego	10,331	2,167	1,880	10,045	4,425	232	35	4,692	42.8%	3	46.7%	14
San Francisco	2,956	701	374	2,628	878	3	16	898	29.7%	51	34.2%	50
San Joaquin	5,152	1,311	1,872	5,713	1,913	70	20	2,003	37.1%	23	35.1%	45
San Luis Obispo	751	176	100	675	261	10	24	296	34.8%	37	43.8%	23
San Mateo	907	175	79	811	276	7	1	285	30.5%	49	35.1%	44
Santa Barbara	1,790	416	129	1,503	673	34	23	729	37.6%	20	48.5%	9
Santa Clara	6,361	1,101	605	5,865	1,714	98	1	1,812	26.9%	56	30.9%	54
Santa Cruz	962	277	110	795	283	23	6	312	29.4%	52	39.3%	35
Shasta	1,340	564	378	1,153	553	19	20	592	41.3%	9	51.3%	4
Sierra	18	2	0	16	6	0	0	6	32.4%	47	36.3%	41
Siskiyou	401	122	72	351	114	14	6	133	28.4%	54	38.0%	39
Solano	2,121	200	80	2,002	851	0	15	866	40.1%	10	43.2%	25
Sonoma	969	273	210	906	326	10	20	356	33.7%	42	39.3%	34
Stanislaus	3,896	492	396	3,801	1,287	22	26	1,335	33.0%	45	35.1%	43
Sutter	436	100	176	512	166	2	1	169	38.1%	18	32.9%	52
Tehama	506	102	152	556	181	4	10	195	35.8%	30	35.0%	47
Trinity	80	29	22	74	19	1	0	20	23.4%	58	27.4%	58
Tulare	5,681	656	777	5,802	2,037	7	11	2,054	35.9%	28	35.4%	42
Tuolumne	287	102	61	246	91	24	2	117	31.8%	48	47.7%	11
Ventura	2,606	603	294	2,297	1,006	67	26	1,099	38.6%	16	47.9%	10
Yolo	1,133	116	131	1,148	480	33	7	520	42.4%	4	45.3%	20
Yuba	968	180	87	875	327	16	5	348	33.8%	41	39.8%	33

2004

	Cases w/ Adults	Exempt Adults WTW 25	Sanctions WTW 25	Adjusted Cases w/ Adults*	Cases w/ EDD Earnings	Self-Employed WTW 25/A	Work Study WTW 25/A	Adjusted Cases w/ EDD Earnings**	% w/ Earnings	Rank	Adjusted % w/ Earnings	Rank
Total	216,884	42,495	43,972	218,361	75,760	3,465	749	79,973	34.9%		36.6%	
Alameda	8,188	957	1,610	8,842	2,366	351	0	2,717	28.9%	52	30.7%	53
Alpine									24.1%	57	28.0%	54
Amador	110	52	22	81	31	2	0	34	28.3%	54	41.8%	21
Butte	1,628	407	238	1,458	544	26	30	599	33.4%	37	41.1%	24
Calaveras	187	48	36	174	60	7	0	67	31.9%	46	38.6%	32
Colusa	57	21	29	66	23	0	0	23	40.4%	7	35.5%	40
Contra Costa	3,851	660	749	3,941	1,269	42	37	1,348	33.0%	41	34.2%	46
Del Norte	425	55	12	382	127	5	0	131	29.7%	50	34.4%	45
El Dorado	400	140	49	309	134	25	1	160	33.5%	35	51.9%	3
Fresno	10,696	1,240	3,838	13,294	3,570	43	43	3,656	33.4%	38	27.5%	55
Glenn	186	49	45	182	71	3	1	75	38.2%	16	41.2%	22
Humboldt	831	78	226	979	255	2	3	261	30.7%	48	26.6%	58
Imperial	1,794	207	24	1,611	741	8	49	797	41.3%	4	49.5%	4
Inyo	52	13	8	47	22	5	0	27	41.5%	3	57.8%	2
Kern	5,799	1,503	2,075	6,371	2,128	149	29	2,306	36.7%	21	36.2%	38
Kings	1,118	207	273	1,184	366	7	3	375	32.7%	42	31.7%	52
Lake	630	249	128	509	229	5	4	238	36.4%	23	46.7%	9
Lassen	238	59	37	216	83	4	9	95	34.7%	31	43.8%	19
Los Angeles	77,422	15,028	18,770	81,164	25,209	939	0	26,148	32.6%	43	32.2%	50
Madera	1,147	228	216	1,134	414	15	14	442	36.1%	26	39.0%	30
Marin	365	103	108	369	126	12	3	141	34.6%	32	38.1%	34
Mariposa	86	24	16	78	31	5	1	37	35.4%	30	46.6%	11
Mendocino	672	219	173	627	222	16	0	238	33.0%	40	38.0%	35
Merced	2,944	1,020	1,182	3,105	1,050	45	29	1,123	35.7%	29	36.2%	39
Modoc	83	28	1	56	31	3	1	35	37.3%	19	63.4%	1
Mono	25	6	2	21	10	0	0	10	40.8%	5	49.4%	6
Monterey	1,660	508	402	1,553	653	25	16	694	39.4%	10	44.7%	18
Napa	146	56	73	164	53	2	3	58	35.9%	27	35.3%	42
Nevada	241	85	47	202	76	15	1	92	31.7%	47	45.4%	16
Orange	6,083	920	997	6,161	2,721	51	65	2,836	44.7%	1	46.0%	13
Placer	624	77	80	627	247	10	2	258	39.6%	9	41.2%	23
Plumas	58	20	25	63	23	0	2	25	38.8%	13	39.9%	27
Riverside	9,224	1,458	1,566	9,332	4,077	185	1	4,263	44.2%	2	45.7%	14
Sacramento	14,170	2,128	281	12,322	5,373	205	24	5,602	37.9%	17	45.5%	15
San Benito	311	16	29	324	119	7	0	126	38.3%	15	39.0%	28
San Bernardino	17,011	4,983	3,028	15,055	6,436	658	132	7,226	37.8%	18	48.0%	8
San Diego	9,317	2,186	1,654	8,785	3,787	144	26	3,957	40.6%	6	45.0%	17
San Francisco	2,943	758	432	2,617	880	4	20	904	29.9%	49	34.5%	43
San Joaquin	4,641	846	1,207	5,002	1,605	70	20	1,695	34.6%	33	33.9%	47
San Luis Obispo	774	188	180	765	303	12	14	329	39.2%	11	43.0%	20
San Mateo	1,034	246	136	924	369	1	4	374	35.7%	28	40.5%	25
Santa Barbara	1,743	416	156	1,482	629	40	22	691	36.1%	25	46.6%	10
Santa Clara	6,728	1,257	739	6,210	1,934	94	2	2,030	28.7%	53	32.7%	49
Santa Cruz	1,017	285	145	877	302	16	1	319	29.7%	51	36.4%	37
Shasta	1,300	582	410	1,127	515	20	22	557	39.6%	8	49.4%	5
Sierra									22.7%	58	26.8%	57
Siskiyou	461	118	49	391	130	9	4	143	28.3%	55	36.5%	36
Solano	2,234	173	119	2,180	861	0	11	871	38.5%	14	40.0%	26
Sonoma	1,115	294	376	1,196	359	4	22	384	32.2%	45	32.1%	51
Stanislaus	4,070	500	541	4,111	1,345	15	21	1,381	33.1%	39	33.6%	48
Sutter	407	110	127	424	147	3	1	151	36.1%	24	35.5%	41
Tehama	510	107	145	548	186	8	16	211	36.6%	22	38.5%	33
Trinity	90	12	17	94	24	2	0	26	26.5%	56	27.3%	56
Tulare	5,451	673	534	5,312	1,823	4	2	1,829	33.4%	36	34.4%	44
Tuolumne	291	78	37	250	95	26	1	122	32.6%	44	48.9%	7
Ventura	2,428	577	330	2,181	900	80	29	1,008	37.1%	20	46.2%	12
Yolo	1,005	101	185	1,089	393	27	4	425	39.1%	12	39.0%	29
Yuba	847	131	59	774	286	12	3	301	33.8%	34	38.8%	31

Produced by CDSS Estimates Branch
Source Data: **MEDS - MMEF March 2005** **WTW 25 and WTW 25A January 2003 - December 2004 (Annual Averages)**
EDD Base Wage File - Q4 2004 (small cells containing earnings data are suppressed for confidentiality purposes)
*** Adjusted Cases w/ Adults = Cases w/ Adults - WTW 25 Exempt + WTW 25 Sanctions**
**** Adjusted Cases w/ EDD Earnings = Cases w/ EDD Earnings + WTW 25/A Self Employed + WTW 25/A Work Study**

04/29/2006

12/2/05

Draft P4P Measue #3, Adult Cases Exiting for at Least Three Months*, Earn[illegible] Quarter After Exit

COUNTY	2000 3(b)				2001				2002				2003				2004			
	3(a) Exits w/ Earnings	Rank	Earnings Equal or Above Higher Earnings Threshold**	Rank	Exits w/ Earnings	Rank	Earnings Equal or Above Higher Earnings Threshold**	Rank	Exits w/ Earnings	Rank	Earnings Equal or Above Higher Earnings Threshold**	Rank	Exits w/ Earnings	Rank	Earnings Equal or Above Higher Earnings Threshold**	Rank	Exits w/ Earnings	Rank	Earnings Equal or Above Higher Earnings Threshold**	Rank
State Total	60.8%		13.1%		58.2%		11.4%		53.6%		12.7%		54.6%		12.7%		53.9%		16.2%	
Alameda	65.5%	15	24.1%	3	63.1%	12	22.4%	6	54.0%	35	17.4%	15	52.0%	40	17.9%	17	53.4%	32	24.3%	11
Alpine	0.0%	58	0.0%	57	0.0%	58	0.0%	58	16.7%	58	0.0%	57	28.6%	58	0.0%	58	30.0%	57	10.0%	53
Amador	54.7%	50	10.5%	48	62.9%	14	11.4%	38	57.7%	10	8.5%	55	52.0%	41	21.3%	10	49.4%	41	18.2%	24
Butte	53.6%	52	8.4%	56	59.0%	34	7.4%	54	47.9%	51	8.5%	54	50.9%	45	11.0%	43	49.3%	42	14.5%	37
Calaveras	60.3%	34	10.3%	50	57.5%	42	11.6%	35	50.0%	49	10.2%	51	52.2%	38	14.0%	33	44.0%	53	9.0%	54
Colusa	67.3%	9	21.2%	8	50.7%	55	7.0%	56	58.7%	9	4.3%	56	60.3%	4	15.5%	25	50.0%	39	3.8%	57
Contra Costa	67.1%	10	25.4%	2	64.3%	6	21.3%	7	55.9%	18	20.2%	9	55.5%	18	24.8%	3	59.5%	7	31.0%	3
Del Norte	50.8%	56	12.4%	37	52.6%	53	9.7%	49	45.1%	54	10.3%	50	40.6%	56	8.2%	55	26.9%	58	7.6%	56
El Dorado	55.6%	49	13.5%	29	57.4%	43	14.9%	18	56.4%	17	15.2%	25	45.8%	54	18.3%	16	47.1%	45	15.8%	30
Fresno	64.9%	17	13.7%	28	62.4%	18	12.3%	33	61.4%	3	13.8%	34	58.1%	10	13.0%	36	56.6%	17	14.6%	36
Glenn	67.5%	7	10.5%	47	57.8%	41	10.4%	45	47.1%	53	10.6%	47	57.0%	14	10.5%	47	46.0%	48	17.0%	26
Humboldt	51.1%	55	11.5%	44	52.6%	52	11.4%	37	45.1%	55	12.3%	40	48.0%	52	10.6%	46	46.4%	47	15.4%	32
Imperial	58.7%	41	12.2%	39	62.9%	13	13.3%	27	60.5%	4	13.8%	33	57.4%	11	9.3%	53	59.1%	8	13.7%	42
Inyo	57.5%	44	12.3%	38	62.5%	17	23.6%	5	54.0%	34	18.0%	14	47.2%	53	18.9%	15	45.7%	51	13.0%	44
Kern	60.0%	36	12.5%	36	59.7%	30	11.9%	34	53.4%	38	11.2%	46	54.1%	25	10.5%	48	54.7%	26	11.0%	52
Kings	62.7%	28	12.0%	42	57.3%	45	8.9%	51	60.2%	7	14.5%	29	50.6%	47	15.1%	27	54.6%	27	18.1%	25
Lake	64.2%	19	14.7%	24	57.3%	44	14.3%	22	56.5%	16	17.4%	16	55.1%	21	10.2%	49	45.7%	49	11.8%	50
Lassen	53.5%	53	11.4%	45	57.0%	46	13.4%	25	56.7%	15	14.2%	32	52.9%	33	12.4%	38	45.7%	50	12.9%	46
Los Angeles	56.0%	48	10.1%	51	52.8%	51	7.3%	55	50.9%	47	10.3%	49	53.5%	29	9.8%	50	51.3%	37	14.1%	39
Madera	60.6%	32	15.3%	18	59.2%	32	13.1%	30	52.9%	41	13.6%	37	55.3%	19	12.3%	39	55.0%	23	13.1%	43
Marin	57.3%	45	20.1%	10	58.9%	36	24.9%	3	54.7%	29	20.4%	7	51.3%	43	28.3%	2	50.9%	38	21.5%	16
Mariposa	61.2%	31	10.4%	49	54.9%	49	9.8%	48	40.9%	56	25.0%	3	63.3%	1	16.7%	19	52.5%	34	24.6%	10
Mendocino	58.8%	40	16.8%	14	59.0%	33	17.5%	12	51.9%	45	24.2%	5	53.5%	30	16.4%	20	55.2%	21	18.9%	21
Merced	64.2%	18	13.2%	33	61.9%	21	10.1%	46	52.9%	42	10.4%	48	55.3%	20	12.2%	40	54.7%	25	16.0%	29
Modoc	52.5%	54	15.0%	22	52.1%	54	14.1%	23	54.9%	27	15.7%	20	49.0%	50	7.8%	56	60.0%	6	3.6%	58
Mono	59.1%	38	22.7%	4	45.0%	57	10.0%	47	52.2%	44	26.1%	2	58.8%	7	5.9%	57	41.2%	54	11.8%	51
Monterey	65.8%	14	15.1%	21	63.5%	10	13.3%	26	59.0%	8	14.8%	28	56.2%	17	16.2%	21	61.3%	1	22.5%	15
Napa	66.1%	13	14.8%	23	74.6%	1	18.0%	11	60.5%	5	18.4%	12	61.5%	3	22.3%	8	57.1%	14	18.4%	23
Nevada	63.6%	21	17.3%	13	55.6%	48	7.0%	56	47.4%	52	15.6%	22	52.2%	39	14.5%	31	49.6%	40	8.0%	55
Orange	63.7%	20	9.9%	52	62.7%	15	8.8%	52	57.2%	12	10.0%	52	59.7%	5	9.7%	52	60.8%	4	12.3%	49
Placer	66.4%	12	13.9%	27	62.6%	16	18.7%	10	55.9%	19	19.6%	11	62.3%	2	20.4%	12	58.1%	11	21.3%	17
Plumas	56.7%	47	13.4%	30	67.3%	3	14.5%	20	61.7%	1	20.0%	10	50.0%	48	21.7%	9	61.0%	3	26.8%	6
Riverside	62.9%	27	12.1%	40	60.9%	25	12.9%	31	54.4%	30	14.2%	31	53.7%	28	11.5%	42	54.3%	29	12.6%	48
Sacramento	63.6%	22	17.5%	12	63.5%	9	16.0%	15	56.8%	14	15.4%	23	58.8%	8	19.7%	14	56.5%	18	23.1%	13
San Benito	68.9%	4	14.3%	25	60.3%	29	12.8%	32	57.0%	13	12.5%	39	51.2%	44	14.7%	30	55.0%	24	22.8%	14
San Bernardino	60.4%	33	11.5%	43	56.4%	47	11.1%	41	51.7%	46	12.0%	42	52.4%	35	9.8%	51	53.5%	31	12.9%	47
San Diego	63.1%	26	9.6%	53	61.1%	24	8.3%	53	54.9%	28	9.4%	53	59.2%	6	10.9%	44	58.3%	10	14.1%	40
San Francisco	69.5%	3	21.5%	6	63.6%	8	17.2%	13	55.0%	26	16.5%	17	54.1%	24	21.2%	11	54.2%	30	27.6%	4
San Joaquin	67.4%	8	16.6%	15	62.2%	19	13.7%	24	55.5%	21	12.2%	41	52.3%	36	13.2%	34	53.2%	33	13.9%	41
San Luis Obispo	63.4%	23	9.4%	54	61.2%	23	14.6%	19	53.3%	39	14.9%	27	52.2%	37	14.9%	29	58.5%	9	18.5%	22
San Mateo	68.8%	5	21.9%	5	57.9%	40	24.9%	4	53.7%	37	29.9%	1	53.0%	32	30.4%	1	60.6%	5	36.4%	1
Santa Barbara	61.3%	30	12.9%	35	63.2%	11	13.2%	28	55.4%	23	13.7%	35	57.3%	13	17.2%	18	57.6%	13	20.9%	18
Santa Clara	69.6%	2	21.4%	7	60.8%	26	15.1%	17	50.5%	48	13.7%	36	53.5%	31	20.3%	13	57.1%	15	24.6%	9
Santa Cruz	62.1%	29	19.0%	11	58.7%	37	24.9%	2	48.9%	50	24.7%	4	57.4%	12	23.5%	6	54.4%	28	32.8%	2
Shasta	57.1%	46	11.1%	46	60.6%	27	11.1%	43	54.4%	31	14.4%	30	54.0%	26	10.8%	45	56.7%	16	16.1%	28
Sierra	46.7%	57	0.0%	57	72.7%	2	36.4%	1	37.5%	57	0.0%	57	38.5%	57	15.4%	26	40.0%	55	20.0%	19
Siskiyou	58.3%	43	13.1%	34	59.0%	35	10.9%	44	52.7%	43	16.3%	19	45.1%	55	15.8%	23	46.7%	46	19.8%	20
Solano	68.2%	6	20.4%	9	65.3%	5	20.4%	8	55.6%	20	20.3%	8	56.9%	15	23.9%	5	57.7%	12	26.4%	8
Sonoma	66.7%	11	25.5%	1	59.4%	31	18.9%	9	55.2%	24	22.6%	6	49.4%	49	24.1%	4	55.5%	20	26.4%	7
Stanislaus	63.4%	24	15.2%	19	58.3%	39	13.1%	29	54.1%	33	16.4%	18	53.9%	27	15.7%	24	51.4%	36	14.2%	38
Sutter	58.8%	39	16.4%	16	66.1%	4	16.4%	14	57.6%	11	15.6%	21	52.8%	34	14.1%	32	55.1%	22	16.7%	27
Tehama	60.1%	35	15.1%	20	60.5%	28	9.5%	50	60.4%	6	15.1%	26	48.3%	51	8.9%	54	48.4%	43	14.7%	35
Trinity	53.7%	51	13.4%	30	48.1%	56	11.1%	42	54.2%	32	13.6%	38	55.1%	22	22.4%	7	37.8%	56	24.3%	12
Tulare	63.2%	25	12.0%	41	58.4%	38	11.5%	36	55.0%	25	11.6%	44	56.7%	16	11.8%	41	52.4%	35	15.2%	34
Tuolumne	58.5%	42	13.4%	32	62.1%	20	14.4%	21	53.8%	36	11.3%	45	50.8%	46	13.2%	35	45.6%	52	13.0%	45
Ventura	64.9%	16	13.9%	26	61.5%	22	11.2%	40	55.5%	22	15.2%	24	55.0%	23	12.6%	37	55.8%	19	15.5%	31
Yolo	70.4%	1	15.5%	17	64.0%	7	15.9%	16	61.4%	2	18.3%	13	58.5%	9	16.0%	22	61.1%	2	27.2%	5
Yuba	59.4%	37	9.4%	55	52.9%	50	11.3%	39	53.1%	40	11.7%	43	51.3%	42	14.9%	28	48.4%	44	15.2%	33

Produced by CDSS Estimates Branch
Source Data: ***MEDS - MMEF March 2005***
EDD Base Wage File - Q1 2005

* ***Exits occur when the case leaves in the prior calendar quarter and is off the entire following quarter.***
** ***Higher Income Threshold = Mean Quarterly Earning of CW Cases * 2.5.***
*** CalWORKs active cases were on all three months of the quarter. Same as P4P Measure #1.

8

Family Characteristics & Stories

Characteristics Summary

The CalWORKs population has a wide range of social and economic characteristics. The following is a selection of some key information collected in this survey.

Characteristic	FFY 2003 Data	FFY 2004 Data	Change
• Average no. of aided persons per case:	2.7 persons	2.6 persons	-0.1
• Average no. of aided children per case:	2.0 children	2.0 children	0.0
• Average age of adult:	33.3 years	32.4 years	-0.9
• Average age of child:	8.2 years	8.2 years	0.0
• Percent of adults who are citizens:	78.4% citizens	82.1% citizens	+3.7%
• Percent of adults never married:	56.4% never mar.	58.1% never mar.	+1.7%
• Percent of adults employed:	40.7% emp.	39.9% emp.	-0.8%
• Years of education for adults:	57.9% 12 + yrs	59.5% 12 + yrs	+1.6%
• Percent of cases that are child-only:	42.4% child-only	50.3% child-only	+7.9%
• Percent of persons that are children:	75.4% children	77.4% children	+2.3%
• Average earnings per case:	$809.00 per mo.	$855.00 per mo.	+$46.00
• Average TANF/CalWORKs grant:	$506.00 per mo.	$519.00 per mo.	+$13.00

Chart 1 is a trend display of the average monthly cash grant received per case over the past several years.

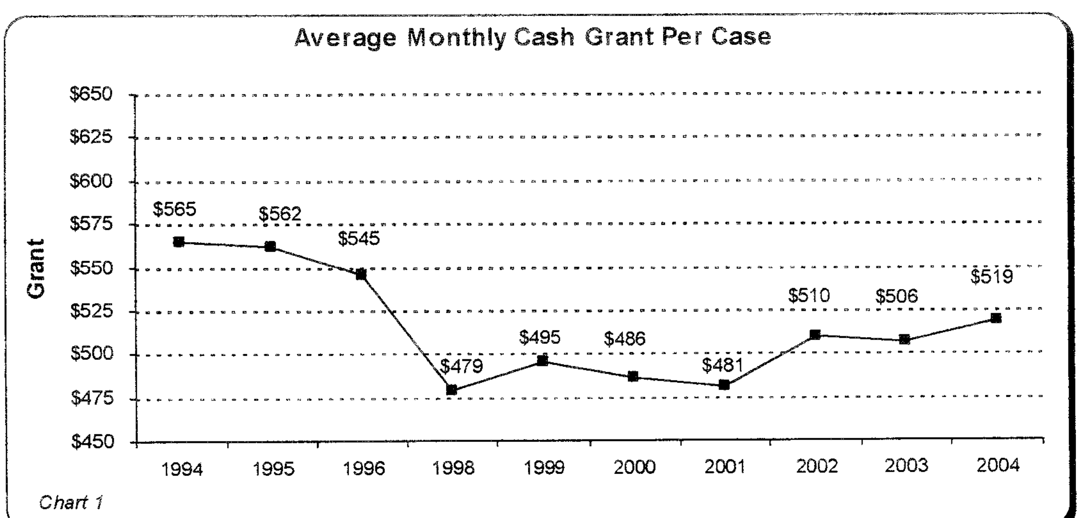


Chart 1

Characteristics Summary, continued

Chart 2 displays the trend of earnings per case. Earned income data from the survey was supplemented by data from the Employment Development Department base wage file.

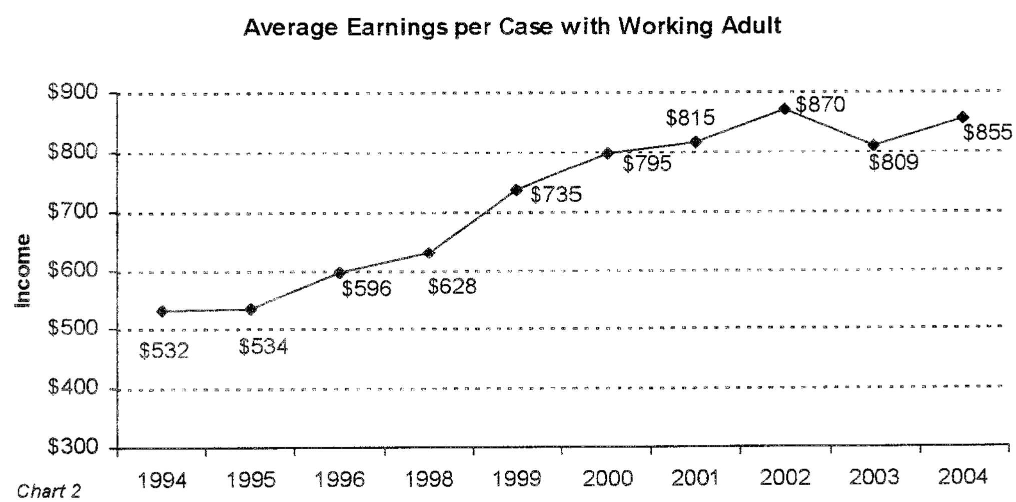


Chart 2

Chart 3 shows the caseload trend over the past several years. With the implementation of TANF and then CalWORKs, the caseload began to decrease, but now appears to be stabilizing. Data in this chart are from monthly CA 237 caseload reports which differ slightly from the expanded sample caseload figures used in this publication.

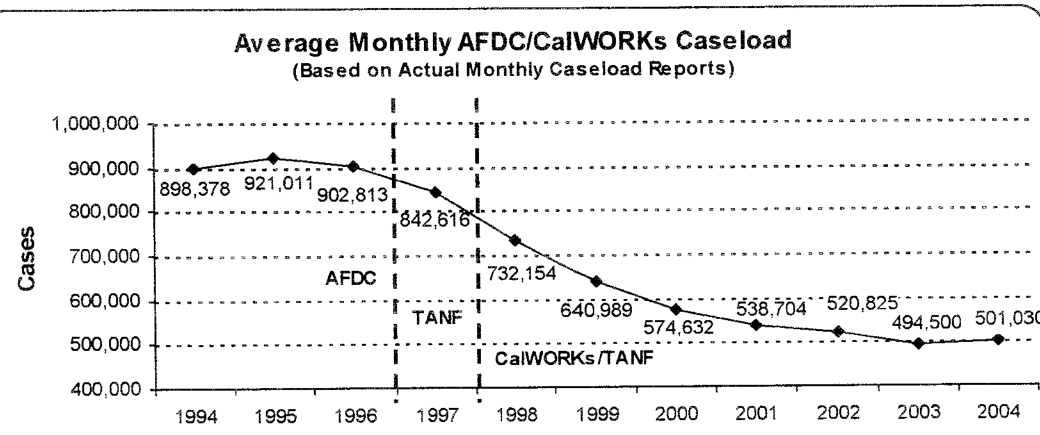


Chart 3

Source: California Department of Social Services CA237 Caseload

Characteristics Summary, continued

Chart 4 breaks out the CalWORKs survey caseload by case type. FFY 2004 is the first year that Child-Only caseload was larger than One-Parent caseload. This is partially due to the timing out of a portion of the population.

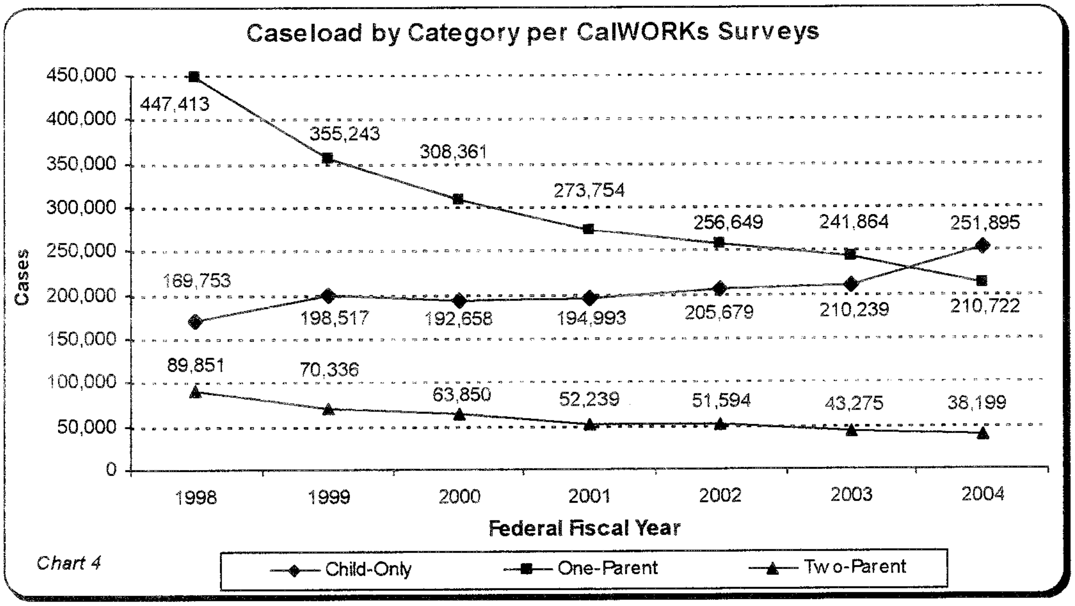


Chart 4

Poverty In California

Just The Facts, “Poverty In California” by Public Policy Institute of California

http://www.ppic.org/content/pubs/jtf/JTF_PovertyJTF.pdf

Stories

Copies of testimony will be available for viewing in the Senate Budget & Fiscal Review Committee Office located in Room 5019 of the State Capitol. 5/04/06

Other States

TANF Average Monthly Number of Adults Engaged in Work by Work Activity
for Families Counted as Meeting the All Families Work Requirements
Federal Fiscal Year 2004

STATE	TOTAL NUMBER OF FAMILIES	NUMBER OF FAMILIES IN ALL FAMILIES RATE	NUMBER OF PARTICIPATING FAMILIES	PARTICIPATION RATE	Unsubsidized Employment	
UNITED STATES	1,984,560	952,523	307,784	32.3%	163,889	17.2%
ALABAMA	19,154	7,893	2,990	37.9%	1,884	23.9%
ALASKA	4,926	2,891	1,259	43.5%	923	31.9%
ARIZONA	49,559	25,929	6,610	25.5%	4,351	16.8%
ARKANSAS	10,023	4,752	1,316	27.7%	655	13.8%
CALIFORNIA	456,666	190,245	44,091	23.2%	32,305	17.0%
COLORADO	14,623	8,483	2,996	35.3%	1,284	15.1%
CONNECTICUT	20,720	9,570	2,323	24.3%	1,753	18.3%
DELAWARE	5,643	2,933	647	22.1%	362	12.3%
DIST. OF COL.	17,174	9,245	1,683	18.2%	1,462	15.8%
FLORIDA	57,457	17,081	7,125	41.7%	3,215	18.8%
GEORGIA	53,215	25,230	6,052	24.0%	2,207	8.7%
GUAM						
HAWAII	8,864	3,468	2,453	70.7%	1,963	56.6%
IDAHO	1,848	575	250	43.5%	149	25.9%
ILLINOIS	35,660	10,552	5,181	49.1%	2,654	25.2%
INDIANA	50,589	24,684	7,398	30.0%	5,364	21.7%
IOWA	18,286	11,589	5,798	50.0%	5,040	43.5%
KANSAS	16,747	10,965	9,652	88.0%	2,086	19.0%
KENTUCKY	35,629	16,025	6,838	42.7%	3,225	20.1%
LOUISIANA	18,777	6,925	2,466	35.6%	1,443	20.8%
MAINE	9,713	7,130	2,285	32.0%	1,268	17.8%
MARYLAND	25,430	14,230	2,306	16.2%	841	5.9%
MASSACHUSETTS	49,753	10,987	6,522	59.4%	3,675	33.4%
MICHIGAN	79,432	44,334	10,794	24.3%	8,199	18.5%
MINNESOTA	34,340	21,360	5,749	26.9%	3,245	15.2%
MISSISSIPPI	18,792	7,939	1,672	21.1%	932	11.7%
MISSOURI	40,979	24,732	4,929	19.9%	2,469	10.0%
MONTANA	5,256	3,675	3,408	92.7%	708	19.3%
NEBRASKA	10,879	6,109	2,142	35.1%	809	13.2%
NEVADA	8,558	3,664	1,239	33.8%	1,028	28.1%
NEW HAMPSHIRE	6,049	3,391	1,024	30.2%	614	18.1%
NEW JERSEY	44,739	24,720	8,566	34.7%	3,283	13.3%
NEW MEXICO	17,590	10,474	4,842	46.2%	3,146	30.0%
NEW YORK	147,034	69,663	26,211	37.6%	12,921	18.5%
NORTH CAROLINA	37,651	14,276	4,813	33.7%	2,425	17.0%
NORTH DAKOTA	3,064	1,733	450	26.0%	298	17.2%
OHIO	84,574	39,843	26,000	65.3%	8,312	20.9%
OKLAHOMA	14,199	6,122	2,031	33.2%	646	10.6%
OREGON	18,538	8,474	2,733	32.3%	642	7.6%
PENNSYLVANIA	88,128	57,384	4,294	7.5%	2,937	5.1%
PUERTO RICO	17,494	13,650	1,035	7.6%	115	0.8%
RHODE ISLAND	12,295	7,939	1,889	23.8%	1,339	16.9%
SOUTH CAROLINA	16,676	7,136	3,817	53.5%	2,488	34.9%
SOUTH DAKOTA	2,745	749	412	55.0%	120	16.0%
TENNESSEE	72,069	42,340	21,412	50.6%	8,381	19.8%
TEXAS	106,329	45,934	15,684	34.1%	10,512	22.9%
UTAH	9,041	6,049	1,599	26.4%	865	14.3%
VERMONT	4,831	3,356	834	24.9%	447	13.3%
VIRGIN ISLANDS	538	399	42	10.5%	2	0.5%
VIRGINIA	9,430	9,430	4,728	50.1%	4,030	42.7%
WASHINGTON	55,858	29,688	10,514	35.4%	4,011	13.5%
WEST VIRGINIA	14,151	7,325	999	13.6%	234	3.2%
WISCONSIN	22,493	9,202	5,641	61.3%	613	6.7%
WYOMING	352	51	40	78.4%	9	17.6%

TANF Average Monthly Number of Adults Engaged in Work by Work Activity
for Families Counted as Meeting the All Families Work Requirements
Federal Fiscal Year 2004

STATE	PARTICIPATION RATE	Unsubsidized Employment		Subsidized Private Employment		Subsidized Public Employment		Work Experience	
UNITED STATES	32.3%	163,889	17.2%	1,118	0.1%	2,777	0.3%	41,104	4.3%
ALABAMA	37.9%	1,884	23.9%	38	0.5%	111	1.4%	132	1.7%
ALASKA	43.5%	923	31.9%	-	0.0%	8	0.3%	23	0.8%
ARIZONA	25.5%	4,351	16.8%	-	0.0%	1	0.0%	868	3.3%
ARKANSAS	27.7%	655	13.8%	21	0.4%	17	0.4%	42	0.9%
CALIFORNIA	23.2%	32,305	17.0%	190	0.1%	-	0.0%	1,038	0.5%
COLORADO	35.3%	1,284	15.1%	12	0.1%	60	0.7%	302	3.6%
CONNECTICUT	24.3%	1,753	18.3%	60	0.6%	8	0.1%	-	0.0%
DELAWARE	22.1%	362	12.3%	-	0.0%	-	0.0%	370	12.6%
DIST. OF COL.	18.2%	1,462	15.8%	-	0.0%	-	0.0%	36	0.4%
FLORIDA	41.7%	3,215	18.8%	88	0.5%	35	0.2%	401	2.3%
GEORGIA	24.0%	2,207	8.7%	13	0.1%	22	0.1%	948	3.8%
GUAM									
HAWAII	70.7%	1,963	56.6%	-	0.0%	-	0.0%	415	12.0%
IDAHO	43.5%	149	25.9%	-	0.0%	1	0.2%	20	3.5%
ILLINOIS	49.1%	2,654	25.2%	-	0.0%	-	0.0%	896	8.5%
INDIANA	30.0%	5,364	21.7%	41	0.2%	-	0.0%	82	0.3%
IOWA	50.0%	5,040	43.5%	14	0.1%	-	0.0%	32	0.3%
KANSAS	88.0%	2,086	19.0%	-	0.0%	-	0.0%	697	6.4%
KENTUCKY	42.7%	3,225	20.1%	22	0.1%	-	0.0%	372	2.3%
LOUISIANA	35.6%	1,443	20.8%	5	0.1%	7	0.1%	384	5.5%
MAINE	32.0%	1,268	17.8%	-	0.0%	-	0.0%	166	2.3%
MARYLAND	16.2%	841	5.9%	9	0.1%	83	0.6%	398	2.8%
MASSACHUSETTS	59.4%	3,675	33.4%	81	0.7%	25	0.2%	-	0.0%
MICHIGAN	24.3%	8,199	18.5%	-	0.0%	48	0.1%	58	0.1%
MINNESOTA	26.9%	3,245	15.2%	-	0.0%	-	0.0%	79	0.4%
MISSISSIPPI	21.1%	932	11.7%	-	0.0%	-	0.0%	224	2.8%
MISSOURI	19.9%	2,469	10.0%	16	0.1%	64	0.3%	201	0.8%
MONTANA	92.7%	708	19.3%	-	0.0%	-	0.0%	2,722	74.1%
NEBRASKA	35.1%	809	13.2%	-	0.0%	-	0.0%	-	0.0%
NEVADA	33.8%	1,028	28.1%	-	0.0%	3	0.1%	165	4.5%
NEW HAMPSHIRE	30.2%	614	18.1%	-	0.0%	-	0.0%	152	4.5%
NEW JERSEY	34.7%	3,283	13.3%	-	0.0%	-	0.0%	3,032	12.3%
NEW MEXICO	46.2%	3,146	30.0%	8	0.1%	-	0.0%	256	2.4%
NEW YORK	37.6%	12,921	18.5%	174	0.2%	1,297	1.9%	3,537	5.1%
NORTH CAROLINA	33.7%	2,425	17.0%	-	0.0%	58	0.4%	586	4.1%
NORTH DAKOTA	26.0%	298	17.2%	2	0.1%	-	0.0%	37	2.1%
OHIO	65.3%	8,312	20.9%	3	0.0%	50	0.1%	15,559	39.1%
OKLAHOMA	33.2%	646	10.6%	21	0.3%	1	0.0%	88	1.4%
OREGON	32.3%	642	7.6%	1	0.0%	-	0.0%	696	8.2%
PENNSYLVANIA	7.5%	2,937	5.1%	43	0.1%	-	0.0%	206	0.4%
PUERTO RICO	7.6%	115	0.8%	35	0.3%	1	0.0%	177	1.3%
RHODE ISLAND	23.8%	1,339	16.9%	11	0.1%	-	0.0%	72	0.9%
SOUTH CAROLINA	53.5%	2,488	34.9%	1	0.0%	-	0.0%	267	3.7%
SOUTH DAKOTA	55.0%	120	16.0%	-	0.0%	-	0.0%	-	0.0%
TENNESSEE	50.6%	8,381	19.8%	-	0.0%	-	0.0%	308	0.7%
TEXAS	34.1%	10,512	22.9%	195	0.4%	42	0.1%	666	1.4%
UTAH	26.4%	865	14.3%	-	0.0%	-	0.0%	107	1.8%
VERMONT	24.9%	447	13.3%	1	0.0%	-	0.0%	91	2.7%
VIRGIN ISLANDS	10.5%	2	0.5%	-	0.0%	-	0.0%	5	1.3%
VIRGINIA	50.1%	4,030	42.7%	12	0.1%	-	0.0%	230	2.4%
WASHINGTON	35.4%	4,011	13.5%	-	0.0%	834	2.8%	-	0.0%
WEST VIRGINIA	13.6%	234	3.2%	-	0.0%	1	0.0%	130	1.8%
WISCONSIN	61.3%	613	6.7%	1	0.0%	-	0.0%	3,800	41.3%
WYOMING	78.4%	9	17.6%	-	0.0%	-	0.0%	31	60.8%

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TANF Average Monthly Number of Adults Engaged in Work by Work Activity
for Families Counted as Meeting the All Families Work Requirements
Federal Fiscal Year 2004

STATE	PARTICIPATION RATE	On-The-Job Training		Job Search		Community Service		Vocational Education	
UNITED STATES	32.3%	721	0.1%	55,765	5.9%	30,409	3.2%	46,487	4.9%
ALABAMA	37.9%	1	0.0%	762	9.7%	19	0.2%	439	5.6%
ALASKA	43.5%	3	0.1%	273	9.4%	103	3.6%	246	8.5%
ARIZONA	25.5%	5	0.0%	1,734	6.7%	229	0.9%	1,011	3.9%
ARKANSAS	27.7%	22	0.5%	357	7.5%	2	0.0%	342	7.2%
CALIFORNIA	23.2%	164	0.1%	4,876	2.6%	1,369	0.7%	6,682	3.5%
COLORADO	35.3%	-	0.0%	278	3.3%	459	5.4%	790	9.3%
CONNECTICUT	24.3%	15	0.2%	133	1.4%	17	0.2%	527	5.5%
DELAWARE	22.1%	-	0.0%	-	0.0%	-	0.0%	-	0.0%
DIST. OF COL.	18.2%	-	0.0%	157	1.7%	-	0.0%	89	1.0%
FLORIDA	41.7%	-	0.0%	1,791	10.5%	970	5.7%	1,510	8.8%
GEORGIA	24.0%	117	0.5%	791	3.1%	567	2.2%	1,946	7.7%
GUAM									
HAWAII	70.7%	6	0.2%	670	19.3%	6	0.2%	480	13.8%
IDAHO	43.5%	-	0.0%	117	20.3%	7	1.2%	112	19.5%
ILLINOIS	49.1%	-	0.0%	57	0.5%	149	1.4%	1,606	15.2%
INDIANA	30.0%	14	0.1%	1,439	5.8%	-	0.0%	332	1.3%
IOWA	50.0%	-	0.0%	189	1.6%	9	0.1%	1,241	10.7%
KANSAS	88.0%	2	0.0%	1,855	16.9%	6,662	60.8%	249	2.3%
KENTUCKY	42.7%	22	0.1%	482	3.0%	839	5.2%	2,717	17.0%
LOUISIANA	35.6%	15	0.2%	181	2.6%	-	0.0%	681	9.8%
MAINE	32.0%	2	0.0%	621	8.7%	16	0.2%	542	7.6%
MARYLAND	16.2%	9	0.1%	460	3.2%	264	1.9%	435	3.1%
MASSACHUSETTS	59.4%	-	0.0%	627	5.7%	979	8.9%	320	2.9%
MICHIGAN	24.3%	-	0.0%	3,150	7.1%	-	0.0%	656	1.5%
MINNESOTA	26.9%	-	0.0%	1,389	6.5%	401	1.9%	451	2.1%
MISSISSIPPI	21.1%	-	0.0%	119	1.5%	186	2.3%	199	2.5%
MISSOURI	19.9%	15	0.1%	435	1.8%	-	0.0%	1,359	5.5%
MONTANA	92.7%	-	0.0%	643	17.5%	-	0.0%	142	3.9%
NEBRASKA	35.1%	4	0.1%	853	14.0%	-	0.0%	589	9.6%
NEVADA	33.8%	-	0.0%	212	5.8%	104	2.8%	135	3.7%
NEW HAMPSHIRE	30.2%	3	0.1%	289	8.5%	10	0.3%	68	2.0%
NEW JERSEY	34.7%	12	0.0%	914	3.7%	36	0.1%	2,419	9.8%
NEW MEXICO	46.2%	-	0.0%	381	3.6%	684	6.5%	974	9.3%
NEW YORK	37.6%	-	0.0%	515	0.7%	4,969	7.1%	3,463	5.0%
NORTH CAROLINA	33.7%	19	0.1%	1,030	7.2%	-	0.0%	1,481	10.4%
NORTH DAKOTA	26.0%	-	0.0%	92	5.3%	-	0.0%	99	5.7%
OHIO	65.3%	41	0.1%	1,653	4.1%	-	0.0%	5,919	14.9%
OKLAHOMA	33.2%	-	0.0%	697	11.4%	-	0.0%	334	5.5%
OREGON	32.3%	5	0.1%	1,780	21.0%	-	0.0%	139	1.6%
PENNSYLVANIA	7.5%	-	0.0%	242	0.4%	38	0.1%	975	1.7%
PUERTO RICO	7.6%	95	0.7%	44	0.3%	360	2.6%	226	1.7%
RHODE ISLAND	23.8%	-	0.0%	177	2.2%	-	0.0%	423	5.3%
SOUTH CAROLINA	53.5%	24	0.3%	251	3.5%	850	11.9%	122	1.7%
SOUTH DAKOTA	55.0%	14	1.9%	45	6.0%	228	30.4%	69	9.2%
TENNESSEE	50.6%	15	0.0%	13,579	32.1%	49	0.1%	-	0.0%
TEXAS	34.1%	-	0.0%	3,801	8.3%	2,890	6.3%	1,693	3.7%
UTAH	26.4%	4	0.1%	557	9.2%	-	0.0%	351	5.8%
VERMONT	24.9%	12	0.4%	197	5.9%	98	2.9%	31	0.9%
VIRGIN ISLANDS	10.5%	5	1.3%	14	3.5%	5	1.3%	11	2.8%
VIRGINIA	50.1%	44	0.5%	1,184	12.6%	-	0.0%	33	0.3%
WASHINGTON	35.4%	8	0.0%	1,932	6.5%	6,087	20.5%	1,391	4.7%
WEST VIRGINIA	13.6%	3	0.0%	94	1.3%	227	3.1%	353	4.8%
WISCONSIN	61.3%	1	0.0%	1,636	17.8%	521	5.7%	85	0.9%
WYOMING	78.4%	-	0.0%	10	19.6%	-	0.0%	-	0.0%

TANF Average Monthly Number of Adults Engaged in Work by Work Activity
for Families Counted as Meeting the All Families Work Requirements
Federal Fiscal Year 2004

STATE	PARTICIPATION RATE	Job Skills Training		Education Related to Employment		Satisfactory School Attendance		Providing Child Care	
UNITED STATES	32.3%	6,371	0.7%	7,120	0.7%	11,455	1.2%	402	0.0%
ALABAMA	37.9%	-	0.0%	-	0.0%	198	2.5%	-	0.0%
ALASKA	43.5%	-	0.0%	-	0.0%	32	1.1%	-	0.0%
ARIZONA	25.5%	20	0.1%	12	0.0%	132	0.5%	-	0.0%
ARKANSAS	27.7%	11	0.2%	5	0.1%	22	0.5%	-	0.0%
CALIFORNIA	23.2%	18	0.0%	347	0.2%	1,106	0.6%	-	0.0%
COLORADO	35.3%	25	0.3%	211	2.5%	286	3.4%	7	0.1%
CONNECTICUT	24.3%	-	0.0%	31	0.3%	38	0.4%	-	0.0%
DELAWARE	22.1%	-	0.0%	1	0.0%	18	0.6%	-	0.0%
DIST. OF COL.	18.2%	-	0.0%	9	0.1%	-	0.0%	-	0.0%
FLORIDA	41.7%	-	0.0%	296	1.7%	838	4.9%	17	0.1%
GEORGIA	24.0%	76	0.3%	7	0.0%	111	0.4%	306	1.2%
GUAM									
HAWAII	70.7%	35	1.0%	23	0.7%	12	0.3%	-	0.0%
IDAHO	43.5%	-	0.0%	-	0.0%	5	0.9%	-	0.0%
ILLINOIS	49.1%	28	0.3%	224	2.1%	18	0.2%	-	0.0%
INDIANA	30.0%	164	0.7%	304	1.2%	410	1.7%	-	0.0%
IOWA	50.0%	-	0.0%	-	0.0%	312	2.7%	-	0.0%
KANSAS	88.0%	38	0.3%	26	0.2%	341	3.1%	-	0.0%
KENTUCKY	42.7%	206	1.3%	158	1.0%	-	0.0%	-	0.0%
LOUISIANA	35.6%	-	0.0%	15	0.2%	206	3.0%	-	0.0%
MAINE	32.0%	547	7.7%	1	0.0%	107	1.5%	-	0.0%
MARYLAND	16.2%	-	0.0%	-	0.0%	240	1.7%	-	0.0%
MASSACHUSETTS	59.4%	791	7.2%	76	0.7%	330	3.0%	-	0.0%
MICHIGAN	24.3%	49	0.1%	7	0.0%	301	0.7%	-	0.0%
MINNESOTA	26.9%	17	0.1%	151	0.7%	1,488	7.0%	1	0.0%
MISSISSIPPI	21.1%	19	0.2%	27	0.3%	90	1.1%	-	0.0%
MISSOURI	19.9%	-	0.0%	788	3.2%	170	0.7%	-	0.0%
MONTANA	92.7%	6	0.2%	316	8.6%	45	1.2%	-	0.0%
NEBRASKA	35.1%	2	0.0%	-	0.0%	172	2.8%	-	0.0%
NEVADA	33.8%	-	0.0%	3	0.1%	25	0.7%	-	0.0%
NEW HAMPSHIRE	30.2%	145	4.3%	-	0.0%	146	4.3%	-	0.0%
NEW JERSEY	34.7%	578	2.3%	1,148	4.6%	175	0.7%	1	0.0%
NEW MEXICO	46.2%	133	1.3%	75	0.7%	199	1.9%	25	0.2%
NEW YORK	37.6%	68	0.1%	153	0.2%	217	0.3%	-	0.0%
NORTH CAROLINA	33.7%	73	0.5%	78	0.5%	133	0.9%	-	0.0%
NORTH DAKOTA	26.0%	3	0.2%	14	0.8%	24	1.4%	-	0.0%
OHIO	65.3%	121	0.3%	11	0.0%	611	1.5%	-	0.0%
OKLAHOMA	33.2%	113	1.8%	81	1.3%	49	0.8%	-	0.0%
OREGON	32.3%	162	1.9%	165	1.9%	173	2.0%	-	0.0%
PENNSYLVANIA	7.5%	289	0.5%	45	0.1%	-	0.0%	-	0.0%
PUERTO RICO	7.6%	-	0.0%	-	0.0%	7	0.1%	6	0.0%
RHODE ISLAND	23.8%	-	0.0%	22	0.3%	21	0.3%	-	0.0%
SOUTH CAROLINA	53.5%	277	3.9%	11	0.2%	348	4.9%	24	0.3%
SOUTH DAKOTA	55.0%	1	0.1%	33	4.4%	9	1.2%	-	0.0%
TENNESSEE	50.6%	-	0.0%	-	0.0%	66	0.2%	-	0.0%
TEXAS	34.1%	311	0.7%	150	0.3%	353	0.8%	-	0.0%
UTAH	26.4%	182	3.0%	14	0.2%	119	2.0%	-	0.0%
VERMONT	24.9%	67	2.0%	10	0.3%	138	4.1%	-	0.0%
VIRGIN ISLANDS	10.5%	-	0.0%	-	0.0%	-	0.0%	-	0.0%
VIRGINIA	50.1%	79	0.8%	52	0.6%	4	0.0%	-	0.0%
WASHINGTON	35.4%	286	1.0%	131	0.4%	835	2.8%	15	0.1%
WEST VIRGINIA	13.6%	-	0.0%	-	0.0%	72	1.0%	-	0.0%
WISCONSIN	61.3%	1,431	15.6%	1,889	20.5%	701	7.6%	-	0.0%
WYOMING	78.4%	-	0.0%	-	0.0%	2	3.9%	-	0.0%

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TANF Average Monthly Number of Adults Engaged in Work by Work Activity
for Families Counted as Meeting the All Families Work Requirements
Federal Fiscal Year 2004

STATE	PARTICIPATION RATE	Additional Waiver Activities		Other	
UNITED STATES	32.3%	19,145	2.0%	6,043	0.6%
ALABAMA	37.9%	-	0.0%	21	0.3%
ALASKA	43.5%	-	0.0%	108	3.7%
ARIZONA	25.5%	-	0.0%	-	0.0%
ARKANSAS	27.7%	-	0.0%	-	0.0%
CALIFORNIA	23.2%	-	0.0%	-	0.0%
COLORADO	35.3%	-	0.0%	-	0.0%
CONNECTICUT	24.3%	-	0.0%	232	2.4%
DELAWARE	22.1%	-	0.0%	-	0.0%
DIST. OF COL.	18.2%	-	0.0%	-	0.0%
FLORIDA	41.7%	-	0.0%	-	0.0%
GEORGIA	24.0%	-	0.0%	132	0.5%
GUAM					
HAWAII	70.7%	-	0.0%	-	0.0%
IDAHO	43.5%	-	0.0%	79	13.7%
ILLINOIS	49.1%	-	0.0%	743	7.0%
INDIANA	30.0%	-	0.0%	-	0.0%
IOWA	50.0%	-	0.0%	387	3.3%
KANSAS	88.0%	-	0.0%	-	0.0%
KENTUCKY	42.7%	-	0.0%	60	0.4%
LOUISIANA	35.6%	-	0.0%	-	0.0%
MAINE	32.0%	-	0.0%	-	0.0%
MARYLAND	16.2%	-	0.0%	-	0.0%
MASSACHUSETTS	59.4%	-	0.0%	-	0.0%
MICHIGAN	24.3%	-	0.0%	-	0.0%
MINNESOTA	26.9%	-	0.0%	806	3.8%
MISSISSIPPI	21.1%	-	0.0%	-	0.0%
MISSOURI	19.9%	-	0.0%	289	1.2%
MONTANA	92.7%	866	23.6%	-	0.0%
NEBRASKA	35.1%	-	0.0%	-	0.0%
NEVADA	33.8%	-	0.0%	-	0.0%
NEW HAMPSHIRE	30.2%	-	0.0%	172	5.1%
NEW JERSEY	34.7%	-	0.0%	-	0.0%
NEW MEXICO	46.2%	4	0.0%	17	0.2%
NEW YORK	37.6%	-	0.0%	270	0.4%
NORTH CAROLINA	33.7%	-	0.0%	-	0.0%
NORTH DAKOTA	26.0%	-	0.0%	-	0.0%
OHIO	65.3%	-	0.0%	1,183	3.0%
OKLAHOMA	33.2%	-	0.0%	-	0.0%
OREGON	32.3%	-	0.0%	24	0.3%
PENNSYLVANIA	7.5%	-	0.0%	94	0.2%
PUERTO RICO	7.6%	-	0.0%	-	0.0%
RHODE ISLAND	23.8%	-	0.0%	45	0.6%
SOUTH CAROLINA	53.5%	-	0.0%	33	0.5%
SOUTH DAKOTA	55.0%	-	0.0%	-	0.0%
TENNESSEE	50.6%	18,075	42.7%	944	2.2%
TEXAS	34.1%	200	0.4%	-	0.0%
UTAH	26.4%	-	0.0%	-	0.0%
VERMONT	24.9%	-	0.0%	252	7.5%
VIRGIN ISLANDS	10.5%	-	0.0%	-	0.0%
VIRGINIA	50.1%	-	0.0%	-	0.0%
WASHINGTON	35.4%	-	0.0%	152	0.5%
WEST VIRGINIA	13.6%	-	0.0%	-	0.0%
WISCONSIN	61.3%	-	0.0%	-	0.0%
WYOMING	78.4%	-	0.0%	-	0.0%

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LA County Sanctions/Home Visits

COUNTY OF LOS ANGELES **DEPARTMENT OF PUBLIC SOCIAL SERVICES**

REPLY TO: GAIN Regional Office Address	
PARTICIPANT'S NAME:	
CASE NUMBER:	PID:
DATE:	

Participant's Name
Street Address
City
State & ZIP code

Dear ____________

Our records show that you did not:

- ❑ Sign your Welfare-to-Work Plan on _____________.
- ❑ Participate in _____________ on _____________.
- ❑ Make good progress in your _____________ activity because _________________________.
- ❑ Accept a job at _______________________________.
- ❑ Keep your job at _______________________________.
- ❑ Keep the same amount of earnings.

As a result, you may be sanctioned and your cash aid may be reduced. You may have received or will receive another letter explaining any changes to your cash aid.

We can assist you to avoid this sanction. If you have problems with transportation, child care, work-related expenses, or any other problem that is keeping you from participating, we may be able to help you take care of the problem(s) so that you can comply with GAIN requirements.

To find out how we can help you, we have scheduled a GAIN home visit at your home on the date and time indicated below:

DATE OF HOME VISIT: **MONTH/DAY/YEAR**
TIME: **BETWEEN 0:00 AM AND 00:00 AM**

Note: If you wish to reschedule the home visit please call the GAIN Services Worker at the number below as soon as possible, but no later than the day before the scheduled home visit date.

If you do **not** want us to visit your home, please call the GAIN Services Worker at the number below no later than the date before the scheduled home visit date. We may be able to resolve this problem over the telephone or we may be able to arrange for you to come into the office to provide the required proof of good cause. If you are a victim of domestic violence, please call (800) 978-3600.

If you have any questions regarding this notice or the GAIN home visit, please call the GAIN Services Worker listed below.

GAIN Services Worker: ___________________________ Telephone Number: _______________ 3

GAIN SANCTION HOME VISIT OUTREACH CHECKLIST

CASE NAME:	PARTICIPANT NAME:	FILE NO./CASE NUMBER:

Resolved prior to sending home visit appointment letter? Yes/No ____________
Exempt, Good Cause, agree to participate or already participating?____________________________
Date home visit scheduled: ______________________ Start Time of Visit: __________ a.m./p.m.
Resolved prior to home visit? Yes/No If Yes state:____________________________________
Identification Verified: Yes No Type Seen: ______________________ No.: __________
(e.g. California ID, Driver's License, etc.)

Participant refused Home Visit
Participant refused to complete Home Visit
Issue(s) resolved prior to Home Visit

Issues Reviewed:

CalWORKs Time Limits
Welfare-to-Work Requirements
Learning Disability
GAIN Participation/Activities
Specialized Supportive Services (DV/MH/SA)
Child Care Services
Transportation Services
Ancillary Expenses
Post-Employment Services

Notices:

Can not read notices
Does not understand notices
Notices are confusing
Untimely notices
Notices not in spoken language
Mail sent to wrong address
Problems receiving mail
Other: ____________

Communication:

Unable to reach GSW by telephone
Problems communicating with GSW
Other: ____________
____
____

Supportive Services:

Non-receipt of child care
Non-receipt of transportation
Non-receipt of work related expenses
Mental health problems
Domestic violence problems
Substance abuse problems
Other: ____________

Possible Exemption:

Participant is working 32/35 hrs
Claims to be sick or disabled
Claims to have a sick or disabled family member
Claims an exemption (specify): ____________
Other: ____________

Family Problems:

Family problems/crisis
Legal problems
Child has school problems
Other: ____________

Other:

Negative Experience with GAIN
Stay home with child
Attending school or training program
Other: ____________

Was the participant in non-compliance as a result of a SA, MH or DV service need? Yes No
Was a referral made to the SGSW? Yes No, or Case transferred? Yes No
Was the referral made from the participant's home? Yes No
Was the participant sanctioned as a result of a SA, MH, or DV service need? Yes No

Brochures/Community Resource Referral/Info Line Referral/Informational Notices Given to Applicant: ____________

Questions for Participant:

What do you like the most about the GAIN Program? ____________________________
What do you like the least about the GAIN Program? ____________________________
What can the GAIN Program do to make it easier for you to participate in GAIN? ____________________________

Home visit resolution: ____

Home Visit GSW Signature:	Date:	Time Home Visit Concluded:
Participant Signature:	Date:	Time Home Visit Concluded:

GHV Outreach Checklist Rev 01/05 Rev. 10/05

GAIN PROGRAM DIVISION
MOST COMMON RESPONSES
GSHVO CHECKLIST
FEBRUARY 14, 2006

What do you like the most about the GAIN Program?

- Transportation, childcare and ancillary.
- Not sure.
- New to the GAIN Program.
- Home visit project.
- Specialized supportive services for MH, SA, and DV.
- Do not know.

What do you like the least about the GAIN Program?

- None.
- Orientation and Job Club too long.
- Confusing notices.
- Change of workers.
- Paperwork for childcare takes too long.

What can the GAIN Program do to make it easier for you to participate in GAIN?

- Not sure
- More flexibility to comply with GAIN.
- Better understanding of our supportive services needs.

Attachment B

Study of Sanctions
Among CalWORKs Participants in the County of Los Angeles

Action Plan

I. **RESEARCH FINDING:** Almost two-thirds of sanctioned GAIN participants are sanctioned when they fail to show up for their Orientation session.

ACTIONS

A. **The Home Interview Program (HIP) Eligibility Worker (EW) will interact with applicants during the Intake process in order to explain the Welfare-to-Work (WtW) process including information on their orientation appointment, child care, transportation, good cause, and potential exemptions.**

Providing a participant with one-on-one information on the WtW process during Intake will assist the participant in understanding the program components, participation requirements and the relevance of not participating.

Mid-Term Goal

B. **Provide at least one designated GAIN Services Worker (GSW), or Contracted Case Manager (CCM) to assist participants with scheduling and rescheduling their Orientation appointment.**

Providing a designated GSW/CCM will enable participants to engage in GAIN by receiving assistance either with scheduling or rescheduling an Orientation appointment for a date which is convenient to them.

Mid-Term Goal

C. **Eliminate automated recycling of participants through Orientation when they fail to return a completed QR7 on time or have a late redetermination, but subsequently submit the required documentation before termination of the CalWORKs grant actually takes effect.**

Delaying deregistration from GAIN will provide time for the GAIN participant to submit documentation required to retain CalWORKs eligibility, while continuing to participate in GAIN or re-engage in a GAIN activity without having to be processed through GAIN orientation.

Short-Term Goal

D. **Ensure reported changes on participant's phone/address are updated on LEADER/GEARS as quickly as possible in order for the participant to receive a timely Orientation appointment letter.**

Ensuring address changes are in LEADER/GEARS as quickly as possible will alleviate the problem of participants not receiving their appointment letters timely.

Short-Term Goal

E. **An automated letter will be sent to the participant in a timely manner giving the participant time to keep the appointment.**

Changing the time frame from seven working days to ten working days prior to the Orientation appointment date will provide the participant with additional time to receive the appointment notice and make the necessary arrangements to attend Orientation.

Short-Term Goal

*Note: Goals are defined as follows:

Short-Term	1-4 months
Mid-Term	5-8 months
Long-Term	9+ months

Study of Sanctions
Among CalWORKs Participants in the County of Los Angeles

Action Plan

I. **RESEARCH FINDING:** Almost two-thirds of sanctioned GAIN participants are sanctioned when they fail to show up for their Orientation session.

ACTIONS

F. **Participants who are nearing the end of their exemption period will be contacted by a designated GSW/CCM in each region to discuss the need for further exemption and/or participation in GAIN.**

Providing a designated GSW in each region will enable participants to receive the immediate information they need to participate in Orientation, or receive an appropriate, expeditious exemption.

Short-Term Goal

G. **Create flexible appointments for those who are working part-time or are students so that they can attend Orientation and Appraisal (OAP). In addition, if attending OAP conflicts with a participant's school schedule and the participant is being approved for a Self-Initiated Program (SIP), OAP may be scheduled at the convenience of the participant or may be bypassed.**

Many participants who want to attend Orientation have conflicts because they are working or are in school; providing flexible appointments will allow them to do so.

Short-Term Goal

H. **Provide the incentive of having a "Drawing" at OAP. GAIN participants that complete OAP will be entered in a drawing and if selected will win gift certificates.**

Incentives can help motivate participants to attend Orientation and continue in GAIN.

Mid-Term Goal

I. **Conduct home call to non-compliant GAIN participants to assess for good cause and exemption qualifications in order to resolve compliance problems before a sanction is recommended.**

The purpose of this intervention is to assist participants in resolving issues/barriers related to the non-compliance and re-engage participants in GAIN activities.

Short-Term Goal

J. **Each GSW/CCM, will telephone each participant assigned to them to remind them of their OAP appointment.**

Calling participants before their OAP appointments will enable GSWs/CCMs to motivate and provide assistance on removing child care and transportation barriers that may preclude attendance at OAP.

Short-Term Goal

K. **Participants re-entering GAIN that have attended OAP in the last twelve months will receive a specialized letter and individual appointment time instead of the standard group OAP appointment time.**

Individual appointments for re-entering participants will provide GSWs/CCMs with the time needed to provide appropriate attention and services.

Mid-Term Goal

Study of Sanctions
Among CalWORKs Participants in the County of Los Angeles

Action Plan

II. **RESEARCH FINDING:** Evidence indicates communication issues between CalWORKs and GAIN staff, between LEADER and GEARS, between staff and participants, between participants and systems, which impede GAIN participation and contribute to sanctions.

ACTIONS

A. **Provide additional access to automated CalWORKs eligibility information for GSWs/CCMs.**

By being able to access this eligibility information, GSWs/CCMs will be able to more quickly ascertain the status of a participants case, employment or if other circumstances exist so a sanction should not be recommended.

Long-Term Goal

B. **Improve information to participant by providing the names and tasks of EW and GSW/CCM.**

Providing the names and tasks of the assigned EW and GSW to participants anytime one of the workers is changed will help to eliminate the confusion participants have in knowing whom to report information and whom to call to resolve issues.

Mid-Term Goal

C. **Provide staff with training regarding working together as a team with a common end result as well as customer service training.**

EWs and GSWs have the same common goal: to ensure participants in the WtW program succeed and obtain employment. Working together as a team as well as providing good customer service will facilitate that goal.

Mid- Long-Term Goal – Various Actions

D. **GSWs will be given improved access to EWs. They may contact them at any time, not just during phone hours.**

This will allow better communication which will assist the GSW/CCM in providing appropriate services to participants.

Short term Goal-New procedures
Long-Term Goal- Phone system changes

E. **Schedule meetings between Eligibility and GAIN managers to discuss the ideas already identified by line staff to enhance communication between CalWORKs and GAIN staff. Ensure that line staff has input to this process.**

Engaging CalWORKs eligibility and GAIN managers and staff in identifying ways to enhance communication between CalWORKs eligibility and GAIN/ Contracted staff will result in the most effective set of actions to achieve the goal of enhanced communication.

Short-Term Goal

Study of Sanctions
Among CalWORKs Participants in the County of Los Angeles

Action Plan

II. **RESEARCH FINDING:** Evidence indicates communication issues between CalWORKs and GAIN staff, between LEADER and GEARS, between staff and participants, between participants and systems.

ACTIONS

F. **End 1st, 2nd, and 3rd instance financial sanctions, without a GSW review, when DPSS receives a PA 1934, CalWORKs Treatment/Services Verification Form, from a specialized supportive services provider confirming that the participant is actively engaged in a Specialized Supportive Services activity.**

The participant's supportive services need may have contributed to the participant's failure to comply, and the participant may not have felt comfortable disclosing that they were receiving mental health, substance abuse, or domestic violence services to DPSS staff.

Mid-Term Goal

G. **Develop and train staff on an explicit CalWORKs/GAIN program philosophy which emphasizes active participation in employment, education/training, specialized supportive services and other welfare-to-work activities, (rather than sanctioning), as the key means to achieve the goal of self-sustaining employment.**

Having an explicit program philosophy will help all CalWORKs/GAIN staff and contractors focus their efforts on achieving the goals of the program. The training will include good cause and exemptions as well as prevention of inappropriate sanctions.

Short-Term Goal-Develop philosophy
Long-Term Goal- On-going training

H. **To assure that deregistered, sanctioned GAIN participants are given clear directions, and are properly assisted when they call to "cure" their sanction, a regionalized, centralized GSW will be assigned to assist them and:**

- **Better instructions will be provided to GSWs/CCMs on how to assist deregistered, sanctioned participants,**
- **All GSWs/CCMs and EWs will have the phone number listing of all of the designated GSWs/CCMs,**
- **More information on how to cure sanctions will be provided on the PA 125, Monthly Notice to GAIN Participants Currently in Sanction Status, along with the phone number of the designated GSW/CCM.**

Participants will be able to "cure" their sanctions expeditiously when additional instructions are provided.

Short-Mid-Term Goal - Various Actions

I. **Increase interaction between EWs and GSWs/CCMs to facilitate a more coordinated case management system. Pertinent information will be shared in order to provide participants with the most beneficial and appropriate services.**

More frequent interactions between CalWORKs eligibility and GAIN staff will help to enhance communication.

Long-Term Goal

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Study of Sanctions
Among CalWORKs Participants in the County of Los Angeles

Action Plan

II. **RESEARCH FINDING:** Evidence indicates communication issues between CalWORKs and GAIN staff, between LEADER and GEARS, between staff and participants, between participants and systems.

J. **Identify current key CalWORKs and GAIN documents that are not specifically mandated as written by the State. Contract with a readability expert to review the forms as well as future forms, for clarity and appropriate grade level.**

Participants indicated that they were unclear about why they were sanctioned and how to cure a sanction. Providing clearer information will reduce this problem.

Long-Term Goal

K. **Modify and implement distribution of the WTW 26, Good Cause Determination Guidelines, and the WTW 27, Request for Good Cause Determination. The WTW 26, which provides information on "good cause," will be sent to non-compliant participants before they are sanctioned and the WTW 27, which provides information on how they can request "good cause" to cure a sanction, will be sent to sanctioned participants.**

Participants are not always aware they have may have "good cause" for not participating in GAIN, or how "good cause" can be applied to curing their sanction.

Mid-Term Goal

L. **DPSS and the Los Angeles Office of Education (LACOE) will develop a pilot to call participants prior to Job Club to remind them to attend.**

LACOE staff may be able to motivate participants to attend Job Club by personally calling them.

Short-Term Goal

M. **Translate all GAIN forms sent to GAIN participants into the threshold languages.**

Translating all forms will ensure participants receive information in notices that are in their native language which will facilitate comprehension.

Long-Term Goal

N. **Provide Welfare-to-Work brochure to participants that do not receive a visit from the HIP worker.**

Participants that are employed or exempted from GAIN will not receive a visit from the HIP worker but may benefit from the information in the Welfare-to-Work brochure.

Mid-Term Goal

Study of Sanctions
Among CalWORKs Participants in the County of Los Angeles

Action Plan

III. <u>RESEARCH FINDING</u>: Use of services, such as child care and transportation, reduces the risk of being sanctioned by 40 percent.

ACTIONS

A. Facilitate use of child care and transportation services by providing information during the Intake process. The HIP worker will provide information and will assist the participant with accessing child care and transportation.

Providing information and assisting the participant with child care and transportation during the intake process will help the participant prepare for Orientation.

Mid-Term Goal

B. Provide participants with access to Child Care Coordinators in each CalWORKs District office prior to Orientation in order to find out how to access child care.

Providing an additional resource on how to access child care before Orientation will help to ensure participants are able to make child care arrangements for Orientation.

Mid-Term Goal

C. Develop a pilot, where DPSS will purchase child care slots at DPSS employee child care centers that are in close proximity to GAIN Regional offices, for use by children of GAIN participants during OAP appointments.

Having pre-arranged child care slots available will assist participants that are not able to find one-day child care for orientation.

Mid-Term Goal

D. Develop a pilot which will provide money for a one-day bus pass ($3.00), for transportation in advance of the OAP appointment. The money can be used for gas in lieu of a bus pass, if appropriate.

Providing participants with money for transportation before Orientation will reduce transportation as a barrier to attending Orientation.

Long-Term Goal

E. DPSS will work with the Resource and Referral Agencies to develop a system to identify and provide referrals to GAIN participants for licensed child care providers that are willing to provide one-day or very short-term child care if they have a vacant space.

Identifying providers that can provide short-term child care will assist participants with child care arraignments for OAP and other short–term WtW activities.

Mid-Term Goal

Study of Sanctions
Among CalWORKs Participants in the County of Los Angeles

Action Plan

IV. RESEARCH FINDING: Sanction rates vary substantially among GSWs/CCMs, indicating an inconsistent approach to case management.

ACTION

A. Produce reports that identify number of sanctions by GSW.

Identifying staff with higher sanction rates than the average for GSWs/CCMs will allow managers to focus on determining if issues exist for specific staff.

Short-Term Goal

V. RESEARCH FINDING: Some participants are not happy with components of the GAIN flow, particularly Orientation and Job Club.

ACTIONS

A. Improve Orientation process by providing more information to participants about GAIN and GAIN services that are available. Materials will be updated with new program requirements.

Giving participants more information that is potentially beneficial to them will encourage Orientation attendance and increase satisfaction.

Short-Mid-Term Goal- Various Actions

B. Identify more participants who would not benefit from Job Club and allow them to bypass the process to do vocational training or other welfare-to-work activities. This may include limited English proficient participants and participants who have previously attended Job Club.

By evaluating participants on a more case-by-case basis for Job Club and allowing those who would not benefit from Job Club to bypass the process, GSWs/CCMs can increase participant satisfaction.

Mid- Term Goal

VI. RESEARCH FINDING: Participants who complete Job Club and subsequently receive training and participants in Self-Initiated Programs (SIPs) are less likely to be sanctioned than participants who only complete Job Club.

ACTIONS

A. Increase numbers of participants referred pre- and post-assessment to vocational training, paid work experience and education.

Individuals that obtain higher level of skills or education are more likely to earn a better wage and less likely to be sanctioned.

Long-Term Goal

Study of Sanctions
Among CalWORKs Participants in the County of Los Angeles

Action Plan

VII. RESEARCH FINDING: Many individuals who are sanctioned need procedures that will facilitate the curing of their sanction.

ACTIONS

A. At least one GSW/CCM in each GAIN Region will be designated to receive calls from deregistered, sanctioned GAIN participants and will assist them with the actions that need to be taken to cure the sanction.

Providing a centralized GSW/CCM in each region will enable participants to receive the immediate information needed to cure their sanction.

Short-Term Goal

B. GSWs/CCMs will interact with sanctioned participants when they come to the CalWORKs district office for their annual redetermination appointment in order to re-engage participants in the WtW process, subject to the availability of GSWs in the CalWORKs district offices for this activity. The first priority of the GSWs in the district offices is to assist homeless CalWORKs participants.

This additional contact with participants will encourage some to cure their sanction and participate in the welfare-to-work program.

Mid-Term Goal

C. Conduct home call to sanctioned participants. This includes re-engaging sanctioned participants in WtW activities.

The purpose of this intervention is to assist participants in resolving issues/barriers related to the sanction and re-engage participants in GAIN activities.

Short-Term Goal

VIII. Other Actions to Prevent and/or Reduce Sanctions.

ACTIONS

A. DPSS will establish a system with Specialized Supportive Service Providers and GSWs/CCMs to ensure participants that are actively engaged in specialized supportive services do not have compliance/sanction initiated and/or implemented.

Automation changes to flag the participants who are receiving Specialized Supportive Services will eliminate them from being sanctioned.

Mid-Term Goal

B. Action will be taken so that participants who are employed full-time are not sanctioned.

Automation changes to flag the participants who are employed full-time will eliminate them from being sanctioned.

Mid-Term Goal

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Study of Sanctions
Among CalWORKs Participants in the County of Los Angeles

Action Plan

VIII. Other Actions to Prevent and/or Reduce Sanctions.

ACTIONS
C. **Secure a business consultant to review the processes in the GAIN program, including contractors, for the goal of facilitating participation.** *Obtaining outside, objective evaluation of the GAIN processes may facilitate participation in the various WtW activities.* *Long-Term Goal*
D. **Prevent sanctions for homeless participants, since State law grants homeless participants good cause for non-participation.** *Automation changes to flag the participants who are homeless will prevent them from being sanctioned.* *Mid-Term Goal*
E. **Ensure review of the 30 Day Delinquent reports by WtW staff to ensure participants are assigned to the appropriate activity.** *Active utilization of this report will help ensure that participants are not spending time in the program without being assigned to an activity.* *Short-Term Goal*
F. **Explore the feasibility of reducing GSW caseloads for designated WtW population/activities and addressing such reduced caseloads in the budget.** *Reducing designated caseloads would provide GSWs/CCMs more one-on-one time for interaction with participants which would permit more individual attention to resolving participants' barriers.* *Long-Term Goal*

Education & Training

Education and Training

CLASP, Center for Law and Social Policy paper entitled “Strategies for Increasing Participation in TANF Education and Training Activities” by Evelyn Ganzglass, dated April 17, 2006.

http://www.clasp.org/publications/tanf_ed_training.pdf

Community Colleges

Community College CalWORKs
System Budget Proposal for Funding Restoration

The Community College CalWORKs Program As An Important Partner in California's Welfare System

California community colleges have taken on the role of providing education and training to welfare recipients in support of the statewide CalWORKs welfare system structure. As a partner in this effort, the colleges serve to prepare welfare recipients with education, training and skill development to obtain employment with wages that will move them out of poverty and into self-sufficiency. The short-term investment by the State to engage welfare recipients into postsecondary education is offset by the long-term benefits of keeping them off of public assistance, which ultimately will serve to increase the base of potential taxpaying citizens.

Meeting the State's Work Participation Rates

Restoring community college CalWORKs program State Proposition 98 funds lost during the 2002-03 budget cuts is consistent with the State's efforts to increase its work participation rates given the reauthorization of the federal TANF legislation. A restoration will allow the colleges to provide comprehensive support services to CalWORKs students that will enable them to successfully work and complete their education/training programs. In addition, colleges will be better positioned to respond to the changes in the State's welfare policies brought about by SB 1104 and the emerging needs to California's CalWORKs recipient population (SB 1639).

Restoring the California Community College CalWORKs program funds will enable colleges to provide the enhanced support services needed by welfare recipient students and can ultimately aid the State in meeting its work participation rates by allowing students to work and complete their education/training programs.

Increasing Community College CalWORKs Work-Study Opportunities

Additional funds to restore the community college CalWORKs program work-study component could help welfare-recipient obtain a minimum of 20 hours of weekly subsidized work and provide them with much needed real world work experience. A restoration of State Proposition 98 funds will enable colleges to rebuild core services to students. An example of the potential positive impact to the state if community college CalWORKs work-study funding is restored is as follows:

2004-05 Work-Study Expenditure Levels and Numbers of Students Provided Work-Study:

- 3,018 CalWORKs students were placed in work-study (this represents 57% fewer students provided work-study compared to 2001-02 pre-budget cut funding levels)
- Colleges reported $4,126,235 in CalWORKs work-study expenditures for 2004-05

<u>Assumptions:</u>

- CalWORKs students would need to work year-round in order to meet federal/state work requirements and employer needs (52 weeks)
- In order to meet federal work participation requirements, students would need to work on average 20 hours per week
- Based on community college CalWORKs work-study date, a majority (80%) of CalWORKs students engaged in work-study earn between $6.75 to $8.00 per hour

Example: 52 weeks of CalWORKs Work-Study Employment at $6.75 per hour

52 weeks x 6.75/hr. x 20 hrs./week = $7,020
$7,020 x .75* = $5,265
$5,265 x 1000 work-study jobs for students = *$5,265,000*
*maximum allowed by law that colleges can pay of a student's work-study wage

Estimates for Added Funding for CalWORKs Work-Study	Estimated Additional CalWORKs Work-Study Positions*
$5,000,000	950
$10,000,000	1,899
$15,000,000	2,849
$20,000,000	3,799

**In addition to current level of work-study placements; these figures would likely be higher given that the hours needed by individual students to meet core work requirements would vary and that college employer reimbursement rates also would vary*

Considerations:

- There is variance among colleges on the employer reimbursement rate—ranges from 25% to 75% depending on the college
- CalWORKs work-study wage is typically higher for off-campus private sector employers, especially those in the health care and high-tech fields
- The hours of work-study per week a CalWORKs student would need depends on their WTW plan and hours of approved activities, including vocational education

Funding community college CalWORKs work-study would enable colleges to increase the hours students can work in order to meet the WTW plan core hour requirements and would enable colleges to expand work-study opportunities to off-campus employers.

Restoring Community College CalWORKs Job Development and Placement Services

Funding CalWORKs job development and placement services would be a critical component of increasing funding for CalWORKs work-study. An increase in funds is this area would help ensure colleges are staffed to develop off-campus job opportunities for students, provide employment skills training, and identify community service or other work-experience opportunities.

Estimated cost of funding 1 job developer at each campus to develop CalWORKs work-study placements:

A typical job developer position annual salary = $45,000

Benefits at 35%= $15,750

Total salary and benefits= $60,750

$60,750 x 108 college CalWORKs programs = $6,561,000

Restoring Community College CalWORKs Short-Term Curriculum Development Funding

Additionally, with the severity of the 2002-03 budget cuts, colleges suffered a 91% reduction in funds expended to support new curriculum development. With the TANF reauthorization, as short-term training program needs increase once again, restoring funding for this critical program component is essential to support the state's efforts to provide training for welfare-recipient students to help them secure and retain employment.

SB 1639 highlighted the importance of meeting the needs of an ever increasing non-English-speaking population. While colleges, like San Francisco City College and others, have experience success in developing short-term vocational ESL programs, funding is needed to expand these kinds of efforts statewide.

Estimate to Expand Short-Term Curriculum Development *(especially in area of Vocational English as a Second Language)*

$50,000 per 108 colleges = $5,400,000

Funds to Meet California's Federal Maintenance of Effort Requirements

The $34.58 million in State Proposition 98 funds currently appropriated in the annual State Budget Act already are used towards California's MOE requirement. Increasing State Proposition 98 funding to restore vital components of the community college CalWORKs program benefits the State by helping to provide countable work activities to students, increasing funds that can be counted as MOE, and ultimately provide welfare-recipient students with the much needed education and work-experience to help them find permanent jobs at a family-supporting wage.

Elimination of the CalWORKs Match Requirement

To help mitigate the effect of the 2002-03 budget cuts, the Legislature established a requirement for a one-to-one match of local funds from the districts on a portion of the State Proposition 98 funding ($20 million).

With a restoration of community college CalWORKs State Prop 98 funds to restore work-study, job development and placement and short-term curriculum development, the colleges could have difficulty meeting the terms of the existing match requirements. Therefore, in order to facilitate the expansion of work-study opportunities, we would recommend the match requirement should be lifted.

CLASP
FROM JOBS TO CAREERS

How California Community College Credentials Pay Off for Welfare Participants

http://www.clasp.org/publications/Jobs_Careers.pdf

SUBCOMMITTEE NO. 3 Agenda
Health, Human Services, Labor & Veteran's Affairs

Chair, Senator Denise Ducheny

Senator Wesley Chesbro
Senator Dave Cox

May 8th, 2006

1:30 PM
(Please note time change)

Room 2040
(Please note room change)

(Diane Van Maren)

Item	Department
4300	**Department of Developmental Services—*Selected Issues***
4260	**Department of Health Services—*Selected Issues***
4440	**Department of Mental Health—*Selected Issues***
4280	**Managed Risk Medical Insurance Board—*Selected Issues***

PLEASE NOTE:

Only those items contained in this agenda will be discussed at this hearing. *Please* see the Senate File for dates and times of subsequent hearings.

Issues will be discussed in the order as noted in the Agenda unless otherwise directed by the Chair. 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.

A. ITEMS FOR DISCUSSION-- Department of Developmental Services

1. Extension of Liquidation for Bay Area Housing Plan—Agnews Closure

Issue. The Subcommittee **is in receipt of a Finance Letter that requests an extension of the liquidation period of the $11.1 million (General Fund) designated to facilitate the development of community-based living options for the current residents of Agnews Developmental Center.** These funds were originally appropriated in the Budget Act of 2004 and then re-appropriated in the Budget Act of 2005.

The DDS states that an extension is necessary to accommodate the projected time horizon required to complete the acquisition of permanent housing. **As noted in the language below, this request allows the appropriation to remain open until June 30, 2010**.

Specifically, the DDS is requesting the following reappropriation language:

> 4300-491-Reappropriation, DDS. Notwithstanding any other provision of law, the period to liquidate encumbrances of the following citations are extended to June 30, 2010

The DDS notes that the financing arrangement has been a complex and time consuming negotiation, requiring a tri-party agreement between the Bank of America, the CA Housing Finance Agency (CalHFA) and Hallmark (the master developer). Acquisition and construction financing will be provided to Hallmark by the Bank of America with permanent financing provided by CalHFA via bond sales. This financing arrangement is currently in the final stages of negotiations.

In addition, DDS has prepared a contract amendment that has been agreed to by the three Bay Area Regional Centers (i.e., East Bay RC, Golden Gate RC, and San Andreas RC) to transfer funds, provide accountability, and administer the approved Expenditure Plan funding and the Bay Area Housing Plan. The DDS states that the success of the Agnews closure plan relies on the RCs ability to secure housing for its residents.

According to the DDS proposal, between the current year and 2009-10, a portion of the $11.1 million will be transferred to CalHFA upon establishing permanent loan financing. These funds, up to $6 million, will be held in an interest bearing account by CalHFA until such time as the aggregate outstanding principal value of all of the loans does not exceed the value of the properties. In addition, there may be a need to expend these funds for the pre-development costs of securing property, such as escrow deposits, architectural fees, abatement of asbestos and other hazardous materials.

Subcommittee Staff Recommendation. In the Subcommittee hearing of April 3rd, the DDS eluded to the need to extend the appropriation timeframe. The project continues to be consistent with AB 2100, Statutes of 2004, the enabling legislation and the Administration's plan to close Agnews DC. It is just taking more time to develop the framework for proceeding than originally anticipated.

In order to ensure the oversight of the Legislature, in addition to the Administration's reappropriation language, it is recommended to adopt the following Budget Bill Language for the reappropriation item.

> "The DDS shall provide the fiscal and policy committees of the Legislature with a monthly update on the development of the housing and the expenditure of the $11.1 million. At a minimum, this shall include the following components: (1) all the properties acquired during the month, (2) the cost of each property, (3) the address of each property, (4) the square footage of any residential structures on the property, (5) the size of any lot that is purchased with the intent to build on it, (6) estimated construction and/or renovation costs for each property before construction and/or renovation begins. In addition, funds expended for the pre-development costs of securing property, such as escrow deposits, architectural fees, abatement of asbestos and other hazardous materials, shall be reported."

It should be noted that the DDS will be providing the Joint Legislative Budget Committee (JLBC) with this information, as applicable, beginning in May 2006 as had been requested in a letter last Fall. The Legislative Analyst's Office concurs with the need for this proposed Budget Bill Language in order to maintain oversight by the Legislature.

Questions. The Subcommittee has requested the DDS

1. **DDS,** Please provide a brief summary of the request for the reappropriation language, including a status update on expenditure of the funds and why an extension to June 30, 2010 is necessary.

2. Feasibility Study for Medicare Part D Drug Program—Developmental Centers

Issue. The DDS is requesting **an increase of $694,000 (General Fund) for the implementation of, and compliance with, requirements of the Medicare Part D Drug Program.** Of this total amount, $380,000 is one-time only to fund a contract for services to perform an assessment of the DDS' Cost Recovery System. The remaining $314,000 would be ongoing and would be used to offset the loss of Medi-Cal reimbursement that will result from the implementation of the Medicare Part D program.

***First*, the $380,000 in one-time funds will be used to hire a contractor to perform various activities associated with the DDS' Cost Recovery System, including development of a Feasibility Study Report that makes recommendations for improved system operations that are consistent with federal mandates for billing.** The DDS utilizes the Cost Recovery System for the identification, billing and recovery of costs of operating the Developmental Centers (DCs). It is an old system that has been in operation for over fifteen years.

The DDS states that changes to its existing Cost Recovery System are needed, and are greater than originally anticipated, to accommodate the Part D Drug Program. Specifically, the data required by the Medicare Part D Prescription Drug Plans (PDP) is more detailed and of greater quantity than other types of billings produced by the DDS' Cost Recovery System. For example, the PDPs are requiring a "point-of-service" real-time system for billing and other operations such as eligibility verification, appeals, claims adjudication, and routine communications.

The contractor to be hired by DDS is to convert the Cost Recovery System output into standardized billing formats as well as perform many other functions. DDS is concerned that even with these proposed enhancements to the system, there are likely to be problems in its operations due to the various complexities at hand, including needed changes for the federal Health Information Portability and Accountability Act (HIPAA), billing format changes mandated by the federal CMS and the need to interface with the State Hospitals operated by the DMH. Therefore, funding for a full assessment of the Cost Recovery System is requested.

***Second*, DDS is seeking to backfill $314,000 in federal reimbursements with General Fund support.** Currently DDS captures Medi-Cal reimbursement for DC-related administration activities at the DDS Headquarters based on a rate that is determined by the Medi-Cal eligible costs at the DCs. This Medi-Cal reimbursement rate will be reduced by the drug costs for dual eligibles that were previously billable to Medi-Cal but will now be paid by Medicare or the General Fund.

This reduced Medi-Cal billable rate when applied to the DDS Headquarters will result in a $314,000 reduction in Medi-Cal reimbursements that will need to be backfilled with General Fund. The DDS states that they cannot afford to absorb this reduction without sacrificing needed program oversight.

Background—Developmental Centers and the Medicare Part D Program. DDS serves over 210,000 individuals with developmental disabilities. Of these individuals about 40,000 are affected by the Medicare Part D Program and about 2,200 of these individuals live at the Developmental Centers (DCs). DDS provides direct services to the individuals at the DCs including prescription drugs and pharmacy services. **DDS presently uses an "all-inclusive" bundled rate under its Cost Recovery System to bill the Medi-Cal Program and to account for expenditures.**

As part of the implementation of the Part D Program at the DCs, the DDS is required to identify the prescription drug and dispensing costs for each dual-eligible consumer and bill that consumer's approved costs to their individual Medicare Part D "Prescription Drug Plan" (PDP). **In order to accomplish this, the pharmacy costs for all consumers at the DCs affected by Part D must be segregated from the all-inclusive rates billed to Medi-Cal to avoid billing Medi-Cal for any Part D services and costs.**

Subcommittee Staff Recommendation. It is recommended to approve the request as proposed. No issues have been raised.

Questions. The Subcommittee has requested the DDS to respond to the following question.

1. **DDS,** Please provide a brief summary of the request.

3. Various Capital Projects at Porterville Developmental Center *(Issue A & B)*

Issues. The DDS **is requesting appropriation authority to fund several capital outlay projects at the Porterville Developmental Center (DC).** Porterville is the only DC that operates programs for individuals with developmental disabilities who have forensic and penal-code related offenses. There are presently about 300 clients in the secure treatment program (at capacity), and there is a waiting list of between 20 to 55 individuals. Consumers are usually court-ordered to the facility. **Each of these capital outlay projects is discussed below:**

A. Porterville 96-Bed Expansion and Recreation Complex Project. The Budget Act of 2003 provided a total appropriation of $56.5 million (lease revenue bonds) to construct a 96-bed expansion and to construct a recreation complex at Porterville DC.

The Subcommittee is in receipt of a Finance Letter requesting to: (1) revert the unencumbered bond authority from the Budget Act of 2003; **(2)** combine the two projects into a single appropriation for construction; *and* **(3)** provide an appropriation of $78.5 million (lease revenue bonds) for the construction phase.

The amount to be reverted is a total of $56.5 million (lease revenue bonds) for the two projects ($5.8 million for the recreation center and $50.8 million for the 96-bed expansion). The amount to be appropriated is $78.5 million (lease revenue bonds) for both projects. The DDS states that an increase is needed due to price increases in raw materials and the demand for labor since this project was first funded in 2003.

The DDS also merges the two projects for construction purposes because it is easier to bid both projects together for various reasons. **DDS states that the construction is to begin in September 2006 and is to be completed in May 2008.**

Subcommittee Staff Recommendation. It is recommended to approve this Finance Letter.

Questions. The Subcommittee has requested the DDS to respond to the following question.

1. **DDS**, Please provide a brief summary of the proposal.

B. New Main Kitchen & Renovate 24 Satellite Kitchens/Dining Rooms

The DDS is requesting a total of $23.7 million ($22.6 million in lease revenue bonds and $1.2 million in General Fund) to fund the following:

(1) The new Main Kitchen at Porterville, including preliminary plans, working drawings, and construction (i.e., the entire project); *and*

(2) The preliminary plans to renovate 24 satellite kitchen/dining rooms in the residence areas to bring them into code compliance.

***First,* the appropriation for the *new* Main Kitchen consists of $22.6 million (lease revenue bonds) for the entire project (29,000 square feet).** The new Main Kitchen would replace a seismically deficient kitchen with functionally deficient equipment. The deficiencies at the kitchen have led to many citations for health violations. The Department of General Services has determined that the Main Kitchen is in such disrepair that it would be more expensive to repair and seismically retrofit than to construct a new one. Every day about 2,400 meals are served at Porterville.

The Legislative Analyst's Office recommends rejecting the proposal for the new Main Kitchen and instead, recommends only $1.1 million (General Fund) to proceed with just the preliminary plan phase of the project. This is recommended in order to provide more legislative oversight.

The LAO notes that this is a complex project and that it will take several years to complete. If lease revenue bonds are used to fund the project as requested, the Legislature would have to authorize funding for preliminary plans, working drawings and construction at one time. This is because lease revenue bonds cannot be used to fund only preliminary plans (i.e., usage of bond funds requires the assurance that a project will be constructed). They believe this reduces the Legislature's oversight of the project. In addition, the LAO contends that a more detailed cost estimate is needed on this project.

Subcommittee staff recommends approval of the Administration's proposal for the new Main Kitchen. The use of lease revenue bonds is appropriate for this purpose and the Public Works Board assists in providing oversight. **It is a new construction project, versus a remodel, and therefore should be treated as a package.** The Department of General Services has noted its condition and need for timely completion, particularly with the 96-bed expansion. Dividing the project up into phases would also slow the project down and extend its timeline.

***Second,* the appropriation for renovating the 24 satellite/dining rooms is $1.2 million (General Fund) to prepare preliminary plans.** The DDS states that of the 30 satellite kitchen/dining rooms at Porterville, 24 of them need to be remodeled to bring them into health and safety code compliance. **Of these 24, nine of the satellite kitchen/dining rooms are inside the secure perimeter and 15 are outside of the secure perimeter.**

The LAO recommends to delete this funding request due to a lack of justification. The proposal did not justify why the satellite kitchens/dining rooms needed all the proposed extensive renovations.

Subcommittee staff recommends approval of the Administration's proposal for the 24 satellite kitchen/dining rooms. These kitchen/dining rooms are located in the living areas (i.e., residences) and are in significant disrepair. Using General Fund for the preliminary plans is necessary since lease revenue bonds cannot be used to fund just preliminary plans. Further, since these satellite kitchen/dining rooms are located in the residence buildings, the DDS does not want to use lease revenue bonds for this purpose (since these bonds can only be used to finance a building's construction on a one-time basis).

Questions. The Subcommittee has requested the DDS to respond to the following question.

1. **DDS**, Please provide a brief summary of the proposal.

B. Items Recommended for Vote Only—Department of Health Services *(1 through 7)*

1. Prostate Cancer Treatment Program

Issues. The **Administration proposes to appropriate $3.478 million (General Fund) to maintain a prostate cancer treatment program.** Under this proposal, a competitive contract would be awarded for prostate cancer treatment services in the amount of $3.128 million.

The remaining amount of $350,000 is to fund administrative support for the program through contract personnel (as presently done). These expenditures include funds for 2.5 contract positions, an external review committee process, and funds for an evaluation.

The number of men able to enroll in the program in the budget year will depend upon the amount of funding available for the program and on the average cost per man to receive treatment through the program. Additionally, SB 650 (Ortiz), Statutes of 2005 specifies that 87 percent of the contract will be used for direct patient care reimbursed at Medi-Cal rates. Reenrollment criteria will be established under the new contract by the DHS.

The DHS has released a Request for Application (RFA) for the new contract. The RFA respondents are required to describe how they will establish and maintain a statewide provider network based on the criteria contained in the RFA and as it pertains to the "scope of work". This network will be required to provide all necessary prostate cancer treatment services that fall within the context of covered services as defined by the DHS with the contractor.

The administration of the program will be done via contract as well. The $350,000 would provide contract staff that would manage the treatment contract, monitor costs, respond to inquiries, and evaluate program effectiveness and quality and liaison with the program contractor. The program has historically been dependent upon contract positions housed at the state, or in-kind support provided by the DHS Cancer Detection Section staff for contract oversight. Presently, there are no positions directly associated with the program at the DHS.

It should be noted that the Administration's increase of $3.478 million (General Fund) for 2006-07 is considered to be one-time only funding. They contend that the need for ongoing funding for this program after 2006-07 will be reviewed during the 2007-08 budget process, and will be dependent upon the review of a Legislative report due as of July 2006, and experience gained by the program through implementation.

Current year funding of $2.4 million (General Fund) was provided by SB 650 (Ortiz), Statutes of 2005. The DHS has provided the following statistics on the program in the current year (as of March 7, 2006).

- Enrolled for treatment in 2005-06 219 men
- Re-enrolled for treatment in 2005-06 159 men
- Disenrolled from treatment in 2005-06 2 men
- Pending new enrollments 96 men

- Pending re-enrollments 40 men

Additional Background—Prostate Cancer Treatment Program. SB 650 (Ortiz), Statutes of 2005, appropriated $2.4 million (General Fund) in the current year for the Prostate Cancer Treatment Program. It also modified the program to maximize the amount of funding spent on prostate cancer patient care services, and states that contracts awarded to implement the program after July 1, 2006 must be entered into on a competitive basis. Specifically, SB 650 specifies that 87 percent of the contract shall be used for direct patient care reimbursed at Medi-Cal rates.

DHS is required to report an evaluation of the program which is due to the Legislature as of July 1, 2006.

The current-year contract is with UCLA. A new contract will be procured through a competitive process as required by the legislation.

Subcommittee Staff Recommendation. No issues have been raised by the LAO or Subcommittee staff regarding these issues. **It is recommended to approve the proposal.**

2. CA Coalition to Cure Prostate Cancer Research Fund—Tax Check-off

Issue. The Subcommittee is in receipt of a Finance Letter that requests appropriation authority of $182,000 (Prostate Cancer Research Fund) as directed by AB 658, Statutes of 2004.

Under this law, the Franchise Tax Board collects revenue from voluntary contributions through the tax check-off portion of the personal income tax forms and is to be deposited into this special fund. These funds are to be used by the CA Coalition to Cure Prostate Cancer with resources to provide grants to further prostate cancer research.

The statute specifies that the funds are to be allocated first to the Franchise Tax Board and the State Controller for reimbursement of all costs incurred in connection with their duties under this mandate. The remaining amount is then to be appropriated under the DHS for disbursement to the CA Coalition to Cure Prostate Cancer.

Subcommittee Staff Recommendation. It is recommended to approve the proposal. No issues have been raised and the proposal conforms to the legislation.

3. Support for Ongoing Workload for Medicare Part D Prescription Drug

Issue. The DHS **is requesting an increase of $264,000 ($66,000 General Fund) to support 4 new, permanent Program Technician III positions for the Third Party Liability Branch.** These positions would be used to address the ongoing workload increase resulting from the Medicare Modernization Act (MMA) provisions related to the prescription drug coverage for individuals dually eligible for Medicare and Medi-Cal.

These positions would be responsible for researching problems pertaining to Medicare Part D enrollment of Medi-Cal enrollees identified through system transaction reports or reported by federal and/or local government staff, among others. The DHS states that resolution of these problems would ensure the accuracy of the Medi-Cal Eligibility Data System (MEDS) and maintain the integrity of the Medi-Cal Program's payment system, specifically third party liability cost avoidance**. If resolution is not achieved, the state may pay for services that should otherwise be paid by the federal government through the Medicare Program.**

It should be noted that enhanced federal financial participation at the 75 percent matching level is available for these positions.

Legislative Analyst's Office—Approve as Two-Year Limited-Term. The LAO **recommends to approve the positions as two-year limited-term positions since the Part D Program is in flux and should hopefully have some of its problems resolved within this timeframe.** After the two-year period, the Legislature can reassess the need to have them ongoing.

Subcommittee Staff Recommendation—Concur with LAO. It is **recommended to adopt the LAO recommendation.** This action would conform to the Assembly.

4. Delete Budget Bill Language Due to Error in Governor's Budget--*Technical*

Issue. The **Administration incorrectly inserted Budget Bill Language into the Governor's budget which is no longer applicable.** Specifically, prior to 2005, up to $1.3 million (General Fund) had been allocated to several counties to provide planning and start-up funding for the beginning components of an integrated long-term care program. Since this time, the projects have evolved and the Administration is proceeding down a modified policy track by focusing on different models to explore.

The Budget Bill Language was copied over from previous years and is in error. In addition, the $1.3 million General Fund it references is *not* included in the Governor's proposed budget.

Subcommittee Staff Recommendation. It is **recommended to delete provision 11 in Item 4260-101-0001 which would enable the DHS to allocate $1.3 million to counties with integrated long-term care projects.** This is recommended because the Administration inadvertently placed this language into their proposal and did not provide the General Fund support to fund it. Further, the use of these funds is no longer applicable since more work needs to be done regarding implementation of an integrated long-term care program. Policy legislation may be proceeding on this issue.

5. Erectile Dysfunction Drugs Trailer Bill Language—*Reject, Send to Policy*

Issue. In November 2005, the DHS notified providers that for dates of service on or after January 1, 2006, Medi-Cal will no longer cover drugs when used to treat sexual dysfunction or erectile dysfunction. The Administration proposed trailer bill language to effectuate this policy change. Since there are no fiscal savings associated with the proposal, it was placed into policy legislation (i.e., AB 2885 (Plescia)).

Subcommittee Staff Recommendation. It is recommended to **reject** the Administration's proposed language since policy legislation is moving on this issue (i.e., AB 2885 (Plescia)).

6. Emergency Physician's Funding of $24.8 million (Propositions 99 Funds) *(See Hand Out)*

Issue. The DHS proposes to continue an appropriation of $24.8 million (Proposition 99 Funds) and trailer bill language to reimburse physicians, surgeons and hospitals for uncompensated emergency medical services through the Emergency Medical Services Fund. This is the same proposal as adopted last year (including both the trailer bill language and the dollar amount). Further, similar appropriations have been provided for the past several years. Since the revenues deposited into the various Proposition 99 Fund accounts (i.e., Unallocated, Hospital Services and Physician Services) can fluctuate, this supplemental funding is contingent upon an annual appropriation.

Subcommittee Staff Recommendation. It is recommended to approve the proposed trailer bill language and the appropriation. No issues have been raised.

7. Export Document Program—Fee Supported Special Fund

Issue. The DHS is requesting **an increase of $228,000 (Export Document Program Fund) to hire two limited-term positions—an Associate Governmental Program Analyst and a Food and Drug Program Specialist. These positions would provide resources to review export certification requests, including applications and product labeling for conformances with state and federal regulations.** The positions would be funded with revenues collected from fees.

No fee increases are proposed since there are sufficient reserves in the special fund.

In addition, the proposal would fund the development, printing and distribution of an informational brochure to be translated into several languages and made available to applicants needing assistance in a language other than English for their export certification needs.

The DHS states that the export market for California produced foods, drugs, medical devices, and cosmetics has increased significantly. Most counties require the submission of export documents issued by the DHS before importation of California manufactured products is permitted. The increased volume has resulted in significant delays in the completion of reviews and issuance of certificates. These delays have an economic impact and have resulted in increased complaints from exporters that their businesses are suffering due to the lengthy time required for issuing certifications.

Presently the DHS has 1.5 positions at the Office Technician level and no scientific or investigative staff. **As such, the DHS is seeking approval of two positions to complete the technical review of the export applications and product labeling.**

Additional Background. The exportation of foods, drugs, and medical devices by California manufacturers is a multi-billion dollar a year business. Most importing counties require "certificates" from the exporting state certifying that the manufacturer/distributor is currently licensed and has met all regulatory requirements. As directed by statute, the DHS must issue these certificates for these particular products.

The DHS considers two primary factors in deciding whether an export document should be issued. First, the system of manufacture and quality control used to produce the products must be adequate. This is determined by the DHS during inspections of the manufacturers, distributors and wholesalers. Second, the products must be properly labeled. This is determined by a review of product labeling at the time of export document request. Foreign countries require the export certification documents before products can be imported from California (as well as other states). The certification fees are subject to annual adjustment. However the minimum amount of $25 has not been changed since 1990.

Subcommittee Staff Recommendation. It is recommended to approve the proposal. The workload is justified and no issues have been raised.

C. ITEMS FOR DISCUSSION-- Department of Health Services

1. Newborn Screening Program—Addition of Cystic Fibrosis & Biotinidase

Issue. Though California's Newborn Screening Program was expanded in trailer bill legislation in the Budget Act of 2004, the state's program does not yet screen for the uniform panel of conditions as recommended by the federal HRSA for state screening programs and as designed by the American College of Medical Genetics. **Specifically, California does *not* screen for Cystic Fibrosis *and* Biotinidase deficiency.** As of 2005, **19 states presently screen for Cystic Fibrosis in their programs.**

Several organizations are seeking an increase in the budget to proceed with the development and pilot testing processes required to expand the Newborn Screening Program to add these two additional tests.

At the request of the Subcommittee, the DHS prepared fiscal information as to what it would cost to (1) develop a newborn screen for Cystic Fibrosis, ***and* (2)** develop a newborn screen for Biotinidase deficiency at the same time as the development of the Cystic Fibrosis process.

The proposed expenditures as shown below reflect **development costs** for the budget year and assume that implementation would *not* occur until August 1, 2007. The total proposed expenditures for 2006-07 would be **$8.4 million Genetic Disease Testing Fund**.

- *Development of Screen for Cystic Fibrosis.* An increase of **$5.9 million** (Genetic Disease Testing Fund) would be needed as follows:
  - Reagents (6 month supply for pilot tests) $1.6 million
  - State Personnel (5 positions at nine months) $337,500
  - Contracts for Testing Services, including laboratories follow-up, diagnostic services and 6 months of testing) $910,000
  - System Changes $2.250 million
  - External Project Manager $600,000
  - End User Training $250,000

- *Adding a Screen for Biotinidase at the Same Time.* An increase of **$2.5 million** (Genetic Disease Testing Fund) would be needed as follows:
  - Reagents (6 month supply for pilot tests) $1 million
  - State Personnel (5 positions at nine months) $202,500
  - Contracts for Testing Services, including laboratories follow-up, diagnostic services and 6 months of testing) $303,500
  - System Changes $742,500
  - End User Training $300,000

All of the proposed costs would be funded with a fee increase to the Newborn Screening Program, as shown below:

- Current Newborn Screening Fee $78.00
- Increase to Fund Cystic Fibrosis **$12.00**
- Increase to Fund Biotinidase (same time) **$ 5.75**
  - Proposed Total Revised Fee $95.75

As noted above, for both the Cystic Fibrosis and Biotinidase to be added to the program (at the same time), a total fee increase of about $17.75 would need to occur, to bring the total revised fee amount to $95.75. The DHS currently has the authority to increase fees as necessary to operate the program. However, statutory change would be needed to add these two conditions to the screening panel.

It should be noted that for the development to occur to add Cystic Fibrosis and Biotinidase, the fee increase would need to occur as of July 1, 2006. However, access to the Newborn Screening test that includes these two screens will not be available until August 1, 2007. This is the same process that was used to implement the Newborn Screening Program expansion of 2005. **The development costs need to be funded prior to the screen actually being offered.**

An early diagnosis through newborn screening slows the progress of the disease and allows a child to receive appropriate medical treatment before some irreversible disease processes have begun. The federal CDC has documented that early detection for Cystic Fibrosis results in better nutritional status, improved growth and mental functioning and longer survival.

In California, more than 1 million individuals are symptom less carriers of the defective Cystic Fibrosis gene (an individual must inherit two defective genes to have Cystic Fibrosis). Each time two carriers conceive there is a 25 percent change that their child will have Cystic Fibrosis. **Based on an expected 560,000 births, a screening program would detect about 89 cases of the disease that would not otherwise be found at birth.**

The DHS has conducted a cost-benefit analysis regarding Cystic Fibrosis detection and have found that an annual health care cost avoidance of $9.1 million. This is based upon the 89 cases annually and uses a recently published benefit cost ratio for screening for Cystic Fibrosis of 2.6 (Washington State program ratio).

Background—Cystic Fibrosis. Cystic Fibrosis is one of the most common of the serious inherited childhood disorders, affecting about 3,000 children and adults in California. A defective gene causes the body to produce abnormally thick, sticky mucus that clogs the lungs and leads to life-threatening lung infections. These secretions obstruct the pancreas preventing digestive enzymes from reaching the intestines to help bread down and absorb food, often leading to impaired growth and development.

Background—Biotinidase Deficiency. Biotinidase deficiency is cause by the lack of an enzyme call Biotinidase. The deficiency of the enzyme affects normal biotin (one of the B vitamins) recycling. This results in a biotin deficiency. This deficiency occurs in about 1 in

60,000 births. Without treatment, this disorder can lead to seizures, developmental delay, eczema and hearing loss. Metabolic acidosis can result in coma and death.

The gene defect for Biotinidase deficiency is unknowingly passed down from generation to generation. This faulty gene only emerges when two carriers have children together and pass it on to their offspring. Problems can be **prevented** with biotin treatment (provided orally).

Background—Newborn Screening Program. The Newborn Screening Program was expanded in the Budget Act of 2005, and accompanying trailer bill language to include screening of additional metabolic disorders using Tandem Mass Spectrometry, as well as congenital adrenal hyperplasia. **The DHS was able to implement the program as of August 1, 2006 through the use of certain exemptions, primarily from state contract requirements, that were provided through the enabling legislation.**

Subcommittee Staff Recommendation. Though expanded in 2005, California's Newborn Screening Program still does not meet the federal HRSA uniform panel of conditions to be conducted under state screening programs, as designed by the American College of Medical Genetics. The addition of these two conditions would do this. Further, it would be cost-beneficial for the state to add these conditions to the screening process.

SB 1748 (Figueroa), as amended, proposes to include Cystic Fibrosis into the program. The legislation is presently on suspense in Senate Appropriations Committee. However, even if the legislation becomes law, implementation could conceivably take up to two years since resources would not be obtainable until much later in the process. As such, the time needed for development would be lost. Since the Newborn Screening Program is an existing program (not a new concept), consideration of its expansion through the budget process makes sense (as was done in 2005).

It is recommended to (1) adopt placeholder trailer bill legislation to be worked out with the Administration, from a technical assistance basis, to include these two conditions in the screening panel and to provide necessary exemptions, and **(2)** appropriate $8.4 million (Genetic Disease Testing Fund) for the Newborn Screening Program. This recommendation assumes that the DHS proceeds with their existing authority to increase the fees, as outlined, to accommodate the development costs.

Questions. The Subcommittee has requested the DHS to provide technical assistance on this issue by responding to the following questions.

1. **DHS**, Please briefly describe what would be needed to expand the program as noted.

2. Implementation of AB 121 Regarding Lead in Candy

Issue. The DHS is **requesting an increase of $1 million (General Fund) to support 8 new positions and purchase laboratory equipment to initiate activities for implementation of AB 121 (Vargas), Statutes of 2005.**

This legislation requires the DHS to regulate the lead content in candy by: (1) testing candy to determine whether it contains lead in excess of the adulteration level; **(2)** establishing procedures for use by candy manufacturers for testing and certifying candy as being unadulterated; **(3)** taking certain follow-up actions to ensue that adulterated candy would not e sold or distributed and **(4)** convening an interagency collaborative to serve as an oversight committee, and **(5)** to work with the Office of Environmental Health Hazard Assessment (OEHHA), part of the Cal-EPA, in establishing and revising the adulteration level of lead.

The DHS states that this request would also allow them to perform bilingual lead poisoning prevention education efforts and partner with Mexican government officials, with the assistance of the U.S.-Mexican Border Health Commission, in efforts to reduce lead in candy.

The 8 requested positions and their key functions are as follows:

- *Research Scientist II's (Two positions for Chemical Sciences).* These two positions would be used to (1) complete testing of candy samples, (2) perform quality assurance and control testing, (3) prepare audit reports and data summaries, and (4) provide consultation and training in testing methods to candy manufacturers and local health agencies.
- *Research Scientist II (Food & Drug Sciences).* This position would be used to (1) prepare and periodically revise protocols for statistical sampling and testing of candy, (2) evaluate lead test data received from the laboratories and determine whether follow-up sampling and testing would be necessary, (3) inform the Food and Drug Investigator of adulterated candy for enforcement actions, and (4) respond to questions from candy manufacturer's and consumers.
- *Research Analyst I.* This position would be used to (1) design and perform quantitative and qualitative data analysis tasks relating to the prevalence and incidence of lead in candy, (2) analyze and prepare statistical reports and summaries for the Legislature, media and the public on the surveillance data gathered from lead in candy investigations, (3) develop and use innovative research and statistical methods and techniques to perform a variety of data matching, analysis, trending, and statistical activities to determine prevalence of lead in candy, and (4) prepare reports of findings and forward surveillance data to the Interagency Collaborative.
- *Senior Food and Drug Investigator.* This position would be used to (1) collect regulatory samples, take enforcement actions and coordinate recalls of candy, (2) prepare documents for civil cases or administrative hearings on firms that sold or distributed adulterated candy, (3) respond to consumer and industry complaints

regarding candy, and (4) collaborate with Border Health Agency to identify firms in violation in foreign counties and to manage enforcement activities.

- *Laboratory Technician.* This position would be used to (1) prepare samples for testing, (2) Prepare reagents for testing, (3) store, maintain, and inventory retained samples, reagents, and replacement parts for instruments, and (4) prepare and send test results to the DHS Food and Drug Branch or other agencies under the direction of the Research Scientist II's (see above).
- *Staff Programmer Analyst II.* This position would be used to (1) maintain the programming for storing database information, (2) enter test results in the database, (3) generate and print test data in various formats upon receiving requests, and (4) post the test results and other information relating to lead in candy to the DHS' Food and Drug Branch website.
- *Associate Governmental Program Analyst.* This position would be used to (1) operate the Interagency Collaborative, (2) analyze the effectiveness of regulatory controls as related to the requirements of the bill, and (3) prepare status reports to the Interagency Collaborative regarding the implementation of the bill's requirements.

In addition, the DHS is requesting to expend $252,300 (General Fund) for equipment, including laboratory equipment, reagents, computer equipment, and public safety equipment. About $190,000 of the total amount is for the purchase of a Mass Spectrometer which is needed to measure the lead content in candy. Of the $252,300, only $60,000 would be ongoing expenditures for reagents and related materials.

The bill requires the cost for the activities to be funded in part or in whole by civil penalties imposed based on violations, test-related cost recovery from the manufacturer or distributor of adulterated candy, and grant funding. However, the Administration estimates that funding from these sources would be minimal and insufficient for implementing the newly mandated activities. Therefore they are proposing the use of General Fund support.

The DHS would have to establish procedures using OEHHA methods for the testing and certification of candy. As discussed below, the OEHHA will not be establishing these standards for at least two-years (i.e., 2008).

The DHS maintains that even if the OEHHA does not establish the required standard by July 1, 2006, the DHS still has requirements in AB 121 that must be addressed even if there are delays in the regulations defining "naturally occurring levels". Further the DHS notes they will still test candy at the existing 0.5 parts per million standard and take appropriate regulatory action.

In addition, the DHS has had discussions with the Attorney General's Office as part of the Proposition 65 litigation against certain candy manufacturers. **Based on these discussions, the DHS believes that a written determination from the Attorney General's Office will be available by July 1, 2006 or soon thereafter.**

Additional Background--Role of the Office of Health Hazard Assessment (OEHHA). AB 121, Statutes of 2005, requires OEHHA, part of Cal-EPA, to adopt regulations that identify a level of lead that is naturally occurring in candy with chili, tamarind or other ingredients that may contain high lead levels. OEHHA would also certify sampling and testing protocols, as well as serve on an interagency oversight committee. With respect to the regulations, AB 121 requires OEHHA to have them in place by July 1, 2006.

The OEHHA budget proposes an increase of $125,000 (General Fund) to fund a Research Scientist III and related operating expenses. It should be noted that this budget request states that OEHHA will *not* meet the July 1, 2006 date and in fact, says it will take them at least two years to identify a naturally occurring level and adopt it in regulation. **Senate Subcommittee #2 approved the OEHHA request.**

OEHHA notes that identifying naturally occurring lead levels is especially challenging for candy products produced in foreign countries, including Mexico. In many of these countries, lead contamination from human activities can vary significantly due to differing historic and continuing uses of lead. They contend that determining a naturally occurring level amounts to a significant academic undertaking that is impossible for OEHHA to complete within the six-month timeline provided for by the legislation. Therefore, they believe it is going to take them two years to complete the regulations.

Additional Background—DHS Activities. Under existing law, the DHS is responsible for administering and enforcing the Sherman Food, Drug and Cosmetic Law which prohibits the adulteration of food, or the manufacturing, selling, delivering, holding, or offering for sale of any adulterated food in California.

Although a relatively uncommon source of lead poisoning, some imported candies have been found to contain lead in excess of the maximum amount deemed safe for consumption by a child in one day. The DHS has issued seven public health advisories since 1993 (with the latest one being March 2004) regarding concerns with lead in candy.

In 2004 the DHS tested 167 imported candy samples and found 127 of them with measurable levels of lead, while 11 had lead levels that are deemed unsafe for consumption by current regulatory standards. This candy was embargoed and public health advisories were issued. Currently the DHS conducts analysis of candy for lead in only about 100 varieties of candy per year.

Subcommittee Staff Recommendation. It is **recommended to approve** the DHS proposal. Implementation of this legislation will assist in addressing an important public health concern.

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

1. DHS, Please briefly describe the budget request.

3. AIDS Drug Assistance Program (ADAP)—*Base Program*

Issue. The **budget proposes an increase of $28.1 million ($16.5 million General Fund) for the AIDS Drug Assistance Program** for total expenditures of $296.4 million ($107.7 million General Fund, $100.9 million federal funds, and $87.8 million in drug rebates). The proposed increase is based on actual ADAP expenditures through June 2005 and reflects ongoing cost trends for the program. The model to project expenditures is a linear regression model that has generally been used for the past few years.

The principle cost factors for ADAP are steadily increasing drug prices and an increasing client caseload. Over 80 percent of ADAP expenditures are spent on anti-retrovirals and 7 percent are spent on opportunistic infections. Individuals enrolled in the ADAP often continue in the program for longer periods since HIV/AIDS is a chronic illness, and other public and private healthcare are limiting prescription drug coverage. On average, ADAP clients access the program of 7.4 months per year.

Further, ADAP clients are now receiving more prescription medications per person than in past years. Drug resistance, the adverse health effects of long-term anti-retroviral therapy, and a need for increased anti-retroviral support all contribute to this increase. **It is estimated that ADAP will serve over 28,000 clients in 2006-07.**

Studies consistently show that early intervention and treatment adherence with HIV/AIDS-related drugs prolongs life, minimizes related consequences of more serious illnesses, reduces more costly treatments, and increases the HIV-infected person's health and productivity.

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 28 percent of ADAP costs.**

Background—How Does the AIDS Drug Assistance Program Serve Clients? ADAP is a subsidy program for low and moderate income persons (individual income cannot exceed $50,000) with HIV/AIDS who have no health care coverage for prescription drugs and are *not* eligible for "no-cost" Medi-Cal Program.

ADAP clients with incomes between $39,200 (400 percent of poverty) and $50,000 are charged monthly co-pay for their drug coverage. A typical client's co-payment obligation is calculated using the client's taxable income from a tax return. The client's co-payment is the lesser of: (1) twice their annual state income tax liability, less funds expended by the person for health insurance premiums, or (2) the cost of the drugs.

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 154 drugs currently). The formulary includes anti-retrovirals, opportunistic infection drugs, hypolipidemics, anti-depressants, vaccines, analgesics, and oral generic antibiotics.

Since the AIDS virus can quickly mutate in response to a single drug, medical protocol now calls for Highly Active Anti-retroviral Treatment (HAART) which minimally includes three different anti-viral drugs.

Background—ADAP Uses a Pharmacy Benefit Manager. Beginning in 1997, the DHS contracted with a pharmacy benefit manager (PBM) to centralize the purchase and distribution of drugs under ADAP. Presently there are about 238 ADAP enrollment sites and over 3,300 pharmacies available to clients located throughout the state.

Background—ADAP Drug Rebates (Federal and State Supplemental). Both federal and state law require ADAP drug manufacturer rebates to be paid in accordance with the same formula by which state Medicaid (Medi-Cal) programs are paid rebates. This formula is established by the federal CMS. Due to federal restrictions regarding the rebate calculation formula, the actual calculation (i.e., the specific multiplier) is not available to the state or the public. Therefore, the actual rebates California receives varies by the amount invoiced to the drug manufacturer.

California also negotiates additional supplemental rebates under ADAP via a special national taskforce, along with eight other states. The mission of this taskforce is to secure additional rebates from eight manufacturers of antiretroviral drugs (i.e., the most expensive and essential treatment therapies). The DHS has also begun to negotiate supplemental rebates on non-antiretroviral drugs.

Subcommittee Staff Recommendation. It is **recommended to approve the proposal**. It is likely that technical adjustments will be forthcoming at the May Revision to adjust the costs (more updated data), as well as revenues to be received from federal funds and drug rebate funds.

Questions. The Subcommittee has requested the DHS to respond to the following question.

1. **DHS**, Please provide a brief summary of the proposal.

4. Medicare Part D Drug Program and Individuals with HIV—*Proposed Changes*

Issue. California's ADAP also interacts with the implementation of the federal Medicare Part D Drug Program*.* *Medicare-only* clients with AIDS will have new cost burdens under Medicare Part D because of the complicated interaction between ADAP and the Medicare Part D Drug Program. **This complicated interaction is discussed further below.**

In order to address concerns with these interactions, constituency groups are requesting to use federal Title II Ryan White CARE Act funds to subsidize premiums for Medicare-only ADAP clients. The premiums would be paid out of the CARE-HIPP since this program exists to pay health care premiums for those who cannot otherwise afford them.

The DHS presently has the statutory authority to use federal Title II Ryan White CARE Act funds for premium assistance via CARE-HIPP but they contend they would need positions to address the workload needs.

It is assumed that this use of federal funds from ADAP would not be a concern because the annual premium cost for each individual would be about $279 for 2006 while each individual enrolled in Medicare Part D should save ADAP about $1,500 annually (i.e., Medicare pays 75 percent of the drug cost during the first level of Medicare coverage).

It is estimated that ADAP will save about $9.2 million because there will be 6,161 clients covered by the first level of Medicare Part D coverage. It is estimated that the total cost in 2006-07 to make premium payments is $1.3 million. This premium payment figure consists of costs for Medicare-only ADAP individuals and costs for Medi-Cal share-of-cost/Medicare ADAP individuals. **Therefore, there are funds available for the DHS to provide this premium assistance.**

However, no funding shifts are necessary for the DHS to expand CARE-HIPP. The DHS has existing statutory authority to use funds within the ADAP, when cost beneficial to the state (i.e., saves funds in ADAP). This is because it allows the state to use ADAP as the payer of last resort.

A similar comparison to this is how the state currently pays certain Medicare healthcare coverage premiums using the state's Medi-Cal Program when it is cost-beneficial for the state.

As a payer of last resort, ADAP clients who also have Medicare coverage (i.e., the Part D Drug benefit) are required to use their Medicare drug benefit first. These clients will likely turn to ADAP for assistance in "subsidizing" Medicare by meeting their out-of-pocket costs.

It is important to note that the Medicare HIV/AIDS population is different from the general HIV/AIDS population because these individuals have been disabled by their HIV infection and have survived the 29 month waiting period to qualify for Medicare.

Most people with HIV infection on Medicare are dealing with health care problems associated with advanced HIV disease, side effects from HIV treatment, and concurrent disease issues, including mental health issues. They often need multiple medications.

Background—Interaction of ADAP with Medicare Part D and its Complications. This section will discuss how the **ADAP has *evolved*** because of the implementation of the federal Medicare Part D Program as of January 1, 2006.

With the implementation of the federal Medicare Part D Program (January 1, 2006), ADAP serves the following segments of people:

- *People who have full Medi-Cal coverage (i.e., no share-of-cost), Medicare and proactively sign up for ADAP.* Prescription drug coverage for this group has moved from Medi-Cal to Medicare. ADAP covers the fixed co-pays ($1 to $5) required under Medicare Part D *only* for drugs on the ADAP formulary. There are about 9,239 people in this category (best estimate at this time). (Existing state statute provides for this.)

- *People who qualify for Medi-Cal with a share-of-cost (i.e., Medically Needy), Medicare and ADAP*. ADAP can no longer pay the Medi-Cal share-of-cost because it can only pay for drug coverage and drugs for these individuals are now provided through the Medicare Part D Program.

- *People who qualify for Medicare and ADAP.* Currently, people must sign up for Medicare Part D and pay their premiums before ADAP can continue assistance, as ADAP is a payer of last resort. ADAP can pay the deductible for drugs that are on the ADAP formulary. It can pay the co-insurance in the first level of coverage of the standard Medicare drug benefit for drugs on the ADAP formulary and it can provide coverage in the "donut hole" for the same drugs.

Before Medicare Part D, the ADAP served the following segments of people:

- *People who qualified for Medi-Cal through the Medically Needy Program (and had a monthly share-of-cost), Medicare and ADAP.* The ADAP paid the share-of-cost associated with prescription drug coverage, after which Medi-Cal covered the remaining prescription drug cost and some health care costs not covered under Medicare. There are about 3,100 people in this category (best estimate at this time).

- *People who qualified for Medicare and ADAP but had little or no prescription drug coverage. ADAP.* ADAP provided most or all of this population's prescription drug coverage. There are about 3,061 people in this category (best estimate at this time).

Background—CARE/HIPP Program. The federal Ryan White Comprehensive AIDS Resources Emergency (CARE) Act of 1990 established the Health Insurance Premium Payment (HIPP) Program under Title II of the Act. **This program pays health insurance premiums on behalf of people disabled by HIV/AIDS and at risk of losing their health insurance coverage.**

California's CARE/HIPP budget consists of an annual allocation of $1.7 million (federal Ryan White CARE Act Title II funds). Recent research has shown that for every $1 of CARE/HIPP money spent, Medi-Cal and ADAP save about $8.

In California, individuals are eligible for CARE/HIPP if they meet the following requirements: (1) resident of California; (2) are disabled by HIV/AIDS; (3) have assets less than $6,000; (4) have income less than 400 percent of federal poverty; and (5) have a monthly insurance premium less than $500. **Clients may remain on CARE/HIPP for 29 months, and must recertify eligibility every three months.** Since its inception, CARE/HIPP has served over 3,000 clients (since 1990). **Presently there are about 457 clients being served.**

Subcommittee Staff Recommendation. It is recommended to provide an increase of $182,000 (General Fund) to provide two Associate Governmental Program Analyst's to the Office of AIDS to support the cost-beneficial expansion of the CARE HIPP to provide assistance to individuals using ADAP and the Medicare Part D Program because it is cost-beneficial to the state.

Questions. The Subcommittee has requested the DHS to respond to the following questions in order to provide technical programmatic assistance.

2. **DHS**, Would it be cost beneficial to expand the CARE HIPP to provide assistance to Medicare Part D individuals to maintain cost effectiveness in ADAP?

5. Proposed Expenditure of New Federal Pandemic Influenza Funding—*CY & BY*

Issue—Receipt of Section 28 Letter. On April 27th the Administration submitted a Section 28 Letter to the Joint Legislative Budget Committee (JLBC) **regarding the expenditure of $ 6.7 million in *one-time only* supplemental federal funds from the federal Centers for Disease Control (CDC) to prepare for and respond to an influenza pandemic.** The $6.7 million (federal funds) must be encumbered by August 31, 2006 and does *not* require any state matching funds. The federal CDC had notified states in mid-January of the availability of these funds but did not provide federal guidance until March.

The Administration's expenditure proposal affects both the current-year and budget year. The current-year would expend $877,000 (federal funds) and the budget year would expend $5.8 million (federal funds). **These are discussed separate below.**

SB 409 (Kehoe) and the Current Year Section 28 Proposal. The Administration's current-year proposal for pandemic flu was discussed and evaluated through the Budget Subcommittee process, as well as the policy committee process. From these discussions, SB 409 (Kehoe) was crafted. **This legislation was passed by the Legislature and sent to the Governor on May 4th.**

The Administration's Section 28 letter does not affect the current-year appropriations contained in SB 409, but it does propose to expend federal funds in areas that are **still pending budget deliberations *and* affect the budget year. In addition, it proposes to expend federal funds on certain requirements as directed by the federal CDC.**

In a May 5th letter to the DOF, Senator Chesbro notes that some of the proposals are premature for the current year given that the issues are still being discussed for budget year purposes and were intentionally absent from SB 409 for this reason.

As noted in the letter, Senator Chesbro was advised by the LAO that it is possible to obligate a portion of the new federal funds for other eligible pandemic influenza purposes in 2006-07 (by August 30, 2006) so that they would not be lost by the state.

Given this perspective, Senator Chesbro informed the DOF that only $290,000 (federal funds) would be approved for the current year and the remaining amount $587,000 (i.e., $877,000 less $290,000) be used instead as part of deliberations on the 2006-07 budget in this area.

The following table depicts the detailed affect of this JLBC recommendation.

Table—Administration's Section 28 and Response of the JLBC *(Proposed Changes)*

Topic	Governor's January (Current Year)	Section 28 Letter (Current Year)	JLBC Response (Current Year)
Pandemic Flu Preparedness (PS 03)	5 positions (partial) $272,000 GF	5 positions (May-June) **$108,000 federal** $164,000 GF	**Deny.** These positions are under discussion in the budget year.
State Support for Local Health Preparedness (PS 61)	5 positions (partial) $213,000 GF	5 positions **$101,000 federal** $112,000 GF	**Deny.** Under discussion in budget year.
Consultant--Training for locals (PS 61)	$127,000 GF	**$63,411 federal** $63,589 GF	**Deny.** Under discussion in budget year.
Public Education and Media: • "in" reach/outreach • Emergency Hotline • Public Media • State Staff (5 positions) (PS 62)	 $250,000 GF $500,000 GF $2,050,000 GF $221,000 GF	 **$125,000 federal** $125,000 GF **$100,000 federal** $400,000 GF $2,050,000 GF **$90,000 federal** $131,000 GF	**Deny.** Under discussion in budget year.
Subtotals	$3,633,000 GF	**$587,411 federal** $3,035,589 GF	**$587,411 federal (deny)** GF not funded in CY
New Federal Requirements:			
• Exercise pandemic flu plans and procedures		$50,000 federal	Approve, waive 30-days
• Operational emergency notification plan		$100,000 federal	Approve, waive 30-days
• Collaboration--other states, trial entities, Mexico, & military		$100,000 federal	Approve, waive 30-days
• Pandemic Flu Summit		$40,000 federal	Approve, waive 30-days
Subtotal Federal Requirements		**$290,000 federal**	**Approve all projects**
Total Federal Funds, Section 28		**$877,411 federal**	**Deny $587,411 and Approve $290,000**

Budget Year Section 28 Proposal. **As noted in the table below, the Administration is proposing to use about $5.5 million to offset General Fund support for certain activities as contained in the Governor's January budget for 2006-07. (The table below only shows proposed changes as affected by the Section 28.)**

Table—Administration's Budget Year *Changes* to Reflect New Federal Funds

Topic	Governor's January Budget 2006-07	Section 28 2006-07 (To be May Revision)	Prior Action Of Subcommittee
Pandemic Flu Preparedness (PS 03)	5 positions $673,000 GF	5 positions **$58,000 federal** $615,000 GF	Held **open**—See Agenda item #6 below.
Local Health Preparedness—61 areas (PS 61)	$16 million GF	**$4,506,245 federal** $11.5 million GF ($100,000 each, then population based)	• $9.150 million GF ($150,000 minimum, then population based) • $6.850 million-**open**
State Support for Local Health Preparedness (PS 61)	5 positions $497,000 GF	5 positions **$111,000 federal** $386,000 GF	Reduced by 2 positions
DHS consultant contracts: • Training for locals • Technical assistance (PS 61)	$1 million GF $382,000 GF	$1 million GF **$63,411 federal** $318,600 GF	Approved $1 million GF & rejected $382,000 GF No need for $63,411 fed
Public Education and Media: • "in" reach/outreach • Emergency Hotline • Public Media • State Staff (5 positions) (PS 62)	$1,000,000 GF $1,300,000 GF $11,476,000 GF $518,000 GF	**$200,000 federal** $800,000 GF **$100,000 federal** $1,200,000 GF $11,476,000 GF **$98,000 federal** $420,000 GF	Denied entire request in March 13th hearing.
Workforce Capacity—field investigators	$350,000 GF	**$350,000 federal**	$350,000 federal (our action already did)
Subtotal GF Offsets from Fed		**$5,486,656**	N/A—actions pending
New Federal Requirements:			
• Exercise pandemic flu plans and procedures		$120,000	
• Collaboration with other states, trial entities, Mexico and our military		$100,000	
• CAHAN hardware expansion to accommodate more users		$139,140	
Subtotal Federal Requirements		**$359,140 federal**	
Subtotal GF Offset to Budget		**$5,486,656 federal**	
Total Federal Dollars---BY		**$5,845,796 federal**	

__Subcommittee Staff Recommendation.__ ***First***, it is recommended to utilize the $587,000 in federal funds not to be expended for the current-year as directed by the JLBC, to off-set General Fund support in the budget year. These funds can be use for various purposes relating to pandemic flu; however, for ease of tracking the expenditure, it is recommended to use this $587,000 in one area and to use it to off-set state support costs. **Therefore, it is recommended to designate these funds for the proposal to "expand local and statewide communicable disease surveillance infrastructure" (PS-32) ($1.3 million GF) which was approved by the Subcommittee on March 13th. Specifically, the $587,000 would be used to offset a corresponding portion of the General Fund.**

Second, it is recommended to approve the request to provide $359,140 (federal funds) for the new "federal requirements" as shown on the chart and as required by the federal CDC.

Third, it is recommended to approve the proposed $4,506,245 (federal funds) amount for Local Health Jurisdictions as an augmentation to the prior Subcommittee action. The total amount of this proposed action would be to provide **$13.656 million** ($9.150 million General Fund and $4.506 million federal funds) to the locals. **In addition, it is recommended to adopt place holder trailer bill legislation that would allocate the $9.150 million based on the $150,000 minimum per local jurisdiction,** in lieu of the Administration's $100,000 minimum for this particular purpose.

It should be noted that under the Administration's revised proposal, a total of $16 million ($11.5 million and $4.506 million federal funds) would be provided, with $6.1 million allocated based on a $100,000 minimum and the remaining amount of almost $10 million being allocated based on population.

Fourth, the following technical adjustments are proposed to use the remaining federal funds as follows:

- Use the $111,000 (federal funds) for "State Support for Local Health Preparedness (PS 61)" in the same manner as the Administration proposes. This will offset the General Fund support for the Subcommittee's prior action on this issue (approved 3 of the five positions).
- Use $461,411 (federal funds) from those items previously denied by the Subcommittee (i.e., Administration's expenditures for some contracts, media campaign package) and use it to offset General Fund support for the $1 million in consultant contracts to assist the locals (PS 61).

__Questions.__ The Subcommittee has requested the DHS to respond to the following questions.

1. **DHS**, Please provide a brief description of the funding changes, and a brief overview of the new federal requirements.

6. Assuring Pandemic Influenza & Disease Outbreak Preparedness & Response *("Open" Issue*)

Prior Subcommittee Action—Held "Open". This issue was discussed in our **March 13th** hearing and was held "open" pending further discussion. This proposal is part of the Administration's overall pandemic influenza package.

Issue & Proposed Revision per Section 28 Letter. The Governor's January budget requested an increase of $673,000 (General Fund) to fund 5 new, permanent positions to prepare for and respond to pandemic influenza**.** The Administration is now proposing to off-set $58,000 of this amount by using federal funds. **Therefore, the revised funding is $673,000 ($615,000 General Fund and $58,000 federal funds).**

The requested positions would conduct epidemiologic investigations of influenza and respiratory infectious disease outbreaks, and provide epidemiologic and statistical support to the department. **The requested positions and their intended purposes are as follows:**

- *Immunization Branch (4 positions).* A total of four positions--Public Health Medical Officer, Nurse Consultant III, Research Scientist and Health Program Specialist—would be used to do the following key tasks:
    - Review state and national pandemic plans and develop standards for clinical activities that should be included in local pandemic influenza plans.
    - Communicate and coordinate with local, state and federal agencies and provide technical assistance.
    - Work with health care partners and other sources of influenza data to develop methodologies to evaluate influenza illness and vaccination coverage.
    - Research clinical care settings, including staffing, equipment and infrastructure to measure availability of surge capacity for an outbreak.
    - Develop standards of care for a clinical response to pandemic influenza, including antivirals, and vaccine prioritization strategies.
    - Conduct investigations of epidemiology and coordinate a statewide network of local and regional clinicians, epidemiologists and public and private laboratories to facilitate influenza activities.

- *Infectious Disease Branch (one position).* A Research Specialist III position would be used to provide epidemiologic and biostatistical support for the surveillance, prevention and control of influenza and respiratory disease outbreaks in coordination with the infectious disease laboratories.

The DHS states that these positions are necessary because they presently do not have the capacity to implement onsite epidemiologic investigation, or to provide the level of expertise required in the event of a pandemic influenza outbreak in California. They contend that these positions are needed to provide active planning

and development of policies, procedures model emergency orders and risk communication strategies in order to prepare for any pandemic event.

Legislative Analyst's Office Recommendation--Deny. The LAO contends that the DHS could utilize existing positions, funded using federal bioterrorism funds, for these purposes.

Subcommittee Staff Recommendation. It is recommended to modify this proposal to provide **a total of three staff**—the Public Health Medical Officer, Nurse Consultant III, and Research Scientist positions for the Immunization Branch. This would reduce the request by about $200,000 (General Fund). **Therefore the total appropriation would be about $473,000 ($415,000 General Fund and $58,000 federal funds).**

These positions would provide assistance to local health jurisdictions from an operational standpoint, by providing scientific and medical expertise. **Currently, the DHS responds to flu and respiratory infection outbreaks on an ad hoc basis.**

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

1. **DHS**, Please provide a brief summary of the proposal and how these positions are different than other positions being utilized within the department presently, or contained in other budget proposals.

<u>7. Preparedness for Chemical and Radiological Disasters and Terrorist Attacks</u>

<u>Prior Subcommittee Action—Held "Open".</u> This issue was discussed in our **March 13th** hearing and was held "open" pending further discussion and to see if other special funds or fees could be used in lieu of General Fund support. These options are discussed further below.

<u>Issue.</u> The budget proposes **a total increase of $4.2 million (General Fund) to support 15 new, permanent positions, hire consultant staff and purchase equipment to prepare for chemical and radiological disasters and attacks on (1) the environment, (2) food, and (3) water.** The proposed equipment costs are $880,000 and the consultant expenditures are $1.3 million. Both of these costs are contained within the $4.2 million amount.

The funding and positions can be *generally* segmented into the following areas:

- *<u>Environment.</u>* A **total of $1.2 million** (General Fund) and 4 positions (Research Scientist I, Research Scientist II, Research Scientist III, and a Health Education Consultant III) are identified for this function.
- *<u>Food.</u>* A total of **$1.6 million** (General Fund) and 6 positions (two Associate Health Physicists and four Research Scientist IV's)
- *<u>Water.</u>* A total of **$1.4 million** (General Fund) and 5 positions (all Associate Sanitary Engineers)

According to the DHS, these resources would be used to do the following key functions:

- Develop plans and support training for public health responses to chemical and radiological contamination resulting from disasters and terrorist attacks;
- Develop food and water protection plans against intentional contamination with chemical and radiological agents;
- Provide training to local jurisdictions and the food industry; and
- Enhance laboratory capability to rapidly and accurately identify chemicals and radiological agents contaminating food, water and the environment in disasters and terrorist attacks.

According to the DHS, funding for chemical and radiological terrorism preparedness has focused traditionally on first responders. **The DHS notes that federal funds received from the federal Centers for Disease Control and other agencies have *not* provided funding to cover planning, preparing, training, and exercising in response to chemical or radiological terrorism.** As such, the DHS believes that resources are needed to establish minimum capabilities for preparedness and response to chemical or radiological attacks.

Legislative Analyst's Office Recommendation. The LAO makes the following recommendation regarding the three aspects of this proposal:

- *Environmental ($1.2 million and 4 positions).* The LAO recommends **approval** of this component as proposed, including the use of General Fund support.
- *Food ($1.6 million and 6 positions).* The LAO recommends **shifting these expenditures from General Fund support to fee supported.**
- *Water* ($1.4 million and 5 positions). The LAO has changed their recommendation to approve these positions using the Safe Drinking Water State Revolving Fund, as discussed below.

New Updated Information—Options for Fees and Special Fund Use. At the request of the Subcommittee, the DHS provided technical assistance information as to how fees would likely be adjusted if fees were used to fund the DHS request in lieu of General Fund support for the "environmental" proposal and for the "food" proposal. Based on this information, fees would need to be increased in 2006-07 and 2007-08 for food retailers, food processors, and radioactive material facilities (See Hand Out).

In addition, the DHS has informed Subcommittee staff that federal funds deposited in the Safe Drinking Water State Revolving Fund could be used to fund the water component of this proposal. The LAO concurs with this aspect.

Subcommittee Staff Recommendation. It is recommended to **(1)** approve the environmental component for $1.2 million General Fund and 4 positions (same as LAO); **(2)** reject the food component for $1.6 million General Fund and 6 positions, and **(3)** approve the water component but use the Safe Drinking Water State Revolving Fund in lieu of General Fund support (same as LAO).

First, the environmental component would provide an initial framework to commence with more comprehensive work in this area which has been somewhat overlooked since federal bioterrorism funds were authorized for use in this area.

Second**,** the food component is not as a compelling need since California already has a comprehensive food, drug and agriculture "protection" program, and food processors also have taken steps to help ensure safety measures. Further as noted in the Hand Out, the level of fee increase that would be required to sustain the food component is likely more than the industry may be willing to pay for this type of assistance. Therefore, it is recommended to deny the component completely.

Third, it is recommended to approve the 5 positions for the water component using federal funds that are deposited in the Safe Drinking Water State Revolving Fund, but to make the positions **two-year limited-term**. This will provide the Legislature with the ability to revisit the use of these funds for these positions at that time.

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

1. **DHS**, Please provide a brief summary of the request.
2. **LAO**, Please present your recommendation.

8. Implementation of AB 1876, Statutes of 2004—*Funding Needed*

Issue. AB 1876, Statutes of 2004, added San Francisco Bay beaches into the state's public health water quality monitoring program originally established for Southern California beaches (i.e., AB 411, Statutes of 1998). **Funding was *not* provided in the Governor's budget to appropriately monitor San Francisco Bay as contained in the legislation.**

***Prior* to AB 1876, Bay Area Counties had been *ineligible* for state funding for water quality monitoring at beaches.**

The program requires County Health Departments to test for bacteria once a week from April to October at beaches which have 50,000 or more annual users and are located adjacent to a storm drain or other outfall. If bacteria levels pose a threat to public health, counties are required to post easy-to-understand signage advising residents of the risks.

Counties are required to monitor beaches *only* in years when the state provides funding from the DHS local assistance. These state funds are committed to the counties in cycles of three-year contracts. **The budget year will be the first year of the next three-year cycle.**

The DHS proposes the following expenditures in the budget year for specified coastal counties and related beach areas:

Table: DHS Beach Sanitation Funding

Coastal County	Funding Level
San Diego County	$336,129
Orange County	208,904
Ventura County	158,999
Los Angeles County	72,335
Santa Barbara County	57,486
Monterey County	35,900
Sonoma County	31,234
San Luis Obispo County	26,662
Santa Cruz County	22,100
San Mateo County	9,463
San Francisco City/County	*0*
Total for 2006-07	**$959,212** **General Fund**

Human sewage and urban runoff contribute bacteria to beach waters, which is a known health risk to people who have direct water contact, especially children. Water quality testing provides a safety net against the worst public health dangers to people who swim in the Bay. Residents have a right to know if the water poses a threat to their health, and testing/signage programs allow them to make informed choices. Only consistent, long-term monitoring data can identify chronic contamination "hot spots".

Subcommittee Staff Recommendation. It is recommended to appropriate $100,000 to the DHS Beach Sanitation program for San Francisco Bay to be monitored as other coastal areas are monitored, and as provided for in AB 1876.

9. Administration's Proposal for Proposition 99 Funding—*DHS Portion*

Issues. The Governor's budget proposes *a series of adjustments* to various programs funded with Proposition 99 Funds. These adjustments vary from year to year contingent upon the variability of the revenues, caseload adjustments to programs, other technical adjustments, and policy priorities. As referenced below, expenditures are also strictly guided by the Proposition 99 Fund designated accounts and can only be spent for specified purposes.

Key Program Changes as Proposed by Governor. The following key adjustments for DHS-operated programs are as follows:

- *Asthma.* The budget proposes an increase of $1 million for certain Asthma activities for a total appropriation of $4 million. **Of the requested $1 million, almost $600,000 of it is to support 5 new positions. The Administration had proposed last-year's Asthma funding as *one-time* only. (This issue is discussed below.)**
- *Orthopedic Hospitals Settlement.* The budget increases by $17.7 million (from $25.8 million to $43.5 million) the amount of Proposition 99 funds used to support the Orthopedic Hospitals Settlement agreement to continue to provide increased rates for hospital outpatient services. This appropriation services as a General Fund off-set. (No issues have been raised regarding this change.)
- *CA Healthcare for the Indigent Program.* The Administration decreases the program by $21 million for total expenditures of $45.2 million. The DHS states that the main reason for this decrease is that the program was provided a one-time only increase last year due to robust revenues. (No issues have been raised regarding this change.)
- *Rural Health Services.* The Administration decreases the program by $2.5 million for total expenditures of $4.7 million. The DHS states that the main reason for this decrease is that the program was provided a one-time only increase last year due to robust revenues. (No issues have been raised regarding this change.)
- *Media Campaign.* The Administration proposes an increase of $4.3 million for total expenditures of $20 million (Health Education Account). These funds are to be used for (1) low socio-economic status population ($2.5 million); (2) Spanish language population ($1 million); and (3) Asian language population ($800,000). (No issues have been raised regarding this change.)
- *Competitive Grants.* The DHS proposes an increase of $1.3 million to (1) fund a smoking cessation center to provide training and technical assistance on cessation services throughout California to healthcare organizations and others, and (2) provide new and innovative educational materials for priority populations. (No issues have been raised regarding this change.)

- *Evaluation.* The budget proposes an increase of $1.9 million to primarily conduct data collection and to do studies of tobacco use in certain populations, such as American Indian/Native American, Filipino and other populations. (No issues have been raised regarding this change.)

Asthma Activities—Current Year. In the Budget Act of 2005, **a total of $3 million** (proposed as one-time only) was appropriated for various activities related to Asthma. The DHS notes that though all of the $3 million is encumbered in contracts, about $750,000 or so will not be expended in the current years (by June 30, 2006). According to the DHS, **in the current year**, the funds are being expended as follows:

- $735,000 to support 21 local childhood asthma projects. The DHS notes that these were awarded late in 2005 and are well on their way.
- $264,000 is an augmentation of an existing contract with Impact Assessment, Inc. who provides technical assistance to community organizations in the management and prevention of asthma, conducts asthma prevalence analysis, and manages some "mini-grants" with entities to reduce disparities in asthma diagnosis.
- $51,000 is allocated for "mini grants" to fund asthma disparities and to print special fact sheets regarding asthma.
- $578,000 to contract with UC San Francisco to assist with local project oversight in providing asthma education and care coordination services and with utilizing continuous quality improvement strategies to improve the delivery and quality of clinical asthma care.
- $985,000 for an interagency agreement (just executed in March 2006) with San Francisco State University to (1) provide technical assistance to the projects, (2) conduct various investigations regarding asthma, such as asthma co-morbidity and co-mortality in health problems such as obesity, tobacco smoking and hypertension; (3) train school personnel in environmental triggers of asthma; (4) support an asthma related telephone assistance, and (5) various other types of education, training and related items.

Proposed $1 million Expansion of Asthma Activities. The DHS is proposing an increase of $1 million to (1) hire 5 DHS staff at an estimated cost of $560,000, (2) augment contracts for asthma surveillance activities, and (3) expand the number of local sites to include five to seven more areas (about $350,000) and to possibly expand some additional service sites.

Background—Proposition 99. 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 (in Subcommittee #2).

<u>Subcommittee Staff Recommendation.</u> It is recommended **to deny the $1 million** (Proposition 99 Funds—Unallocated Account) and the 5 DHS positions for the Asthma project, and instead**, redirect this amount to assist in funding the Rural Health Services Development Clinic Program and the Seasonal Agricultural Migratory Worker Program ($500,000 each).** Expending Proposition 99 Funds for these two clinic programs is one of the core concepts to the Proposition---to fund uncompensated health care costs.

The existing $3 million for the Asthma activities should continue; however, expansion of the $1 million at this time, particularly for permanent state staff, seems premature. Several components, as noted above, will not be expending their current year appropriation and some activities will continue to be gradually phased-in over the budget year since it just started last year.

Core health care programs, such as these clinic programs need assistance to continue to provide care for the uninsured. The Rural Health Services Development Clinic Program presently receives $8.2 million (General Fund) and supports about 122 clinics in rural areas throughout California. The Seasonal Agricultural Migratory Worker Program receives $6.9 million (General Fund) and supports 79 clinics. Both of these programs have proven their importance in providing communities direct access to primary health care.

<u>Questions.</u> The Subcommittee has requested the DHS to respond to the following questions.

1. **DHS,** Please provide a summary of the budget request.

10. Medi-Cal Redetermination Form Simplification—*Local Assistance*

Issue. The DHS has been in the process of modifying the Medi-Cal redetermination form to make it easier for Medi-Cal enrollees to complete and maintain their enrollment. **An increase of $42.1 million ($21.1 million General Fund) is proposed to reflect an increased caseload of 27,672 enrollees, or an additional two percent per month retention rate, due to these form changes.** With more user friendly forms available, it is anticipated that more Medi-Cal enrollees who may not have otherwise completed their redetermination forms, now will complete them.

In addition, an increase of $3.3 million ($1.7 million General Fund) has also been provided for County Medi-Cal Administration processing for these applications.

Subcommittee Staff Recommendation. The revised redetermination form is long over due. Many analyses of the Medi-Cal Program have cited the need for revised forms in order to facilitate retention and to mitigate against unnecessary administrative processing expenditures. **It is recommended to approve the proposal.**

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

1. DHS, Please provide a brief summary of the proposal.

11. Reduction to County Administration for Processing of Medi-Cal *(See Hand Out)*

Issue. The **DHS proposes a reduction of $42.4 million ($21.2 million General Fund) by freezing county administration salaries and overhead (such as utilities, rent, postage, energy costs, and others) at the 2005-06 level for 2006-07.**

In addition to this proposed cost freeze, **the Administration proposes to hold counties financially responsible for any federal penalties or disallowances that result from the failure of the counties t comply with requirements of the Medi-Cal Program. The penalty would be imposed by reducing the allocation of state funds to the county for eligibility determinations.**

Background—County Performance Standards. Through SB 26 (First Extra Ordinary Session), Statutes of 2003, the Legislature enacted comprehensive "county performance standards". Under these standards, counties must meet specified criteria regarding completing eligibility determinations and performing timely re-determinations. Specific work standards—including timeframes and percentages that need to be completed—are outlined in the enabling statute. **If a county does not meet these performance standards, their administrative funding may be reduced by up to two percent as determined by the Department of Health Services. Further, implementation of a corrective action plain in those counties that fail to meet one or more of the standards are required.**

The county performance standards address requirements for **(1)** Medi-Cal eligibility application processing, **(2)** Medi-Cal annual redetermination processing, and **(3)** bridging processing which is used to shift children from Medi-Cal to Healthy Families and back as appropriate due to different program eligibility standards.

As contained in the Medi-Cal Estimate for 2006-07, these ongoing county performance standards are estimated to save about $445.7 million ($222.8 million General Fund).

The DHS states that it received 4 positions (two permanent and two limited-term) for this purpose.

Background—County Cost Containment Plans. Through the Budget Act of 2004, and accompanying trailer bill language, the DHS in collaboration with the County Welfare Directors Association were directed to develop options and recommendations for modifying the budgeting and allocation methodologies for county Medi-Cal administration. Recommendations from this process were provided to the Legislature in 2005.

A principle component of the cost containment plan is the application of productivity standards in determining the number of eligibility workers needed for the Medi-Cal determination process which is based upon a county's computer consortia. **The Governor's budget reflects savings of $5.6 million ($2.8 million General Fund) for this purpose.**

Background—Medi-Cal Eligibility Determination System (MEDS) Reconciliation. Additional standards were implemented in the Budget Act of 2003, and accompanying trailer bill language to ensure that counties were appropriately reconciling their Medi-Cal eligibility files with the state's system. This included the establishment of standards regarding the processing of error "alerts", as well as submitting quarterly reconciliation files to the DHS for data verification and correcting any subsequent identified errors. **If a county fails to follow these standards, the DHS will request a Corrective Action Plan from the county. If the county fails to meet the Corrective Action Plan's benchmarks, the DHS may reduce the county administrative allocation for Medi-Cal by two percent.**

Background—Medi-Cal Eligibility Processing. Each county is responsible for implementing Medi-Cal eligibility and for interpreting state guidance on policies and procedures. Counties determine eligibility for Medi-Cal under a set of complex rules that require staff to collect and verify a variety of information. **In fact the DHS provides counties with a 900-plus page state Medi-Cal Eligibility Procedures Manual that is updated on a constant basis through state issued "All County Letters". There are more than 150 aid codes, and dozens of state Medi-Cal related forms.**

Counties are provided with an annual allocation from the state to conduct Medi-Cal Program eligibility processing activities for the state (federal law requires that a governmental entity complete all Medicaid (Medi-Cal) applications.) The allocation is contained within the annual Medi-Cal Estimate Package provided to the Legislature as part of the annual budget deliberations. The budget proposes expenditures of about $1.3 billion (total funds) for county administration of the Medi-Cal Program.

County-Based Constituency Organization's Request. The Subcommittee is in receipt of a letter that **(1)** requests denial of the Administration's proposal, and **(2)** adoption of placeholder trailer bill language to fund the **actual** cost to counties to administer both human services and Medi-Cal beginning in 2007-08.

Among other things, the letter notes that counties provide important services to their local constituents while serving as an arm of the state. Further, County Counsels' Association has opined that not funding increases to counties for costs to administer programs on behalf of the state amounts to a cost shift triggering the mandate reimbursement provisions of Proposition 1A.

The County Welfare Directors Association (CWDA) appropriately notes the inconsistency of the DHS by proposing to cut funding for county Medi-Cal operations while leaving all statutory performance requirements intact.

Legislative Analyst's Office Recommendation. The LAO **recommends to reject the Administration's proposal, including the trailer bill language.** They note that the Governor's proposal essentially delegates the decision about whether to reduce service levels in the face of inflationary cost pressures to the counties. County decisions will vary based on their priorities and their individual fiscal situations. Therefore, inconsistent policies would likely occur across counties for Medi-Cal which is a state responsibility to operate consistently, as directed by both federal and state law.

Subcommittee Staff Recommendation. It is **recommended to reject the Administration's entire proposal and to restore the $42.4 million ($21.2 million General Fund) to appropriately fund the counties for their work.**

Counties administer Medi-Cal as an agent for the state with the aim of meeting state established program goals. Unless the counties elect to use their own general purpose revenues to backfill for the lack of state funding, Medi-Cal services related to eligibility processing would erode. This includes the need to conduct timely processing for annual redeterminations which ensures the integrity of the program, as well as keeps Medi-Cal expenditures down. (For example, a managed care plan could be receiving a monthly payment from the state for a Medi-Cal recipient who is no longer eligible.)

As noted above in the background sections, the state achieves annual savings of about $222.8 million (General Fund) from the county performance measures. In order for the counties to meet these performance standards, they need to be funded appropriately to meet the goals the state has established. Further, the DHS needs to do more work on the County Cost Containment Plans process as directed through trailer bill legislation two years ago.

Given the level of continuing savings the state has achieved by appropriately funding county administration so performance measures can be sustained, scaling back from this endeavor is fiscally imprudent.

Questions. The Subcommittee is requesting the DHS to respond to the following questions.

1. DHS, Please provide a brief summary of the proposal.

12. DHS Staff to Audit County Administration—New Positions

Issue. The DHS **is requesting an increase of $506,000 ($253,000 General Fund) and 5 new permanent positions to conduct on-site fiscal reviews to verify the accuracy of Medi-Cal claimed costs in each of the 58 counties.** The DHS states that this request is based on the need to improve their county allocation process by incorporating the results of county reviews in the county administrative funding process.

They contend that more substantial reviews will assist them in developing a more detailed process. The review's scope of work would consist of a review of the quarterly claims for each county, examination of supporting financial documentation and review of the county's compliance with performance standards. **Currently, there are 35 existing staff, including managers, conducting Medi-Cal program reviews.**

The requested DHS positions and their key activities are as follows:

- *Associate Governmental Program Analysts—4 Requested.* These positions would be used to perform on-site reviews in 58 counties. After an initial review of all of the counties, the subsequent reviews will be staggered based upon size of the county (i.e., large counties reviewed annually, medium counties reviewed every two years, and small counties reviewed every three years). Activities would include (1) on-site review of documentation, (2) analyze data and prepare findings, and (3) review corrective plans and conduct follow-up to verify that the corrections are implemented.

- ***Staff Services Manager I.*** This position would serve as the manager of the unit. Activities would include (1) review staff's findings and the performance standards of the counties, (2) examine the Medi-Cal costs and documentation supporting costs, (3) oversee the fiscal analysis of the costs claimed, (4) confer with counties regarding audit issues, and (5) supervise and train new staff.

Background—Other DHS Oversight of Counties. In *addition* to the county performance standards and MEDS reconciliation as discussed in item 11 above, the DHS also conducts (1) Quality Control Reviews, and (2) Focused Reviews.

First, the state's agreement with the federal CMS requires that Medi-Cal case samples from counties be selected and reviewed by the DHS on a monthly basis. For the current year, the DHS is to review about 2,700 cases in order to determine the extent to which errors have occurred. Counties participate in these case reviews as partners of the state and work with state staff to identify and correct deficiencies.

Second, each year the DHS conducts "focused reviews". The topics for these focused reviews are based on information obtained from the Quality Control Reviews, as well as areas of interest to the DHS, such as newly implemented law or policy changes. Counties are reviewed on these chosen topics and work with the state to correct any errors or oversights in their implementation and interpretation of state policy and requirements.

Legislative Analyst's Office Recommendation—Approve Only 3 Positions. The LAO recommends to reduce the requested 5 positions **by deleting two of the AGPA positions for savings of $202,000 ($101,000 General Fund).** Their analysis indicates that the additional workload would only require three positions (i.e., two AGPAs and the Staff Services Manager I).

Subcommittee Staff Recommendation—Concurs with LAO. Subcommittee staff **concurs with the LAO recommendation to provide only three positions.** The workload does not justify the five positions. The analyses conducted by the DHS county performance standards staff should facilitate the on-site reviews of the counties. In addition, other reviews are presently conducted and the DHS section has 35 existing positions presently. A reasonable amount of core work has already been completed by these other staff.

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

1. DHS, Please provide a brief summary of the request.

13. Medi-Cal Managed Care--*Discussion for Informational Purposes*

Issue. There are numerous reports from health research that clearly indicate that the rates paid to medical providers can, and often do, affect the quality of care and access to care provided to Medicaid (Medi-Cal) patients. **Yet issues abound as to the methodology and actuarial soundness of the rates paid under the state's Medi-Cal Program, both in the Fee-For-Service Program and in Medi-Cal Managed Care.**

Many of these issues have evolved over time due to **(1)** incomplete, inaccurate and unreliable data for which to base rates on, **(2)** establishing rates based upon the availability of General Fund support, **(3)** varying definitions of what constitutes "actuarial" soundness, **(4)** a lack of clarity on how to link quality of care with rates, **(5)** difficulties in discerning health plan financial viability, and profit margin factors, **(6)** a need to trend data in an accurate manner, and many, many others.

The DHS is undertaking a financial review of the Medi-Cal Managed Care Plans and has hired a contractor to conduct different analyses to better discern how to craft workable, actuarially based rates. However, many issues need to be addressed in a short period of time in order to maintain the viability of the Medi-Cal Managed Care Program, including the expansion to the 13 new counties as has been previously discussed.

A rational approach to establishing the rates needs to be crafted and applied equability across plans. **Clarity is clearly lacking in the existing process. What measures does the DHS use to make rate decisions?**

For example, the Legislature appropriated a $ 5million ($2.5 million General Fund) rate adjustment for San Diego Community Health Group, a key Medi-Cal Program provider in San Diego. This augmentation figure was provided to staff by the Department of Managed Health Care (DMHC) and was based on their analysis of the need to maintain fiscal solvency. The DMHC, as well as San Diego CHG, discussed this with the DHS as well as the CA Medical Assistance Commission. No analytical issues were raised at the time to dispute the augmentation figure. In fact, the DMHC and the DHS had been working with San Diego CHG for several months prior to this legislative action to restructure their health plan. The DMHC directed San Diego CHG to implement a corrective action plan which they have been doing. The DMHC had been closely monitoring the plan's operations and had provided some independent consultants to assist them. **Yet $2 million ($1 million General Fund) was vetoed from this adjustment.**

The rates for some plans, such as all of the Geographic Managed Care Plans (in Sacramento and San Diego), are negotiated by the CA Medical Assistance Commission. This information is confidential so it is difficult to know whether these rates are or are not consistent with other Medi-Cal Managed Care Program rates.

To-date, all of the County Organized Healthcare Systems (COHS) have expressed concerns regarding the tenuous nature of their financial viability, due to the low level of capitation rates, while trying to serve the aged, blind and disabled populations along with all other Medi-Cal enrollees (COHS have mandatory enrollment of this population). **CalOPTIMA COHS received a 3 percent rate adjustment in the Budget Act of 2005**

but no other COHS obtained one, though the Legislature did also appropriate funds for the Partnership Healthcare Plan; however these funds were vetoed.

Another example is Kern Health Systems. Questions have arisen as to whether this plan is maintaining an inappropriately high level of reserves, and whether these reserves should be spent on increasing enrollment and compensation of medical providers or on the purchase of infrastructure items, such as the purchase of a building. Who is to monitor for this and how should it be monitored?

Background—5 Percent Rate Reduction. All Medi-Cal Managed Care Plans were affected by a 5 percent rate reduction effective January 1, 2004 through December 31, 2006.

Background—Quality Improvement Assessment Fee Rate Increase. Medi-Cal Managed Care Plans, except for COHS', are participating in the "Quality Improvement Assessment" fee effective as of July 1, 2005. This arrangement enables plans to pay the state a fee (6 percent) that is then matched with federal funds to provide a rate increase. The state was able to offset General Fund expenditures from this arrangement as well. This arrangement enabled plans to receive about a 3 percent increase on average. This program is scheduled to end by 2009 due to recent changes in federal law.

Background—Mercer Managed Care Rate Methodology Study. The DHS has contracted with Mercer to conduct an analyses regarding Medi-Cal Managed Care Program rates. According to the DHS, this analysis should be completed by **August 2006**. **Key objectives of this study are as follows:**

- Obtain an understanding of the rate methods used in the Medicaid programs in other states. A survey of the alternatives, including benefits provided, costs and challenges of these alternatives, is to be provided.
- Develop an independent evaluation/critique of California's current rate methodology for purposes of suggesting improvements and/or alternative methodologies. Among other things, this is to include a review of the completeness, accuracy and propriety of the database currently being utilized to determine capitation rates.
- Develop an independent review of Blue Cross paid claims to determine the potential for use as an alternative database or augmentation to a database.
- Develop an inventory and description of areas recommended for future examination to continue rate setting methodology improvements.
- Develop a Medi-Cal specific financial reporting guide, including reporting utilization statistics by major category of service and capitation risk group.

Background—Department of Health Services Financial Review of Medi-Cal Managed Care Plans. The DHS is undertaking an extensive review of the financial condition of each contractor in *all* of the Medi-Cal Managed Care Programs (i.e., Two-Plan Model, County Organized Healthcare Systems (COHS), and Geographic Managed Care (GMC)).

The DHS states that the purpose of this review and analysis is to determine short-term financial viability and solvency of health plans contracting in the Medi-Cal Program. Their primary goal will be to determine whether the state should consider funding augmentations for any plans, and if so the amount of an increase, in the May 2006 Medi-Cal Estimate.

Key data that the DHS is reviewing regarding each of the plans includes the following:
(1) *Net income.* The earnings of the company as calculated as revenues minus expenses.

(2) *Cash Flow Position.* The DHS review will analyze the liquidity of the health plan.

(3) *Tangible Net Equity.* This is a measure of the plan's financial reserves and provides a margin of financial safety if it is necessary for a plan to sustain losses over some period.

(4) *Medical Loss Ratio.* This provides the percentage of revenues devoted to providing medical care plan enrollees.

(5) *Administrative Expense Ratio.* These are costs necessarily incurred to operate a health plan.

(6) *Profit Margin.* This value shows a plan's profits or losses as a percentage and is calculated as net income divided by total revenue.

(7) *Medi-Cal Enrollment as a Percent of Total Enrollments.* This is an important factor given as it provides the ability or inability for a plan to subsidize across lines of business.

(8) Data from Most Recent Audited Financial Statements. These statements are reviewed by auditors who then consider if the health plan is a viable and ongoing entity.

Background—Loss of Confidence in Rate Calculations as Managed Care Expanded. When Managed Care plans became part of the program, the state's obligation and method of payment changed. The state now had to begin paying a fix amount per member to a health plan each month, and the health plan would agree to pay for the member's medical care. At this time, the federal CMS imposed a requirement that payments to managed care plans could not exceed, in the aggregate, what the state would have spent had the individuals remained in Fee-For-Service.

By the end of 1997, a major portion of Medi-Cal eligibles were enrolled in Managed Care plans. As such, the rate calculations for Managed Care plans had to be changed because of the loss of sufficient Fee-For-Service data. The validity of the data was compromised.

The decision was made to create a new methodology for the Two Plan Model that would place less emphasis on Fee-For-Service cost data, and gradually move to a methodology based on managed care encounter data.

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

1. **DHS**, Please provide a brief summary of the key outcomes from the DHS fiscal reviews. What aspects of these reviews were most useful?
2. **DHS,** Please provide an update on the activities and progress of the Mercer analysis. When will it be made available to the Legislature?
3. **DHS**, What next steps are necessary in order to craft more rational rates for the Medi-Cal Managed Care Program?

14. Medi-Cal Fee-for-Service Rates—*Discussion for Informational Purposes*

Issue. The viability of the Medi-Cal Fee-For-Service Program is critically important. For various reasons, many areas of the state will not be implementing a Medi-Cal Managed Care system, and as such, will need to have medical practitioners who are willing to be Medi-Cal providers. Low provider reimbursement rates threaten access to services for many individuals, particularly those who need specialty care services. Most aged, blind and disabled individuals primarily utilize the Fee-For-Service Program.

There are numerous reports from health researchers that clearly indicate that the rates paid to medical providers can, and often do, affect the quality of care and access to care provided to Medicaid (Medi-Cal) patients. **A lack of access to healthcare has been shown to increase the rate of avoidable hospitalizations and emergency room use, and ultimately leads to a higher state expenditure.**

As noted in many recent studies, Medi-Cal rates, particularly those paid for physician services are relatively low compared to rates paid by other major purchasers of health care. For example, physicians are paid less than $24 for a basic office visit, and the average Medi-Cal emergency physician payment per patient visit is about $65.

As noted by the LAO in their 2001-02 Analysis:

- Medi-Cal rates are low compared to Medicare and other health care purchasers;
- Medi-Cal physician rates **average about 60 percent of Medicare rates**;
- The Medi-Cal Program has not met state and federal requirements for setting rates, and ensuring reasonable access to health care;
- Medi-Cal physician rates are not based upon an assessment of relative access of Medi-Cal enrollees to quality health care or any measure of the actual costs of providing medical services; and
- The federal Medicare Program has a rational, comprehensive rate-setting system that adjusts physician rates annually.

SB 912 (Ducheny), Statutes of 2005. This enacted legislation eliminated the existing 5 percent rate reduction for Fee-For-Service providers that had gone into affect as of January 1, 2006, due to various court rulings, and would have remain in affect until December 31, 2006. This action restores rates to their existing levels.

Constituency Letters. The Subcommittee has received considerable correspondence regarding concerns with the rates paid under Medi-Cal for various services provided under the Fee-For-Service Program.

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

1. **DHS**, Please provide a general overview of the existing Medi-Cal Fee-For-Service rate system.

2. **DHS**, Please briefly describe the process used for the last significant rate increase for the Medi-Cal Fee-For-Service Program through the Budget Act of 2000. Was this a constructive process for allocation?

3. **DHS**, At this time, generally what would the General Fund cost of a 1 percent rate increase be? (This is often how we apply a multiply if rates are to be increased.)

15. Hearing Aid Trailer Bill Language *(See Hand Out)*

Issue. The Administration **is proposing trailer bill language to revise the Medi-Cal reimbursement for hearing aids by basing reimbursement on procedure codes developed by the DHS. The budget does not reflect any costs or savings from this proposal because the DHS states that the proposed changes reflect how the rates are presently operation.**

The DHS is seeking this change because they contend they do not have enough staff resources available to develop the mandated product-specific list and product-specific rates as presently required. They note that this is a very labor intensive project because data is not readily available. The DHS states that this statutory change will enable the DHS to update benefits and rates for hearing aids on a timely basis.

The proposed language provides the DHS with broad authority to change rates and to implement any changes through notification to providers through a Medi-Cal bulletin or the Medi-Cal provider manual.

Specifically, it would establish the maximum rate reimbursed for **hearing aids at the *lesser* of:** (1) the maximum allowable amount established by the DHS; (2) the one-unit wholesale cost, plus a markup determined by the DHS; (3) the bill amount; or (4) a rate established by the DHS' contracting program

It would establish the maximum rate reimbursed for **hearing aid supplies and accessories at the *lesser* of:** (1) the retail price; (2) the wholesale cost, plus a markup determined by the DHS; or (3) the billed amount.

It would establish the maximum rate reimbursed for **each mold or insert at the *lesser* of**: (1) the maximum amount allowable as established by the DHS; (2) the bill amount; or, (3) the rate established by the DHS' contracting program.

It would establish the maximum rate reimbursed for **repairs**, subsequent to the guarantee period, **at the *lesser* of**: (1) the invoice cost plus a markup determined by the DHS; (2) the bill amount; or (3) the rate established by the DHS' contracting program.

Background. Existing statute, enacted as trailer bill legislation through the Budget Act of 2003, requires the DHS to establish a list of hearing aids and hearing aid accessories and determine the maximum allowable product cost for each hearing aid product provided as a benefit under Medi-Cal. It should be noted that this enabling language was proposed and adopted at the request of the DHS.

Prior to 2003, the DHS had not established a product-specific list of hearing aids and accessories, with rates for each product. Instead, the DHS used percentage mark-up rather than a product cost plus professional fee methodology that is used to determine maximum allowable product cost ("MAPC").

Subcommittee Staff Recommendation. It is recommended to adopt the proposed in order to have state statute be consistent with existing practices.

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

1. **DHS,** Please briefly explain the purpose of the trailer bill language and why it is desired.
2. **DHS**, Will this proposed trailer bill language result in reduced reimbursement rates?
3. **DHS**, Has the provider industry and key advocacy groups for the hearing impaired been informed about your proposed change?

16. Hospital Financing—DHS Request for Positions

Issue. The DHS is requesting **an increase of $1.680 million ($840,000 General Fund) to support 15 new positions** to conduct various activities associated with the implementation of the Hospital Waiver. In addition, the budget adjustment reflects the General Fund replacement needed to continue to support 21 existing staff that were previously funded through the interest that accrued to certain special funds. Since the Hospital Waiver replaces this funding, additional General Fund is needed to support these existing positions.

The new Hospital Waiver drastically changed the way California's safety net hospitals are reimbursed for providing inpatient hospital care to Medi-Cal enrollees and uninsured individuals. The requested 15 positions are needed to address workload associated with the development, implementation, monitoring, and reporting and on-going administration of the Waiver. This staff includes the following:

- *Medi-Cal Operations.* This staff includes (1) a Research Manager I, (2) two Research Program Specialists II, (3) two Research Analysts II, (5) an Associate Governmental Program Analyst, and (6) an Office Technician. In addition, funding for two existing positions is needed (currently unfunded).
- *Accounting.* This staff includes (1) an Accounting Officer—Specialist, and (2) an Accounting Trainee.

- *Fiscal Forecasting Branch.* This staff includes (1) a Staff Services Manager I, and (2) a Research Program Specialist II.
- *Office of Legal Services.* A Staff Counsel III is requested.

Legislative Analyst's Office Recommendation (See Hand Out). The LAO is recommending several adjustments to this proposal as noted on their hand out.

Subcommittee Staff Recommendation. It is recommended to approve the request as proposed. The Hospital Financing Waiver is highly complex and requires a considerable amount of intensive data analysis to compute the various calculations in order to operate the model and allocate funds from the various funding streams.

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

1. **DHS,** Please provide a brief summary of the proposal.

17. DHS Request to Convert Anti-Fraud Positions to Permanent Status

Issue. The DHS is requesting **to convert 20 three-year limited-term positions that expire as of June 30, 2006 to permanent status for an increase of $2.3 million ($824,000 General Fund).** These positions are used to conduct pre-enrollment and re-enrollment onsite reviews of applicants and current Medi-Cal providers that have been identified as high-risk for fraud or abuse.

In the Budget Act of 2003, 39 positions were approved for the Audits and Investigations section to conduct various onsite pre-enrollment reviews and re-enrollment reviews. Of these positions, 20 were deemed to be three-year limited-term because it was anticipated that the number of providers referred for these reviews would decrease over time. **However the DHS contends that this has not been the case and that the positions need to be made permanent due to workload. The DHS states that over 700 high risk provider referrals are still made to the Audits and Investigations section and that the section continues to recommend enrollment denial of about 60 percent of the providers referred.**

The DHS states that it takes an average of 130 hours to complete an onsite review of a provider. Based on this average, it would take 51 staff to keep pace with the current referrals. If the 20 positions are eliminated, the DHS contends that a backlog would be created and a reduction in denials, deactivations, placement of utilization controls and sanctions would occur.

The 20 positions the DHS wants to make include the following:

- *Medical Consultant I (3 Positions).* These positions primarily provide consultation to management and staff on various allied health aspects of medical care programs and health care delivery systems.
- *Pharmaceutical Consultant I (2 Positions).* These positions primarily provide consultation to management and staff on various pharmacological aspects of medical care programs and health care delivery systems.
- *Nurse Evaluator II (6 Positions).* These positions primarily perform onsite reviews of high-risk providers applying for enrollment and re-enrollment.
- *Health Program Auditor III (6 Positions).* *These positions primarily perform onsite reviews of high-risk providers applying f*or enrollment and re-enrollment.
- *Research Analyst II.* This position primarily analyzes complex data sets, and analyzes other payor sources such as Medicare to evaluate utilization patterns among payors.
- *Office Technician Typing (2 Positions).* This position primarily performs support functions to the staff above.

Background—Anti-Fraud and Provider Enrollment. In 1999 the DHS proceeded to tighten Medi-Cal provider enrollment by (1) requiring the completion of a more comprehensive application, (2) conducting an extensive background check on providers, and (3) conducting onsite reviews of high risk providers by DHS audit and medical staff. In addition, the DHS began a re-enrollment process to identify fraudulent providers and deny continued enrollment in the program.

The Budget Act of 2003 established 161.5 new positions for anti-fraud activities, of which 83 positions were devoted to increasing provider pre-enrollment and re-enrollment activities. Of these 83 positions, 39 positions were for the Audits and Investigations section to increase onsite enrollment and re-enrollment reviews. **Of these 39 positions, 20 positions were deemed to be three-year limited-term positions.**

Legislative Analyst's Office Recommendation. The LAO recommends to withhold approval of these positions pending the receipt of the 2005 Medi-Cal Error Rate Study that is intended to assess the level and nature of Medi-Cal fraud.

Subcommittee Staff Recommendation. It is recommended to approve the positions as requested.

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

1. **DHS**, Please provide a brief summary of the request.
2. **DHS**, When will the 2005 Medi-Cal Error Rate Study be provided to the Legislature as required?

C. ITEMS FOR VOTE ONLY-- Department of Mental Services

1. Forensic Conditional Release Program

Issue. The DMH is requesting **an increase of $11,000 (General Fund)** for the Forensic Conditional Release Program to reflect an increase in the number of Sexually Violent Predators (SVPs) that are expected to be in the Conditional Release Program (CONREP) in 2006-07. **According to the DMH, a total of $1.662 million will be expended for 12 clients that reflects an increase of $11,000 over the current year.**

Liberty Healthcare Corporation is the contractor that the DMH uses for the SVP-CONREP. The contract includes expenditures for costs associated with treatment, daily living, medical, assessment, case management, GPS tracking, vocational education, security and administrative functions.

Background—Forensic Conditional Release Program. This program provides for (1) outpatient services to patients into the Conditional Release Program (CONREP) via either a court order or as a condition of parole, and (2) hospital liaison visits to patients continuing their inpatient treatment at State Hospitals who may eventually enter CONREP. The patient population includes: (1) Not Guilty by Reason of Insanity, (2) Mentally Disordered Offenders, (3) Mentally Disordered Sex Offenders, and (4) Sexually Violent Predators. The DMH contracts with counties and private organizations to provide these mandated services in the state, although patients remain DMH's responsibility per statute when they are court-ordered into CONREP community treatment and supervision.

The program as developed by the DMH includes sex offender treatment, dynamic risk assessments, and certain screening and diagnostic tools. Supervision and monitoring tools include Global Positioning System (GPS), polygraphs, substance abuse screening, and collaboration with law enforcement.

Background—Designation of SVP: In 1995, the Legislature established a civil commitment process for offenders deemed by a court or jury to be a Sexually Violent Predator (SVP). The SPV law is designed to ensure that specified offenders receive intensive inpatient treatment, as well as outpatient treatment and supervision upon their release from state prison.

To qualify as an SVP, an offender must have committed specified sexual acts (e.g., rape, sodomy and lewd or lascivious acts with a child) involving two or more victims and have a diagnosed mental disorder that makes the individual likely to engage in sexually violent predatory behavior in the future.

Subcommittee Staff Recommendation. No issues have been raised regarding the Administration's proposal. It is **recommended for approval.**

2. Sexually Violent Predators (SVPs) Evaluation and Court Testimony

Issue. The DMH is requesting **an increase of $906,000 (General Fund) to reflect an increase in the number of SVP evaluations to be performed by private contractors, as well as costs for evaluator court testimony.**

The DMH is continuing to use a one-year regression analysis of the most recent billing data in developing the costs for SVP evaluations and court testimony. They believe this method serves as the most accurate predictor of costs at this time.

The table below summarizes the proposed budget and component parts.

SVP Program Evaluation & Court Estimate	2005-06	2006-07	**Difference**
Initial Evaluations	$1,600,000	$1,798,000	198,000
Initial Court Testimony	516,000	348,000	-168,000
Evaluation Updates	487,000	323,000	-164,000
Recommitment Evaluations	538,000	705,000	167,000
Recommitment Court Testimony	243,000	1,051,000	808,000
Recommitment Updates	400,000	461,000	61,000
Airfare Costs	138,000	141,000	3,000
Consultation Costs	46,000	47,000	1,000
Totals	**$3,968,000**	**$4,874,000**	**$906,000**

The DMH notes that report updates for recommitment evaluations are routinely required. In fact, updates are an increasing cost factor in the recommitment evaluation process, as the number of committed SVPs increase. A total of 281 recommitment updates are projected for 2005-06. For 2006-07, the regression analysis predicts that 324 recommitment updates may be needed.

Background---Overview of the Process: All SVPs first serve their sentence in a CDC prison. Through an initial records review process, the CDC and Board of Prison Terms refer records of inmates suspected of meeting SVP criteria. The DMH orders evaluations to determine whether the offender potentially qualifies for a SVP commitment.

Any inmate meeting SVP criteria then receives a clinical evaluation to determine if a diagnosed mental disorder exists. Inmates meeting all the statutory SVP criteria are referred to District Attorneys for their action. For those cases which a DA decides to file a petition, a probable cause hearing is held before a judge to determine if the facts of the case warrant a full commitment trial.

If a jury or judge finds that it is likely an individual would re-offend, then the individual is committed to the DMH State Hospital system for treatment and supervision. The statutory length of commitment is presently two years. The DMH states that almost all SVPs are recommitted every two years.

Subcommittee Staff Recommendation. It is **recommended to approve the request.** No issues have been raised.

3. Reappropriation for Certain Capital Outlay Projects

Issue. The Subcommittee is in receipt of a Finance Letter that requests reappropriation authority for several capital outlay projects. These projects are as follows:

- *Metropolitan State Hospital—Remodel Satellite Serving Kitchens (Construction).* This request would reappropriate $5.3 million General Fund for the construction phase of this project approved for funding in the Budget Act of 2005. The DMH says that reappropriation authority is needed because of delays in completing the construction design documents as a result of ongoing efforts to keep the project within the budget.

- *Metropolitan State Hospital—Construct New Main Kitchen (Construction).* This request would reappropriate $17.1 million (lease revenue bonds) for the construction phase of this project approved for funding in the Budget Act of 2005. The DMH says that reappropriation authority is needed because of delays in completing the construction design documents as a result of ongoing efforts to keep the project within the budget.

- Patton State Hospital—Renovate Admission Suite and Fire and Life Safety and Environmental Improvements, Phases II and III, EB Building (Construction). This request would reappropriate $29 million (lease revenue bonds) for the construction phase of this project approved for funding in the Budget Act of 2005. This reappropriation is necessary because working drawings need to be modified to incorporate a new HVAC system and plumbing. These tasks were deemed essential to the project once the extent of the seismic retrofit was known.

Subcommittee Staff Recommendation. It is **recommended to approve the request.** No issues have been raised.

4. Reappropriation of Medicare Part D Funds

Issue. The Subcommittee is in receipt of **a Finance Letter request to reappropriate $330,000 (General Fund) from the Budget Act of 2005 that was provided to implement the federal Medicare Part D Drug Program for the State Hospitals.** Specifically, the DMH needs to modify its billing systems to allow the state to claim federal reimbursement under the Part D Drug Program from the Prescription Drug Plans (PDPs).

The DMH wants to use these reappropriated funds to pay for contract work to make changes to the State Hospitals billing system to capture federal funds and accommodate for changes due to the Part D Drug Program.

Additional Background—DMH and DDS Responsibilities. The DDS is responsible for all client billings for both the DDS and the DMH. DMH operates systems that must interface with DDS' systems and provide the information that DDS needs to bill third parties for client care.

<u>Subcommittee Staff Recommendation.</u> It is **recommended to approve as proposed.**

<u>Questions.</u> The Subcommittee is requesting the DMH to respond to the following questions.

1. **DMH,** Please explain the need for the reappropriation authority and clarify how the DMH is going to interface with the efforts described earlier in this agenda regarding the Department of Developmental Services (DDS).

D. ITEMS FOR DISCUSSION-- Department of Mental Services

1. Revised Implementation Plan for CRIPA

Issue. The Subcommittee is in receipt of a **Finance Letter that *reduces* the Administration's January budget request by $19.6 million ($16.9 million General Fund and $2.7 million in County Realignment Funds), for total expenditures of $23.9 million ($20.7 million General Fund),** to proceed with changes within the State Hospital system to comply with requirements as directed by the U.S. Department of Justice (U.S. DOJ) and the Civil Rights of Institutionalized Persons Act (CRIPA).

The Finance Letter action retains the same number of positions as requested in January—a total of 454.7 positions—but it would phase in the positions during the fiscal year, as summarized in the table below. In its March 6th hearing, the Subcommittee had requested the DMH to revise its proposal to reflect a more realistic approach of phasing in the hiring of the positions. The DMH reviewed individual classifications and past hiring experiences in the State Hospitals and developed a phase-in plan. The DMH states that the remaining funding for positions represents slightly more than half-year funding for all of the positions.

Table—Summary of DMH Positions for State Hospitals for CRIPA

Classification of Positions	Governor's January Budget (Positions)	Finance Letter Revision (Phase In of Positions)
Senior Psychiatrist	46.7	19.2
Senior Psychologist	176.4	68
Consulting Psychologist		0.7
Psychiatric Social Worker	11.3	7.6
Rehabilitation Therapist	30.4	20.2
Registered Nurse	48.3	33.2
Psychiatric Technician	56	38.8
Health Record Technician	1	17.5
Clinical Dietitian	5.5	4.1
Special Investigator	8.6	6.1
Office Technician	21.5	36.7
Associate Mental Health Specialist	1	0.8
TOTAL	454.7 positions	252.8 positions (partial year)

The DMH states that the requested positions are in *addition* to the existing ratios for the various types of patients and beds.

Update on the Status of CRIPA Consent Decree and Enhancement Plan. The DMH and the U.S. DOJ have formally signed the agreements and have provided copies of this agreement to the Legislature **as of May 2nd. The DMH states that their Finance Letter is consistent with this agreement.**

Background—Deficiencies at State Hospitals and Need for Signed Agreement. In July 2002, the U.S. DOJ completed an on-site review of conditions at Metropolitan State Hospital. Recommendations for improvements at Metropolitan in the areas of patient assessment, treatment, and medication were then provided to the DMH. Since this time, the U.S. DOJ has identified similar conditions at Napa, Patton, and Atascadero.

A Remediation Plan to resolve CRIPA at all four State Hospitals (Coalinga was not involved), as well as a consent decree has just been formally agreed to as of May 2nd.

These documents provide a timeline for State Hospitals to address the CRIPA deficiencies and include agreements related to treatment planning, patient assessments, patient discharge planning, patient discipline, and documentation requirements. It also addresses issues regarding quality improvement, incident management and safety hazards in the facilities.

A key component to successfully addressing the CRIPA deficiencies is implementation of the "Recovery Model" at the State Hospitals. Under this model, the hospital's role is to assist individuals in reaching their goals through individualized mental health treatment, and self determination. This model includes such elements as the following:

- Treatment is delivered to meet individual's needs for recovery in a variety of settings including the living units, psychosocial rehabilitation malls and the broader hospital community.
- There are a broad array of interventions available to all individuals rather than a limited array.
- A number of new tracking and monitoring systems must be put in place to continually assess all major clinical and administrative functions in the hospitals.
- Incentive programs—called "By Choice" will be used to motivate individuals to make positive changes in their lives.

Legislative Analyst's Office Recommendation--Pending. As of the release of this documents, the LAO was analyzing the newly provided information. As such, their recommendation is pending.

Subcommittee Staff Recommendation. It is **recommended to approve** the modified plan as proposed since it meets the requirements of the CRIPA degree.

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

1. **DMH**, Please briefly describe the Finance Letter changes.

2. Implementation of the Wellness and Recovery Model Support System--CRIPA

Issue. The Subcommittee **is in receipt of a Finance Letter requesting a total increase of $2.5 million ($2.4 million General Fund and $100,000 County Realignment Funds) to support the implementation of the Wellness and Recovery Model Support System (WaRMSS).** WaRMSS is the information technology support system the DMH needs to meet the U.S. DOJ consent decree pursuant to CRIPA.

It should also be noted that the DMH is redirecting funds to purchase 978 new computers at the State Hospitals that will place computers in every treatment area and provide access for treatment providers.

The DMH states that a Feasibility Study Report (FSR) in support of WaRMSS has been approved by the DOF. This is a web-based application for use by all of the State Hospitals. It is intended to (1) automate the treatment and activity scheduling of all patients using the Wellness and Recovery Plan process (including assessment tools and forms), and (2) integrate with the Hospital Clinical Operations and each individual's State Hospitals' Human Resources system. **There are several phases and modules for the WaRMSS application (all outlined in the FSR). The DMH states that all of the components of WaRMSS are contained in the proposed CRIPA remediation plan.**

Of the total amount, $1.8 million (General Fund) is in the Headquarters' state support item to (1) support 5 new permanent positions, and (2) provide $958,000 in contract funds for software development and project oversight. The remaining amount of $706,000 is in the State Hospital item to fund 10 new permanent positions at the State Hospitals to support the system.

The five positions for Headquarters' support include the following:

- *Project Manager (Senior Programmer Analyst).* Key functions of this position include: (1) managing the overall project plan, including issue tracking, risk management, change control and project budget; and (2) facilitating change management after implementation, including managing quality assurance for application fixes and confirming enhancements prior to release into production.
- *Data Base Administrator (Senior Programmer Analyst).* Key functions of this position include: (1) evaluating technical deliverables, (2) perform code reviews, (3) oversee all aspects of data and its management and security, and (4) facilitate all technical development, testing and production endeavors.
- *Enterprise Data Base Manager (Senior Programmer Analyst).* Key functions of this position include: (1) managing a major upgrade of the current Hospital Clinical Operations Data Store (i.e., the primary patient data interface for WaRMSS) which includes real-time updates from the mainframe that will propagate to the WaRMSS system; and (2) maintaining and enhancing the interface processes and procedures for data repositories.
- *Staff Programmer Analyst's (Two Positions).* These positions will provide workflow and technical expertise alongside the contractors and will primarily act as developers,

helping in low-level design, construction and implementation of the systems necessary for WaRMSS production. They will test and document all systems and sub-systems and will be the primary resources for the correction of found irregularities. These positions will also conduct training, maintain documentation, and perform help desk functions after project implementation.

The $958,000 in contract funds will be used to: (1) provide independent project oversight ($95,000); (2) provide independent verification and validation of the project ($95,000); and (3) $768,000 for software customization.

The remaining amount of $706,000 is in the State Hospital item to fund 10 new Associate Information Systems Analyst positions at the State Hospitals to support the system. These positions will be used to support the desktop computers (978 computers purchased in the current-year through redirected funding). The DMH states that these positions are based on the normal 1 support person to every 100 workstations concept that has been used previously. **Of the 10 positions, three will be half-year positions to reflect that 266 workstations will be used by clinical staff that will be hired in January 2007 and the workstations will not need support until then.**

Subcommittee Staff Recommendation. It is recommended to approve as proposed.

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

1. **DMH**, Please provide a brief summary of the Finance Letter.
2. **DMH**, How does WaRMSS specifically address the issues raised by the U.S. DOJ regarding CRIPA?

3. Redirection of Funding to Support State and Federal Lawsuits

Issue. The Subcommittee is in receipt of a Finance **Letter requesting to redirect $513,000 (General Fund) from savings obtained from workers' compensation reductions within the State Hospital appropriation to support 5 staff to manage work related to lawsuits.** The requested staff include: (1) a Staff Services Manager III, (2) a Consulting Psychologist, (3) a Staff Services Manager II, and (4) two Associate Governmental Program Analysts. **As discussed below, four of the positions pertain to the Coleman case and one pertains to CRIPA.**

Four of these staff are requested to (1) manage expanding inpatient treatment programs operated by the DMH for the CA Department of Corrections and Rehabilitation (CDCR), **(2)** coordinate the increasing patient referral process between CDCR and DMH, and **(3)** manage and respond to increasing compliance requirements addressed in the Special Master's Report (15th monitoring report) in the Coleman v. Schwarzenegger (Coleman) case. This report resulted in a court order on March 2, 2006.

The DMH notes that they have never been allocated Headquarters' staff to address added workload related to the CDCR functions. In the last several years the DMH has activated new programs for CDCR at the Salinas Valley Psychiatric Program, Coalinga State Hospital, Atascadero State Hospital and Metropolitan State Hospital. The growth in the CDCR caseload and the increase in court related requirements has been at the expense of other DMH functions and workload.

Court related requirements and subsequent CDCR workload handled by the DMH include the : (1) provision of oversight and monitoring of the admission, discharge and referral process; (2) operation of the inpatient treatment programs both within the State Hospitals and the two psychiatric programs; (3) completion of clinical reviews to ensure compliance with the requirements outlined by the Special Master regarding clinical programs, movement, program guides, operating policies and procedures; (4) training of clinicians on new processes and procedures; and (5) provision of specific data upon request. **The four positions—Staff Services Manager II, Consulting Psychologist, and the two Associate Governmental Program Analysts—would be used to address these needs.**

The Staff Services Manager III position would be used as a "Business Manager" to oversee the implementation of the U.S. DOJ CRIPA approved enhancement plan in all of the State Hospitals. This position would document all administrative aspects of the enhancement plan through a business plan, which describes how the hospitals will implement the enhancement plan. The DMH notes that the changes being undertaken at the State Hospitals are fundamental, reaching to every staff member, and will require significant training, reorientation and supports if change is expected to take hold and be maintained over time.

Among other things, specific tasks for the Business Manager include the following:

- Organize and facilitate advisory meetings with consultants, advisory groups and treatment enhancement coordinators to develop, implement and amend the business and change management plans as necessary;
- Conduct site visits to State Hospitals to review planning and implementation of CRIPA enhancement plans;
- Participate in State Hospital staff trainings and in specific workgroups at the facilities;
- Monitor program compliance through review of reports, and corrective action plans;
- Prepare business rules and requirements for the WaRMSS project manager; and
- Update business and change management plans as needed;

Subcommittee Staff Recommendation. It is recommended to approve as proposed.

Questions. The Subcommittee has requested the DMH to respond to the following question.

1. **DMH**, Please briefly describe the Finance Letter request.

4. Augmentation for Continued Implementation of Mental Health Services Act

Issue. The Subcommittee is in **receipt of a Finance Letter requesting an increase of $10.6 million (Mental Health Services Act Funds) for contracts and to support 11 new positions.** The changes to the proposed contracts are shown in the Hand Out.

The 11 requested positions include the following:

- Staff Mental Health Specialists (three)—for the systems of care section;
- Associate Governmental Program Analyst—for the budget office;
- Staff Services Manager I—for the contract office;
- Accountant I—for the accounting office;
- Office Technician—for the accounting office;
- Business Services Assistant—for the business services office;
- Mental Health Specialists (two)—for local assistance financial support and related functions; and
- Office Technician—for the office of multicultural services.

The DMH states that these various positions are needed in order to conduct various functions as required by the Act.

Background—Mental Health Services Act. The DMH has recently provided the Legislature with a report on implementation activities as required (received February 2006). **This report was discussed in the March 6th Subcommittee hearing. Another**

update regarding implementation activities is to be provided in May as required by trailer bill legislation enacted in the Budget Act of 2005.

Most of the Act's funding will be provided to County Mental Health programs to fund programs consistent with their approved local plans. The Act provides for a *continuous appropriation* of the funds to a special fund designated for this purpose.

The Mental Health Services Oversight and Accountability Commission (OAC) is established to implement the Act and has the role of reviewing and approving certain county expenditures authorized by the measure. The OAC has been meeting regularly to discuss issues and an Executive Director to the Commission was recently hired.

Additional Background—Summary of Key Aspects of Mental Health Services Act (Proposition 63, 2004). The Mental Health Services Act addresses a broad spectrum of prevention, early intervention and service needs and the necessary infrastructure, technology and training elements that will effectively support the local mental health system.

The Act imposes a 1 percent income tax on personal income in excess of $1 million. The Act is projected to generate about $254 million in 2004-05, $683 million in 2005-06 and $690 million in 2006-07 and increasing amounts thereafter.

The six components and the required funding percentage specified in the Act for 2004-05 through 2007-08 are shown in the table below.

Table: Percent Funding by Component as required by Act

Six Component of MHSA Act	2004-05	2005-06	2006-07	2007-08
Local Planning	5%	5%	5%	5%
Community Services & Supports	0	55%	55%	55%
Education & Training	45%	10%	10%	10%
Capital Facilities & Technology	45%	10%	10%	10%
State Implementation/Admin	5%	5%	5%	5%
Prevention	0	20%	20%	20%
TOTALS	100 %		100 %	100 %

- Local Planning (County plans): Each county must engage in a local process involving clients, families, caregivers, and partner agencies to identify community issues related to mental illness and resulting from lack of community services and supports. **Each county is to submit for state review and approval a three-year plan for the delivery of mental health services within their jurisdiction.** Counties are also required to provide annual updates and expenditure plans for the provision of mental health services.
- Community Services and Supports. These are the programs, services, and strategies that are being identified by each county through its stakeholder process to serve

unserved and underserved populations, with an emphasis on eliminating racial disparity.

- Education & Training. This component will be used for workforce development programs to remedy the shortage of qualified individuals to provide services to address severe mental illness.
- Capital Facilities and Technology. This component is intended to support implementation of the Community Services and Supports programs at the local level. Funds can be used for capital outlay and to improve or replace existing information technology systems and related infrastructure needs.
- Prevention & Early Intervention. These funds are to be used to support the design of programs to prevent mental illness from becoming severe and disabling.

Legislative Analyst's Office Recommendation—See Hand Out. The LAO is recommends reducing reduce the Finance Letter request **by a total of $1.7 million** (Mental Health Services Act Funds) by **(1)** reducing $1.350 million from the contract services, and **(2)** reducing $372,000 and deleting 5 positions from the state support request.

Subcommittee Staff Recommendation. It is recommended **to approve the Finance Letter as proposed.** The need for resources is evident based upon the requirements contained within the Proposition. Further the Mental Health Services Oversight and Accountability Commission (OAC) has been reviewing and discussing these needs in public forums for the past few months. Many of the contract adjustments pertain to ensuring public access and constituency participation of consumers and family members.

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

1. **DMH**, Please provide a brief summary of the Finance Letter request.

2. **DMH,** Please explain why changes to the contracts are necessary.

D. ITEMS FOR DISCUSSION—Managed Risk Medical Insurance Board

1. MRMIB Request for Staff for Mental Health Services Oversight-- HFP

Issue. The MRMIB **requests an increase of $432,000** ($151,000 Mental Health Services Fund from Proposition 63 and $281,000 in federal funds) to **(1)** hire two new positions, and **(2)** provide $266,000 in one-time only contract funds to UC San Francisco (UCSF) to do an evaluation of the HFP Program's Mental Health Delivery System and to craft a strategy for monitoring outcomes.

According to the MRMIB, this proposal would provide staff support and funding for an existing project which was initiated using some grant funds obtained from the CA Endowment. Phase I of this evaluation is to be provided to the MRMIB by UCSF in May 2006.

The requested $266,000 in contract funds would be used to conduct Phases II and III of this UCSF evaluation. This evaluation would focus on delivery systems and coordination efforts used to provide mental health and substance abuse treatment services to children enrolled in the HFP, and a strategy for monitoring program outcomes.

The MRMIB states that the key objectives of this proposed evaluation are as follows:

- Assess the extent to which children diagnosed as needing treatment for serious emotional disturbance (SED) are receiving adequate services within the HFP, including the linkage to County Mental Health;
- Assess the effectiveness of the coordination of these children's care between the County Mental Health system and HFP participating health plans;
- Identify other service delivery options for the MRMIB's consideration that would assure accountability, continuity of care, and access to services under the HFP Program for this population; and
- Provide a set of recommendations to improve the HFP Program's delivery system and ensure quality of care.

The MRMIB would hire two positions—a Research Program Specialist I and a Staff Services Analyst--to do the following key activities:

- Provide consultation and information to families to assure they have a thorough understanding of the HFP Mental Health Delivery System;
- Assist families in resolving conflicts they may have with either the HFP health plan or County Mental Health regarding access to mental health services under the HFP;
- Serve as a liaison between the health programs in addressing a variety of issues related to access and coordination of services;
- Provide staff support to the UCSF evaluation;
- Participate in the Department of Mental Health's Proposition 63 workgroup;

- Develop a survey instrument to assess the level of satisfaction of families before and after the implementation of remedies/recommendations resulting from the UCSF evaluation; and
- Oversee the completion of a customer satisfaction survey (before and after) evaluating the impact of new strategies as they are implemented;

<u>Additional Background—The Healthy Families Mental Health Delivery System.</u> Under the HFP, participating health plans are responsible for providing basic mental health services, including inpatient and outpatient services for *most* mental health conditions. **Health plans also provide the first 30-days of inpatient care for children who are diagnosed with serve emotional disturbances (SED). County Mental Health Plans cover all outpatient services and inpatient services *beyond* the first 30-days for SED treatment.**

The delivery of mental health services was established in this manner through the enabling HFP state statute because County Mental Health Plans provided a significant portion of SED treatment in California and had the experience necessary to treat this condition. After the implementation of the HFP, the California Mental Health Parity Law required health plans licensed under the Know Keene Act to provide treatment for serious mental illnesses, including SED treatment for children.

Since a significant amount of effort was invested in establishing a referral and reimbursement system for SED treatment by County Mental Health Plans, the MRMIB directed health plans participating in the HFP to obtain an exemption from the section of the Mental Health Parity Law that requires plans to provide SED treatment. As such health plans participating in the HFP obtain an exemption from the Department of Managed Health Care and are referring potential SED children to County Mental Health Plans for assessment and treatment.

To facilitate the care of SED children enrolled in the HFP, the MRMIB directs health plans to enter into Memorandum of Understandings (MOUs) with County Mental Health whenever feasible. These MOUs define the responsibilities of each party for the coordination of services for children enrolled in the HFP who are diagnosed with SED. Generally, County Mental Health Plans treat HFP enrollees to the extent their resources will allow.

<u>Subcommittee Staff Recommendation.</u> It is recommended **to approve the $266,000 ($93,000 Mental Health Services Fund, Proposition 63) to continue the UCSF evaluation of the HFP Mental Health Delivery System but to *deny* the request for two positions.** In addition, it is recommended to **adopt uncodified trailer bill language**, as shown below, so that the Legislature and public can be assured of receiving the outcomes from the UCSF evaluation.

Continuation of the evaluation would be constructive since an evaluation of the HFP Mental Health Delivery System has not been conducted. Various changes to the mental health system (both public and private) have occurred since enactment of the enabling HFP statute and new strategies may be warranted.

It is recommended to deny the two positions for several reasons. *First*, the use of Proposition 63 funds (Mental Health Services Fund) to support these positions would not be appropriate. Most of the key functions of these positions pertain to supporting the *existing* program structure. As such the use of Proposition 63 funds here could be viewed as a "supplanting" versus a "supplementing" situation. Proposition 63 clearly articulates that funds must be used to further the provision of mental health services and must not be used to fund or replace existing requirements. The operation and oversight of the HFP Mental Health Delivery

System benefit is an ongoing function that was established in the enabling legislation and program. Existing positions should be used to ensure the quality and efficacy of this delivery system.

Second, some of the other key functions the positions are to accomplish pertain to oversight of the evaluation contractor. The contractor was hired using foundation grant funds and is in the process of completing Phase I of the evaluation. As such, the MRMIB has already been providing contractor oversight and chose to do this on their own volition. Existing resources should therefore be available for this activity.

Third, the other key functions of these positions pertain to participating in meetings with the DMH on Proposition 63 issues. This can be done with existing resources.

The recommended uncodified trailer bill language is as follows:

> "The Managed Risk Medical Insurance Board shall provide the fiscal and policy chairs of the Legislature with copies of each of the individual phases of the evaluation being conducted regarding the Healthy Families Program and the provision of mental health and substance abuse treatment services. These copies shall be provided on a flow basis as appropriate when completed by the contractor.

<u>Questions.</u> The Subcommittee has requested the MRMIB to respond to the following questions.

1. MRMIB, Please briefly describe the request.
2. MRMIB, How is the mental health benefit and coordination being monitored now?
3. MRMIB, When will the Phase I evaluation be provided to the Legislature?

Last Page of Agenda

Diane Van Maren, Senate Budget & Fiscal Review
May 8, 2006 (Page 1 of 5)

OUTCOMES for Senate Subcommittee No. 3: Monday, May 8th
(Use the Agenda as a guide with this document please.)

A. ITEMS FOR DISCUSSION-- Department of Developmental Services

1. Extension of Liquidation for Housing Plan—Agnews Closure *(Page 2)*

- **Action. Approved and adopted Budget Bill Language (as shown on Page 3.)**
- **Vote.** 3-0

2. Feasibility Study for Medicare Part D Drug Program—Developmental Centers *(Page 2)*

- **Action.** Approved as proposed.
- **Vote.** 3-0

3. Capital Projects at Porterville DC *(Issues A & B) (Page 6)*

3A. Porterville 96-Bed Expansion and Recreation Complex Project (Page 6)

- **Action.** Approved as proposed.
- **Vote.** 2-1 (Senator Cox)

3B. New Main Kitchen & Renovate 24 Satellite Kitchens/Dining Rooms (Page 7)

- **Action.** Approved as proposed for both the Main Kitchen and the Satellite Kitchens.
- **Vote.** 2-1 (Senator Cox) on the Main Kitchen
- **Vote.** 3-0 on the Satellite kitchens

B. Items for "Vote Only"—Department of Health Services *(Pages 9 through 13) (Items 1 through 7)*

- **Approved Items 1 through 7 as shown in the Agenda under Staff Recommendation Section for each item.**
- **Vote.** 2-1 (Senator Cox) on items 1, 5, 6, and 7
- **Vote.** 3-0 on items 2, 3, and 4.

1. Newborn Screening Program—Addition of Cystic Fibrosis & Biotinidase *(Page14)*

- **Action.** **(1)** Adopted placeholder trailer bill legislation to be worked out with the Administration, from a technical assistance basis, to include these two conditions in the screening panel and to provide necessary exemptions, and **(2)** Appropriated $8.4 million (Genetic Disease Testing Fund) for the Newborn Screening Program to add cystic fibrosis and Biotinidase to the program.
- **Vote.** 2-1 (Senator Cox)

2. Implementation of AB 121 Regarding Lead in Candy *(Page 17)*

- **Action** Approved as proposed.
- **Vote.** 2-1 (Senator Cox)

3. AIDS Drug Assistance Program (ADAP)—*Base Program (Page 20)*

- **Action** Approved as proposed.
- **Vote.** 2-1 (Senator Cox)

4. Medicare Part D Drug Program and Individuals with HIV—*Proposed Changes (Page 22)*

- **Action.** Provided three Associate Governmental Program Analysts to support the expansion of the CARE/HIPP using special fund moneys obtained from drug rebates. (DHS/DOF please calculate the dollar value please.)
- **Vote.** 3-0

5. Proposed Expenditure of New Federal Pandemic Influenza Funding—*CY & BY (Page 25)*

- **Action** **(1)** Used $587,000 (federal funds) from the current year (JLBC Letter that rejected this amount from DOF Section Letter) to backfill for GF support for the DHS consultant contracts (PS 61); **(2)** approved the $359,140 (federal funds) in new federal projects for the budget year; **(3)** approved the $6.850 million remaining "open" for local assistance but used $4.506 million (federal funds) as backfill for a portion of this General Fund amount (the $6.850 total funds will be for the per capita) **(4)** adopted placeholder trailer bill legislation to allocate the $9.150 million on the $150,000 minimum per jurisdiction; **(5)** used $111,000 (federal funds) to backfill for GF for state support for local preparedness (PS 61) for the 3 positions funded by the Subcommittee, and **(6)** used the remaining $461,411 in federal funds to backfill for GF in the consultant contracts (PS 61). (This funds the consultant contracts at $1.048 million federal funds.) **(DOF –PLEASE call me if you have a question, thank you.)**
- **Vote.** 3-0

6. Assuring Pandemic Influenza & Disease Outbreak Preparedness & Response *(Page 29)*

- **Action. Approved 3 of the 5 staff for total expenditures of $473,000 ($415,000 General Fund and $58,000 federal funds**).
- **Vote.** 2-1 (Senator Cox).

7. Preparedness Chemical & Radiological Disasters & Terrorists *(Page 31)*

- **Action. (1)** Approved two of the environmental positions (Research Scientist II and Research Scientist III) and approved two of the food positions (Associate Health Physicist and a Research Scientist IV, plus all related equipment and OE &E. These will be funded using General Fund. **(2)** Approved the water component but used the Safe Drinking Water State Revolving Fund in lieu of General Fund support for the five positions. Federal bioterrorism funds are to be used for the equipment items for the water component.
- **Vote.** 2-1 (Senator Cox).

8. Implementation of AB 1876, Statutes of 2004 *(Page 33)*

- **Action. Approved $100,000 General Fund for San Francisco City/County to provide water monitoring of the entire San Francisco Bay as required by AB 1876, Statutes of 2004.**
- **Vote.** 2-1 (Senator Cox).

9. Administration’s Proposal for Proposition 99 Funding *(Page 34)*

- **Action.** Redirected the $1 million (Unallocated Account) from Asthma and provided $500,000 of this amount to the Seasonal Agricultural Migratory Worker Program and $500,000 to the Rural Health Services Development Program. (DOF and Subcommittee staff to chat about need for reappropriation authority.)
- **Vote.** 3-0.

10. Medi-Cal Redetermination Form Simplification—*Local Assistance* *(Page 37)*

- **Action.** Approved as proposed.
- **Vote.** 3-0.

11. Reduction to County Administration for Processing of Medi-Cal *(Page 38)*

- **Action.** **(1)** Rejected the entire proposal, including the trailer bill language, and **(2)** Increase by $42.4 million ($21.2 million General Fund) to restore the funding.
- **Vote.** 2-1 (Senator Cox)

12. DHS Staff to Audit County Administration—New Positions *(Page 40)*

- **Action.** **Approved only 2 of the 5 positions for savings of $202,000 ($101,000 General Fund).**
- **Vote.** 2-1 (Senator Cox)

13. Medi-Cal Managed Care--*Discussion for Information (Page 42)*

No action needed here. We are awaiting the May Revision.

14. Medi-Cal Fee-for-Service Rates—*Discussion for Information (Page 46)*

No action needed here. We are awaiting the May Revision.

15. Hearing Aid Trailer Bill Language *(Page 47))*

- **Action.** Approved the Trailer Bill Language.
- **Vote.** 3-0

16. Hospital Financing—DHS Request for Positions (Page 48)

- **Action.** **Approved all of the positions however the positions for Accounting and for Fiscal Forecasting are two-year limited-term.**
- **Vote.** 3-0

17. DHS Request to Convert Anti-Fraud Positions to Permanent (Page 49)

- **Action.** **Approve as proposed.**
- **Vote.** 3-0

C. ITEMS FOR VOTE ONLY-- Department of Mental Services *(Items 1 through 4) (Pages 51 through 54)*

- **Action.** Approved all items as shown in the agenda.
- **Vote.** Item one is 3-0. Item two is 3-0. Item three is 2-1 (Senator Cox). Item four is 3-0.

D. ITEMS FOR DISCUSSION-- Department of Mental Services *(Page 55)*

1. Revised Implementation Plan for CRIPA *(Page 55)*

- **Action. Approved as proposed.**
- **Vote.** 2-1 (Senator Cox)

2. Implementation of the Wellness and Recovery Model System *(Page 57)*

- **Action. Approved as proposed.**
- **Vote.** 2-1 (Senator Cox)

3. Redirection of Funding to Support State and Federal Lawsuits *(Page 59)*

- **Action. Approved as proposed.**
- **Vote.** 3-0

4. Augmentation for Continued Implementation of Mental Health Services *(Page 60)*

- **Action. Approved as proposed.**
- **Vote.** 2-1 (Senator Cox)

D. ITEMS FOR DISCUSSION—Managed Risk Medical Insurance Board *(Page 63)*

1. MRMIB Request for Staff for Mental Health Oversight-- HFP *(Page 63)*

- **Action.** Approved as proposed and adopted **uncodified trailer bill language** as shown in the agenda (page 65).
- **Vote.** 3-0.

SUBCOMMITTEE NO. 3 Agenda

Chair, Senator Denise Moreno Ducheny
Senator Dave Cox
Senator Wesley Chesbro

Thursday, May 18, 2006, 1:00 pm
John L. Burton Hearing Room (4203)
Consultant, Anastasia Dodson

Vote-Only Agenda

Discussion Agenda

Due to the volume of issues testimony will be limited. Please be direct and brief in your comments so that others may have the opportunity to testify. Written testimony is also welcome and appreciated. Thank you for your consideration.

Vote-Only Agenda

4140 Office of Statewide Health Planning and Development (OSHPD)

Vote-Only Issue 1: Hospital Seismic Safety

Description: The May Revision proposes 16.0 new positions and $1.3 million Hospital Building Fund to improve the efficiency of the hospital facility safety review functions performed by OSHPD. The Subcommittee originally heard this issue on March 23rd.

Background:

A. **Hazards U.S. (HAZUS) Seismic Safety Assessment:** The May Revision requests an increase of $100,000 for an independent contractor to peer review an analysis of the seismic safety risk of hospital buildings using HAZUS, a federal seismic safety assessment tool.

OSHPD proposes to utilize the HAZUS program developed by the Federal Emergency Management Agency to re-examine the seismic risk of acute care health facilities that are currently rated as most at risk of collapse or significant loss of life, and reprioritize these buildings based on a reassessment of their level of risk. The outside consultant will peer review the results of this HAZUS reassessment.

B. **Facilities Development Division Training Program and Additional Clerical Support:** The May Revision requests an increase of $1,247,000 to implement a training program within the Facilities Development Division (FDD) to train an additional 12.0 Fire and Life Safety Officers (FLSO) by 2007-08. The OSHPD requests the establishment of 3.0 administrative and technical support positions to develop the training program and 6.0 FLSO trainee positions to start in January 2007. An additional 6.0 FLSO positions will begin in July 2007.

The OSHPD's request also includes the establishment of 7.0 Office Technicians to improve the efficiency of regional operations. The positions would support plan and field supervisors and alleviate construction review staff of clerical responsibilities.

Existing law requires that after January 1, 2008, any general acute care hospital building that is determined to pose a potential risk of collapse, or pose a significant risk of loss of life, be used only for nonacute care hospital purposes. Current law authorizes the OSHPD to extend the January 1, 2008 deadline for certain hospital buildings of a general acute care hospital, upon demonstration by the owner that compliance will result in a loss of health care capacity that may not be provided by other general acute care hospitals within reasonable proximity.

Under existing law, owners of all acute care inpatient hospitals are required by January 1, 2030, to either demolish, replace, or change to nonacute care use all hospital buildings not in substantial compliance with the regulations and standards developed by the OSHPD, or to seismically retrofit all acute care inpatient hospital buildings so that they are in substantial compliance.

The FDD regulates the design and construction of healthcare facilities to ensure the facilities are safe and available to provide care to the community in the event of a major disaster. The purpose of the establishment of a training program is to improve the OSHPD's ability to respond to the increased construction volume expected in response to pending seismic compliance deadlines.

C. **Logbook Redesign Project:** The May Revision requests a reduction of $148,000 to remove one-time costs from second-year funding for the Logbook Redesign Project. These one-time costs for consultant services were inadvertently proposed to continue in 2006-07.

The Logbook Database System is used by the FDD to track health facility construction projects through the plan review and construction phases. The system also supports the tracking of facility compliance with seismic retrofit projects and facilitates emergency operations in the event of a natural disaster. The proposed solution for the Logbook Redesign Project is a fully integrated system that will replace the current system of add-on modules and poorly integrated database tables. The new system is scheduled for implementation in 2008-09.

Recommendation: Approve the May Revision requests, and adopt placeholder trailer bill language to provide statutory authority for the training program.

4170 California Department of Aging (CDA)

Vote-Only Issue 2: Multipurpose Senior Services Program (MSSP)

Description: Annual funding for the Multipurpose Senior Services Program (MSSP) has remained unchanged since 2000, at $46.9 million ($23.5 million General Fund). As with other home- and community-based waivers, MSSP must meet cost-neutrality provisions that require programs costs not exceed the costs of institutional care.

Background: Local MSSP sites provide social and health care management for frail elderly clients who are certifiable for placement in a nursing facility but who wish to remain in the community. The goal of the program is to arrange for and monitor the use of community services to prevent or delay premature institutional placement of these frail clients. The services must be provided at a cost lower than that for nursing facility care. California currently has 41 sites statewide, which serve up to 11,789 clients per month.

Funding for local MSSP sites of $44.5 million ($22.3 million General Fund) is included in the Department of Health Services (DHS) budget, and administrative funding of $2.4 million ($1.2 million General Fund) is included in the CDA budget.

Due to program cost increases and flat funding since 2000, MSSP providers have had to reduce the number of clients served, hired less experienced staff, and increase care manager client ratios. In response, CDA has allowed MSSP sites to use existing funding with more flexibility. However, .MSSP providers indicate that even with this flexibility, another year of flat funding will result in further reductions in client caseload, longer waiting lists, and the inability for MSSP to meet its contractual standards. The subcommittee may wish to consider additional funding of $6 million ($3 million General Fund) for MSSP to maintain the current level of service in 2006-07.

Recommendation: Approve $6 million ($3 million General Fund) additional funding for MSSP. In addition, to align MSSP program management and funding, consolidate all funding for MSSP in CDA (shift existing MSSP funding in DHS to CDA).

4200 Department of Alcohol and Drug Programs (DADP)

Vote-Only Issue 3: Drug Medi-Cal

Description: The May Revision includes $133.7 million ($69.9 million General Fund) for Drug Medi-Cal in 2006-07, an increase of 10 percent over the Governor's Budget due caseload increases and lawsuit settlements.

Background: Drug Medi-Cal treatment is provided through four modalities:

- **Narcotics Treatment Program** (NTP) provides narcotic replacement drugs (including methadone), treatment planning, body specimen screening, substance abuse related physician and nurse services, counseling, physical examinations, lab tests and medication services to person who are opiate addicted and have substance abuse diagnosis. The program does not provide detoxification treatment. NTP providers are the primary Drug Medi-Cal providers.

- **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 the Early and Periodic Screening, Diagnosis and Treatment (EPSDT) program.

- **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 a substance abuse diagnosis.

- **Perinatal Substance Abuse Services** is a non-institutional, non-medical residential program that provides rehabilitation services to pregnant and postpartum women with a substance abuse diagnosis.

Excluding the impact of the Conlan lawsuit, the Regular Drug Medi-Cal population is projected to be 188,461 in 2006-07, an increase of 6,702, or 3.7 percent, from the January Governor's Budget. In addition to caseload adjustments, the May Revision Estimate projects a net increase in average units of service for the program. These increases are a result of expanded treatment capacity and an increase in the number of substance abuse treatment and recovery providers over the last several years.

Fee Increase Limit: In 2004, SB 1838 (Chesbro) was passed by the Legislature and signed into law. This bill, in part, intended to make technical, non substantive changes to the Health & Safety Code related to the statutory authorization for a broad range of components of the drug treatment programs administered by DADP. In error, substantive changes to the section relating to the licensing fees paid by Narcotic Treatment Centers to DADP were added to the bill that increased the cap on fee increases. Providers have requested trailer bill language to correct that problem, and limit fee increases to no more than increases in the Consumer Price Index (CPI). Current law limits fee increases to the CPI plus five percent.

Recommendation:

A. Approve the May Revision Drug Medi-Cal caseload adjustments to increase funding by $7.6 million ($4.2 million General Fund).

B. Adopt placeholder trailer bill language to limit Narcotic Treatment Center fee increases to CPI increases.

Vote-Only Issue 4: Conlan Implementation and Retroactive Payments

Description: The May Revision requests an increase of $5.3 million ($2.7 million General Fund) and 4.0 two-year limited term positions to comply with the court ordered mandates associated with the *Conlan v. Bontá* and *Conlan v. Shewry* lawsuits. These lawsuits require the Drug Medi-Cal program to provide prompt reimbursement to Medi-Cal beneficiaries who incur out-of-pocket expenses for reimbursable services under the DMC program.

***Conlan* Lawsuits:** The *Conlan v. Shewry* and *Conlan v. Bonta* lawsuit settlements require Medi-Cal programs, including Drug Medi-Cal, to provide prompt reimbursement to beneficiaries who incurred out-of-pocket expenses for Medi-Cal reimbursable services, retroactive back to June 1997. Going forward, Medi-Cal providers are required to promptly reimburse a beneficiary for out-of-pocket reimbursable expenses prior to billing Medi-Cal. The May Revision includes $5.3 million ($2.7 million General Fund) and 4.0 two-year limited-term positions for processing and payment of retroactive *Conlan*-related claims. Ongoing costs for *Conlan* are reflected in the previous issue – Drug Medi-Cal Caseload and Rates.

DADP Workload: The Department of Health Services (DHS) will coordinate with the court in issuance of a final court order. The DHS Fiscal Intermediary processes all Medi-Cal claims, including Drug Medi-Cal. Once the final court order is issued, DHS has 60 days to implement the court order to begin accepting and processing claims. The Fiscal Intermediary will conduct the initial assessment of a claim package for initial validity and completeness, and then DADP will provide final verification and processing of payment. DADP must design, develop, and implement new processes to ensure prompt reimbursemet for the costs of services received and paid for by Medi-Cal beneficiaries. Given the timeline to implement the court order, DADP will utilize existing staff to complete as much of the implementation work as possible. However, the department indicates the workload required to process the anticipated number of *Conlan* claims will be significant and cannot be absorbed by existing staff beyond current year. The requested staff will process *Conlan* claims and Conlan related Drug Medi-Cal certification applications while existing staff continues processing current claims, budgets, cost reports, certification applications, and payments. The workload requirements are as follows:

- DHS will be issuing notices to all current and former Medi-Cal beneficiaries, and a letter to all Medi-Cal enrolled providers. However, because ADP substance abuse treatment providers are not required to be DHS Medi-Cal enrolled, ADP will assume responsibility of issuing a letter to all substance abuse treatment providers and county alcohol and drug program administrative offices.

- ADP will be responsible for ensuring that the claim is valid and that reimbursement for *Conlan* claims for substance abuse services will be prompt. This process will include: tracking of claims, working with providers so they can reimburse the beneficiary, invoicing the provider if they refuse to reimburse the beneficiary, issuing reimbursement to beneficiaries, processing certification applications, enforcing Medi-Cal rules, maintaining an 800 telephone number, providing assistance to beneficiaries and providers, processing fair hearing documents, and developing status reports. ADP will also be responsible for certifying non-Drug Medi-Cal providers who provided services to beneficiaries during the retroactive period.

While the date of the final court order is uncertain, the court indicated at a hearing on May 4, 2006, that it expects payments to beneficiaries to begin by October 2, 2006. It is expected that the timeline for submission of claims beginning with June 1997 through December 2005, will be within one year from the implementation date. Thereafter, all claims must be submitted within one year of service.

Recommendation: Approve the request for $5.3 million ($2.7 million General Fund) and 4.0 two-year limited term positions to comply with the court ordered mandates associated with the *Conlan v. Bontá* and *Conlan v. Shewry* lawsuits. In addition, make a technical adjustment to the changebook issue description to clarify no budget bill language is included.

Vote-Only Issue 5: Drug Courts

Description: The Governor’s Budget provides $16.7 million General Fund for Drug Court programs in 2006-07, including $9.1 million for Comprehensive Drug Court Implementation (CDCI) Act programs, plus $7.6 million for the Drug Court Partnership program. Based on an analysis by the LAO that shows significant savings, the Subcommittee may wish to consider an expansion of CDCI Felony Drug Court. This issue was discussed by the Subcommittee at the April 20th hearing.

Background:

- **Drug Court Results:** In the March 2005 Final report on the CDCI, the DADP reported that adult drug court participants who completed the CDCI program averted a total of $42.8 million in prison costs, compared to $32.7 million in drug court expenditures, from January 1, 2001 through June 30, 2004. The ratio of prison costs avoided to drug court costs is 1.31 to 1. This cost offset ratio is based on the full $32.7 million funding for all CDCI programs, even though fifteen percent of this amount was allocated to drug courts other than adult felon courts, including juvenile drug courts and dependency drug courts. In addition to prison cost savings, drug courts also reduced homelessness and resulted in improved social outcomes, such as employment, school attendance and grades, and drug-free births.

- **LAO Analysis:** The LAO has reviewed the costs and savings associated with Adult (Felony) Drug Courts, and estimates that an increase in General Fund expenditures for Felony Drug Courts of $4 million in 2006-07 and $8.9 million in 2007-08 and annually thereafter would result in net savings to the state of $179,000 in 2007-08 and $7.9 million in 2008-09, due to reduced prison costs.

Recommendation: Increase CDCI Drug Court funding by $4 million General Fund to expand the Adult (Felony) Drug Court program.

4700 Department of Community Services and Development (DCSD)

Vote-Only Issue 6: Naturalization Services Program

Description: The Governor's Budget includes $1.5 million for the Naturalization Services Program (NSP). This program assists legal permanent residents obtain citizenship. The Urban Institute estimates that approximately 2.7 million Californians are eligible for but have not applied for citizenship. The Subcommittee discussed this issue on April 20th.

NSP Program Information: The NSP assists legal permanent residents obtain citizenship. This program funds local organizations that conduct outreach, intake and assessment, citizenship application assistance, citizenship testing and interview preparation. In 2005 the program is expected to assist an average of 12,000 individuals in the completion of citizenship applications. The program spends an average of $166 per client. Total funding for the program in 2005-06 was $1.5 million General Fund.

Positive outcomes as a result of NSP and citizenship include improved employment opportunities for citizens, and reduced caseload for state-only programs such as the Cash Assistance Program for Immigrants (CAPI), as citizens may quality for the federally-funded Supplemental Security Income (SSI) program. At the April 20th Subcommittee hearing, NSP service providers testified that NSP allocations were fully expended before the end of the year, and that additional funding would allow additional persons seeking citizenship to be assisted.

Recommendation: Due to the significant need for citizenship services and the benefits to the state and community of increased citizenship rates, provide an additional $1.5 million General Fund for this program, and adopt placeholder trailer bill language to codify NSP.

5160 Department of Rehabilitation (DOR)

Vote-Only Issue 7: Supported Employment Program

Description: The DOR funds services for persons with developmental disabilities primarily through its Supported Employment Program (SEP) and Work Activity Program (WAP). The Subcommittee may wish to consider a reimbursement rate increase for SEP providers. This issue was discussed by the Subcommittee on April 20th.

Background:

Supported Employment Program (SEP): SEP provides clients integrated 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, and include assessment, specialized job placement services and job coaching. DOR estimates 7,119 consumers with developmental disabilities will be served through SEP in 2006-07.

SEP placement payments to providers for consumers with developmental disabilities referred from Regional Centers are $200 for intake, $400 for job placement, and $400 for job retention after 90 days of successful employment ($1,000 total). After a consumer is placed on the job, job coaching is provided at an hourly rate of $27.62. These intake, placement, job retention and job coaching rates also apply to other DOR consumers with non-developmental disabilities.

DOR pays placement rates to community rehabilitation programs (CRPs) for consumers who do not require supported employment services based on the cost of providing the service, with the average statewide rate of approximately $1,766. These services may include limited job coaching and follow along services.

Provider Rate Proposal: Providers are concerned that low SEP reimbursement rates are effectively limiting the number of new clients that can be served. The providers indicate that there has been one increase, not based on cost, in 20 years. They suggest that the current rate does not provide enough funding to recruit and retain competent job coaches, thus leading to a significant decrease in successful placements and an increase in those needing re-placement services.

Providers note there has been little or no increase in individual SEP placements in the last ten years statewide. The number of SEP placements resulting in successful employment has remained relatively flat about approximately 1,000 per year since 2000-01, when the department began separately tracking individual and group placements. **However, providers note that while the number of successful SEP placements has remained flat, the number of working-age adults with developmental disabilities has increased by an average of 3.8 percent each year since 1994, leaving many consumers underserved.** The Department of Developmental Services indicates that about 4,000 students with developmental disabilities leave school each year. Of those, approximately 2 percent receive SEP, 17 percent receive WAP, and 60 percent are served in day programs.

Providers suggest that a $10 per hour increase in the job coach hourly rate from $27.62 to $37.62 would provide sufficient resources to increase the number of qualified job coaches, and would result in more SEP placements and successfully employed consumers. Successful SEP placements and employment can avoid more costly day program placement.

Recommendation: Approve $974,000 ($207,000 General Fund) additional funding to increase the job coaching hourly rate by 10 percent above the three percent increase proposed in the Governor's Budget. Approve $2.8 million ($1.5 million General Fund) to increase the SEP placement payment for successful employment from $1000 to $2000. Adopt placeholder trailer bill language to implement these changes.

Due to insufficient information about the performance of SEP and WAP, and the flow of consumers between DOR and DDS, adopt Budget Bill Language to require the department to provide a comprehensive written report to the Legislature by February 1, 2007 that describes the performance outcomes of SEP and WAP, including historical data, how performance is measured, how many consumers reenter SEP due to loss of employment, and a reconciliation of the number, process, and outcomes for consumers who enter work activity programs through DOR and subsequently transfer to DDS.

5175 Department of Child Support Services (DCSS)

Vote-Only Issue 8: May Revision Caseload and Technical Adjustments

Description: The May Revision requests caseload and technical adjustments for the child support program as follows:

A. **Child Support Program Basic Federal Incentives.** It is requested that Item 5175-101-0001 be increased by $3,945,000 and Item 5175-101-0890 be decreased by the same amount to reflect lower than anticipated Child Support Program Basic Federal Incentives. The Governor's Budget assumed the receipt of $49,192,000 in federal child support incentives for local administration in 2006-07. Based on federal fiscal year 2004 performance data, the state anticipates receiving $3,945,000, or 8 percent, less in federal incentives. In order to maintain funding for local child support agencies at the level proposed in the Governor's Budget, an additional $3,945,000 General Fund is required.

B. Collection Enhancement Programs Federal Incentives. It is requested that Item 5175-101-0001 be increased by $452,000 and Item 5175-101-0890 be decreased by the same amount to reflect lower than anticipated federal incentives for the Collection Enhancement programs. The Governor's Budget assumed receipt of $1,850,000 in federal incentives for Collection Enhancement programs in 2006-07. The state anticipates receiving $452,000, or 24 percent, less in federal incentives for the Collection Enhancement programs. In order to maintain administrative expenditures for the Collection Enhancement programs at the level proposed in the Governor's Budget, an additional $452,000 General Fund is required.

C. Credit Card Fees for Non-Custodial Parents. It is requested that the DCSS pay the credit card fees for non-custodial parents who choose to make their child support payments using a credit card. The DCSS estimates the cost for paying the fees could range from $475,000 to $887,000, with a state share of approximately $150,000 to $300,000 General Fund. No additional funding is requested for this proposal as the anticipated transaction and other savings from the proposal will offset the state’s cost. There is no specific budget action required to implement this proposal.

D. Technical Adjustment: California Child Support Automation System. It is requested that Item 5175-101-0890 be decreased by $454,000 as a technical adjustment to align the DCSS budget for the CCSAS-Child Support Enforcement (CSE) component with the costs stated in CSE Special Project Report #6 and that Item 5175-101-0001 be amended to reflect this change. There is a corresponding technical adjustment in the FTB budget (see Issue 29 in the FTB May Revision Letter).

E. Federal Trust Fund and Child Support Recovery Fund Adjustment. It is requested that Item 5175-101-8004 be increased by $3,663,000, Item 5175-101-0890 be decreased by the same amount and that Item 5175-101-0001 be amended to reflect these changes. Pursuant to federal guidelines, the DCSS transfers the federal portion of Child Support Assistance Collections (collections that reimburse the government the costs of providing public assistance) into a separate account called the Child Support Recovery Fund (CSRF). The DCSS must first use the federal child support collections for administrative program costs before drawing down Federal Trust Fund. Based upon most recent collections estimates, federal collections transferred to the CSRF will increase by $3,663,000 in 2006-07, reducing the need of Federal Trust Fund expenditure authority by the same amount.

F. Federal Trust Fund and Child Support Recovery Fund Flexibility Budget Bill Language. Amend Budget Bill language contained in Items 5175-101-0890 and 5175-101-8004 to allow collection revenue related adjustments to be made to the expenditure authority of the Federal Trust Fund local assistance item and CSRF upon approval of the Department of Finance. The 2005 Budget Act contains provisional language to allow the DCSS to request an increase or decrease in Federal Trust Fund and CSRF authority based on its most current estimate of federal child support collections pursuant to the provisions of Section 28.00 and subject to 30-day legislative notification. Since these changes are technical in nature, it is proposed to make these adjustments subject to Department of Finance approval only.

Recommendation: Approve issues A through E for May Revision caseload and technical adjustments. Amend issue F to require Legislative notification concurrent with adjustments to funding authority.

5180 Department of Social Services (DSS)

Vote-Only Issue 9: Child Welfare Services/Case Management System (CWS/CMS)

Description: The department requests various adjustments in funding and positions for the CWS/CMS automation system.

Background: CWS/CMS provides database, case management, and reporting functions to allow county and state users to track child abuse and neglect cases statewide. The CWS/CMS application hosting is currently being transferred from a private vendor location to the Department of Technology Services (DTS). The state Office of Systems Integration (OSI), in conjunction with DSS, is developing a request for proposal for a replacement system, known as the "New System" for CWS/CMS, as required by the federal government.

A. **Planning and Procurement for CWS/CMS "New System" (April 17th Finance Letter):** The department has requested funding and positions for planning activities associated with the development of a new web-enabled CWS/CMS. This request would provide resources to address the increased workload resulting from the development of a New System, while continuing critical oversight activities for the ongoing operation of the existing CWS/CMS. The department indicates these resources are necessary to ensure a timely and high-quality procurement process for this system, and that the requested resources are necessary to avoid project delays, cost over-runs, and poor system performance. The request includes $3.0 million ($1.5 million General Fund) and 4.0 positions in DSS, and an increase of $2.3 million in OSI. The total estimated seven year cost for the New System is $233 million, including one-time costs of $129 million and annual M&O costs of $65 million.

   The LAO recommends that the CWS/CMS New System consulting costs be reduced by $509,000, including 1) $286,000 for procurement assistance, as there are 6.0 state RFP positions being redirected from the Go Forward Plan, and 2) $223,000 for a consultant Project Manager, as a state project manager (DPM IV) is being redirected to manage the project.

B. **Extend Existing Vendor Maintenance Contract (May 8th Finance Letter):** The May Revision requests a reduction of $17.0 million ($8.5 million General Fund) in the DSS budget for a five-year extension of the current maintenance contract with IBM for CWS/CMS. The May Revision also requests a corresponding reduction of $5.5 million in OSI spending authority. This revised strategy would significantly reduce the costs of the current contract in exchange for a five-year extension that would include two optional one-year extensions. The requested approach also would eliminate the risk and transition costs resulting from multiple changes in vendors.

C. **CWS/CMS Disaster Recovery Services (May 12th Finance Letter):** The May Revision requests an increase of $2,143,000 ($1,072,000 General Fund and $1,071,000 Federal Trust Fund) to purchase disaster recovery services for the CWS/CMS from DTS. Prior to the March 2006 transfer of CWS/CMS hosting services from IBM Global Services (IBM) to the DTS, disaster recovery services were provided under the combined hosting and maintenance services contract with IBM. Now that the CWS/CMS is hosted at the DTS, the state must secure disaster recovery services for the application.

D. **CWS/CMS Workstations:** County welfare departments have expressed concern that the CWS/CMS budget does not include funding for a workstation replacement schedule. Counties indicate that the Gartner Group, a nationally recognized independent information technology expert, recommends replacing computer workstations every three to five years. A number of CWS/CMS workstations were installed in 2002-03, and will be four years old in 2006-07. The cost to replace the workstations that are four years old would be $5.4 million ($2.6 million General Fund). The LAO supports the need for CWS/CMS workstation replacement.

Recommendation: Approve issue A, as revised by the LAO. Approve issues B and C as requested in the May Revision. Approve issue D, funding for CWS/CMS workstation replacement.

Vote-Only Issue 10: CMIPS and CMIPS II Procurement

Description: The May Revision includes various adjustments to funding for the existing Case Management, Information and Payrolling System (CMIPS) automation system and the new CMIPS II procurement. CMIPS is a 20 year-old system that supports the In-Home Supportive Services (IHSS) program. Development of the new system, known as CMIPS II, is necessary to meet state and federal program requirements for IHSS.

Background: Analysis and preparation for the procurement of CMIPS II has been ongoing since 1999-00. Final bidder proposals are due in May 2006, the contract is expected to be awarded in January 2007, and DSS anticipates 3 years for full project roll-out, though the schedule will depend on the vendor bids. The earliest complete statewide rollout would be January 2010. The Governor’s Budget included $25.6 million ($13.7 million General Fund) for CMIPS II. However, this funding may not be fully expended in 2006-07, since the contract award date was pushed back by two months after development of the Governor’s Budget.

A. **Office of Systems Integration (OSI) CMIPS II Procurement:** The Health and Human Services Agency Office of Systems Integration (OSI) manages procurement of CMIPS II. In 2005-06 there were 12 OSI and 4 DSS positions for CMIPS II procurement and implementation. The May Revision requests that $1.0 million be redirected within the OSI budget to support the continuation of 12 limited-term positions due to expire June 30, 2006.

Of the 12.0 positions, it is requested that 6.0 limited-term positions be converted to permanent and 6.0 limited-term positions be extended through June 30, 2007.

Six positions have been allocated to the CMIPS II since the initiation of the project to plan, develop, and release a request for proposals. These positions will be needed for the remainder of the planning and procurement phase through implementation to address workload associated with executing and managing the prime-vendor contract and administering the project. Therefore, it is requested that the 6.0 positions be made permanent.

Six additional limited-term positions are requested to be extended through June 30, 2007. These limited-term positions were established to prepare for and support the design, development, and implementation (DDI) phase. They will address workload associated with contract management, project scheduling, requirements validation, quality assurance, and technical support.

B. **DSS Existing CMIPS:** The existing CMIPS provides client case management and provider payrolling functions for the In-Home Supportive Services (IHSS) program. Development of CMIPS began in 1979. Maintenance and operating costs for CMIPS are $11.9 million ($4.1 million General Fund) annually. These costs are budgeted in DSS only. The May Revision requests an increase of $722,000 ($447,000 General Fund and $275,000 Reimbursements) for CMIPS enhancement activities associated with the federal IHSS Waiver and the IHSS Quality Assurance (QA) Initiative. This augmentation is a shift from 2005-06 funding due to a delay in completion of CMIPS enhancements.

C. **Reappropriation of Independent Verification & Validation Funding for CMIPS II:** The May Revision requests that Item 5180-492 be added to authorize the reappropriation from 2005-06 to 2006-07 of unspent Independent Verification & Validation contract funding due to delayed CMIPS II procurement activities.

D. **CMIPS Direct Deposit:** IHSS providers do not currently have the option of receiving their paychecks via direct deposit, although the CMIPS II system will provide that functionality when completed. The Subcommittee may wish to consider establishing an option for workers to be paid via direct deposit now, under the existing CMIPS. Estimated costs to implement this option are approximately $512,000 ($256,000 General Fund) in 2006-07. Those costs include CMIPS programming costs and SCO costs. DSS estimates it would take approximately 12 months to complete the CMIPS programming changes. Second year costs would range from $386,000 to $758,000, depending on how initial outreach mailings are provided. Direct deposit is a safe, confidential, and efficient way for IHSS providers to receive their paychecks. Advantages of direct deposit include the elimination of lost, stolen, or delayed paychecks, reduced processing time, elimination of delays caused by change of address, and elimination of the cost and inconvenience of check cashing for providers.

Recommendation: Approve issues A, B, and C. For issue D, redirect funding from CMIPS II procurement to fund CMIPS and SCO activities to implement direct deposit for IHSS providers in 2006-07, and adopt necessary placeholder trailer bill language.

Vote-Only Issue 11: SAWS and Other Automation Project Adjustments

Description: The May Revision requests a variety of adjustments for the Statewide Automated Welfare System (SAWS) and other projects managed for DSS by the Office of Systems Integration (OSI).

Background:

A. **SAWS Interface Testing.** The May Revision requests an increase of $1,453,000 ($557,000 General Fund, $354,000 Federal Trust Fund, and $542,000 Reimbursements) for costs associated with interface testing between the Statewide Automated Welfare System consortia and the California Child Support Automated System (CCSAS). Budget Bill language is requested to require that SAWS perform interface testing between SAWS and CCSAS within the revised amount appropriated for SAWS maintenance and operations.

B. **Interim SAWS (ISAWS) Migration.** The May Revision requests a decrease of $238,000 ($90,000 General Fund, $69,000 Federal Trust Fund, and $79,000 Reimbursements) due to reduced legal costs associated with the ISAWS Migration project.

C. **SAWS Legacy Systems Savings.** The May Revision includes an updated cost allocation plan for SAWS legacy system savings. As a result the May Revision includes an increase of $2,312,000 Federal Trust Fund in CalWORKs and a decrease of $425,000 ($175,000 General Fund and $250,000 Federal Trust Fund) in the Foster Care and Food Stamp programs.

D. **Remove Price Increase for OSI.** The Governor's Budget inadvertently included a price increase for the automation projects managed by the OSI, including CMIPS, SAWS, EBT, CWS/CMS, and SFIS. The adjustment was calculated based on the OSI's total 2004-05 operating expenses and equipment budget. However, most OSI OE&E expenditures are for contract services which do not meet the criteria for a price adjustment. The May Revision requests various adjustments in DSS local assistance and OSI expenditures to remove the price increase.

E. **CalWIN Help Desk Staff.** The budget proposes to increase total county Help Desk staff from 127 to 195, at a cost of $4.4 million. However, counties note that the Administration has costed the proposed Help Desk Staff at 1999 salary levels, which effectively reduces the number of help desk staff below the requested number, since counties must pay current salary rates. The cost to fund help desk staff at current salary levels would be an additional $5.0 million ($1.9 million General Fund). Counties note that other SAWS systems have a lower number of users per help desk staff than CalWIN, and that help desk staff will be particularly important as counties implement CalWORKs reporting changes due to the Deficit Reduction Act of 2005. The LAO notes that the information provided by the department does not reflect workload estimates and metrics, and that the appropriate staffing level cannot be determined without these kinds of metrics. The LAO recommends denial of this funding until real metrics are provided.

Recommendation: Approve issue A funding, but amend the proposed Budget Bill Language to express Legislative intent that development and testing of the SAWS CCSAS interface be considered a high priority for SAWS consortia, county welfare departments, the Department of Social Services, the Office of Systems Integration, the Department of Child Support Services, the Franchise Tax Board, and local child support agencies. Approve issues B, C, and D, and for Issue E, adopt $5 million ($1.9 million General Fund) to accurately fund the cost of help desk staff.

Vote-Only Issue 12: May Revision Caseload Adjustments

Description: The May Revision proposes adjustments in funding to reflect caseload updates for CalWORKs, Foster Care, Adoptions Assistance, IHSS, SSI/SSP, Food Stamps Administration, and Child Welfare Services.

Background: The May Revision proposes a reduction of $106,650,000 ($12,749,000 General Fund, $103,428,000 Federal Trust Fund, and $30,000 Child Support Collections Recovery Fund, and an increase of $9,506,000 Reimbursements and $51,000 Emergency Food Assistance Fund), due to the impact of caseload changes since the Governor's Budget. The May Revision reflects the following average monthly caseload in 2006-07, compared to 2005-06 caseload:

- **CalWORKs:** 475,000 cases (0.3 percent decrease)
- **Non-Assistance Food Stamps:** 563,000 cases (8.5 percent increase)
- **SSI/SSP:** 1,241,000 cases (2.4 percent increase)
- **In-Home Supportive Services (IHSS):** 378,000 cases (6.9 percent increase)
- **Foster Care:** 75,000 cases (0.4 percent increase)
- **KinGAP:** 15,000 cases (0.8 percent increase)
- **Adoptions Assistance Program (AAP):** 75,000 cases (7.7 percent increase)
- **Child Welfare Services:** 160,000 cases (1.6 percent decrease)

May Revision Caseload Adjustments

Program	Item	Change Since Governor's Budget
CalWORKs	5180-101-0001 5180-101-0890 5180-601-0995	$1,342,000 -$104,652,000 -$266,000
Foster Care	5180-101-0001 5180-101-0890 5180-101-8004 5180-141-0001 5180-141-0890	-$7,771,000 -$9,334,000 -$30,000 $315,000 $171,000
Adoption Assistance Program	5180-101-0001 5180-101-0890	$2,971,000 $2,646,000
Supplemental Security Income/State Supplementary Payment (SSI/SSP)	5180-111-0001	-$21,881,000
In-Home Supportive Services (IHSS)	5180-111-0001 5180-611-0995	$3,817,000 $10,305,000
Child Welfare Services (CWS)	5180-151-0001 5180-151-0890 5180-651-0995	-$1,981,000 $1,294,000 -$144,000
Other Assistance Payments	5180-101-0001 5180-101-0122 5180-101-0890	$2,115,000 $51,000 $233,000
County Administration and Automation Projects	5180-141-0001 5180-141-0890 5180-641-0995	$5,651,000 $7,039,000 -$404,000
Remaining DSS Programs	5180-151-0001 5180-151-0890 5180-651-0995	$2,673,000 -$825,000 $15,000

Recommendation: Approve the May Revision adjustments in funding due to caseload updates, and adopt $1.7 million General Fund savings in Adoptions Assistance Program due to revised caseload estimate identified by the LAO.

Vote-Only Issue 13: Prospective Budgeting Estimate Adjustment

Description: The May Revision requests an increase of $44.2 million TANF to reflect a reduction in the eligibility determination savings assumed to result from Quarterly Reporting/Prospective Budgeting (QR/PB). This increase is in addition to a $25.0 million placeholder included for this purpose in the Governor's Budget. Based on an analysis of time study data submitted by the counties, the Administration has confirmed that the QR/PB system initially requires more contact time between county case workers and CalWORKs clients than was previously anticipated.

In addition, additional time study information has become available that indicates an adjustment of $9.6 million ($3.4 million General Fund) should be made in funding for Food Stamp eligibility activities.

Recommendation: Approve the requested adjustment, and adopt an adjustment of $9.6 million ($3.4 million General Fund) for Food Stamp eligibility.

Vote-Only Issue 14: 2004 Welfare Reform (SB 1104) Savings Adjustment

Description: The May Revision requests an increase of $15.6 million TANF to reflect a reduction in savings associated with the 2004-05 SB 1104 welfare reform efforts. The department indicates that savings are reduced due to a delay in commencing county visits combined with expanding the scope of data collection efforts to address the potential impact of federal TANF Reauthorization legislation.

The fiscal impact of the CalWORKs reforms included in SB 1104 – the human services trailer bill for the 2004-05 budget, has been difficult to estimate. For example, the estimated net fiscal impact of this issue for state fiscal year 2005-06 has ranged from $8.5 million savings in November 2004, to $18.8 million savings in May 2005, to $8.8 million cost in November 2005, to $12.2 million cost in May 2006. Similarly, the fiscal estimate of this issue for 2006-07 has ranged from $27.9 million savings in November 2005 to $11.4 million savings in May 2006.

Recommendation: Due to the difficulty of predicting the fiscal impact of this issue, staff recommends a more conservative estimate of the savings. Amend the May Revision adjustment to reflect an additional $5 million reduction in the estimated savings.

Vote-Only Issue 14A: LAO CalWORKs Caseload Adjustment

Description: The LAO indicates the May Revision overstates CalWORKs caseload trends by $24 million TANF/MOE.

Recommendation: Approve $24 million TANF/MOE reduction to reflect LAO estimate.

Vote-Only Issue 15: Stage 2 Child Care TANF Transfer Adjustment

Description: The May Revision requests that language in Item 5180-402 be modified to decrease the amount of TANF Block Grant funding to be transferred to the Department of Education for CalWORKs child care from $402,518,000 to $369,120,000 due to a decreased cost-per-case projection for Stage 2 child care.

Recommendation: Adopt the proposed adjustment.

Vote-Only Issue 16: Rosales v. Thompson Adjustment

Description: The May Revision requests a decrease of $1.9 million ($1.2 million General Fund) to reflect a larger shift from state-only to federal foster care and a lower number of cases that shifted from CalWORKs to federal foster care as a result of the *Rosales v. Thompson* court decision and the assumed impact of the federal Deficit Reduction Act of 2005 on this court ruling. The decrease in Foster Care assistance payments is expected to more than offset the increased CalWORKs grant costs. The May Revision also reflects a decrease of $20,000 ($8,000 General Fund) to reflect lower foster care administration due to the revised caseload projection as a result of the *Rosales v. Thompson* court decision and the assumed impact of the federal Deficit Reduction Act of 2005.

Recommendation: Approve the requested adjustment.

Vote-Only Issue 17: Reappropriation Authority for Welfare Fraud Recovery Incentives

Description: The May Revision requests that Item 5180-493 be added to authorize the reappropriation of unspent fraud recovery incentive funds previously allocated to counties in 2000-01 and 2001-02. The reappropriation is necessary to ensure that the funds provided to counties pursuant to Welfare and Institutions Code Section 11486(j) continue to be available for expenditure.

Recommendation: Approve the requested reappropriation authority.

Vote-Only Issue 18: Food Stamp Standard Utility Allowance Adjustment

Description: The May Revision requests an increase of $129,000 General Fund to reflect the impact to the California Food Assistance Program (CFAP) due to mid-year adjustment of the Standard Utility Allowance (SUA). This adjustment will increase benefits to which Food Stamp and CFAP recipients are entitled. The increased CFAP costs are expected to be more than offset by the increased revenue generated by the subsequent increase in recipients' purchases of taxable goods. This proposal would adjust the SUA two months prior to when this adjustment would normally occur pursuant to state regulations. The requested increase in this issue is for the cost of the two-month period only; funding for the cost of the remaining months of the adjustment is included in the Other Assistance Payments caseload issue. It is requested that Budget Bill provisional language be added to facilitate future mid-year adjustments to the SUA.

Recommendation: Approve the requested adjustment.

Vote-Only Issue 19: IHSS Share of Cost Adjustment

Description: The May Revision requests an increase of $17,162,000 General Fund for the continuing application of Medi-Cal Share-of-Cost (SOC) rules to IHSS recipients. This is required to prevent certain IHSS recipients from paying a higher SOC and is consistent with the Administration’s intent to protect recipients’ access to services under the recent federal Waiver.

Recommendation: Approve the requested adjustment.

Vote-Only Issue 20: Deficit Reduction Act of 2005: Impact to SSI/SSP

Description: The May Revision requests a decrease of $20,865,000 General Fund to reflect the impact of the federal Deficit Reduction Act of 2005 on the SSI/SSP program. The federal government will be performing more frequent eligibility redeterminations, which will result in modest ongoing General Fund savings, and make retroactive benefit payments quarterly rather than as a single lump-sum, which will result in significant one-time General Fund savings.

Background: The Deficit Reduction Act of 2005, approved by Congress and the President in February 2006, included changes to many health and human services programs, including SSI/SSP. The provisions affecting SSI/SSP include: 1) Additional eligibility reviews by the Social Security Administration (SSA) of SSI disability allowances, and 2) Lump sum retroactive payment limits of no more than three months worth of benefits. Both provisions will result in General Fund savings for the state’s SSP portion of the SSI/SSP grant.

- **Eligibility Reviews:** The department’s estimate of savings for this issue is based on the following assumptions:
    - Beginning March 1, 2006, 25 percent of SSI disability allowances will be reviewed by SSA. Starting October 1, 2006, 50 percent of disability allowances will be reviewed.
    - Based on State Data Exchange (SDX) data through February 2006, the average number of allowances is 15,616 cases each month.

- Statistical data from the Disability Evaluation Division reflect approximately 1 percent of all allowances are returned due to decisional errors.
- In 2005-06, 156 cases will be returned as ineligible. In 2006-07, 820 cases will be returned as ineligible.

- **Lump Sum Retroactive Payments:** The department's estimate of savings for this issue is based on the following assumptions:

  - Lump sum retroactive payments will be limited to no more than three months' worth of benefits per installment effective June 1, 2006. Prior to the change, up to 12 months' worth of benefits were payable per installment.
  - Retroactive payments are paid in a maximum of three installments.
  - Based on SDX data through January 2006, there are 3,459 cases per month entitled to receive retroactive benefits in amounts greater than three times the SSI/SSP maximum grant.
  - For savings due to the change in retroactive payments, the level of payments prior to the change was compared to the new payment schedule, with the difference reflecting the savings. Over time, the same amount of benefits will be paid, just over a longer period of time.

Recommendation: Approve the requested adjustment.

Vote-Only Issue 21: Tyler v. Anderson

Description: The May Revision requests an increase of $291,000 General Fund to reflect the shifting of funding from 2005-06 for *Tyler v. Anderson* settlement costs. This lawsuit was the result of misinterpretation of the range of motion services coverage under IHSS. Some counties authorized range of motion services, while others did not. Due to a delay, the majority of outstanding settlement payments is expected to be made in 2006-07.

Recommendation: Approve the requested adjustment.

Vote-Only Issue 22: IHSS Federal Waiver Program Requirements

Description: The May Revision requests an increase of $1,618,000 ($681,000 General Fund and $937,000 Reimbursements) to implement recent federal direction resulting from the ongoing development of IHSS Independence Plus Waiver guidelines. As a condition of the Waiver, the federal government requires the collection of emergency contact and backup plan information from IHSS recipients, which will result in increased IHSS administration costs. This information will be collected on a form, to be developed by DSS, to be completed at the time of the IHSS consumer's assessment and reassessment. The requested funding reflects the additional county social worker time to perform the assessment or reassessment.

Recommendation: Approve the requested adjustment.

Vote-Only Issue 23: Conlan v. Shewry

Description: The May Revision requests an increase of $990,000 ($495,000 General Fund) and establishment of 0.5 one-year limited-term position to comply with the pending *Conlan v. Shewry* court decision that is expected to require the DSS to provide notification for retroactive reimbursement payments for Medi-Cal services received and paid for by certain IHSS consumers. This request would provide a base level of resources to implement the specific requirements of the court ruling. The May Revision also requests Budget Bill language to allow the transfer of funding to state operations for the appropriate level of resources to manage actual workload that materializes from the final *Conlan v. Shewry* court order.

Background: Since 1997, the Department of Health Services (DHS) has been involved in litigation resulting in the decision of Conlan I and Conlan II. The litigation involves reimbursing Medi-Cal beneficiaries for medical expense received and paid for but not reimbursed for the three months prior to their application date and up to the date of eligibility. In Conlan I, the court held that under 42 U.S.C. section 1396a(a) (10) (B) the DHS was required to implement a process by which Medi-Cal beneficiaries may obtain prompt reimbursement for covered services. Following the issuance of Conlan I, the DHS submitted a proposed Compliance Plan (Plan) to the trial court. The trial court concluded that the provisions were invalid and refused to approve the Department's Plan without modification to the Plan's disputed provisions. It is anticipated that the Court of Appeals will rule on the implementation plan prior to June 2006. Prior to the final court ruling, this SFL is based on the DHS plan and provides a preliminary estimate on potential impacts and assumes that the court ruling will allow the Department only 60 days to implement the court order requirement.

In Conlan II, the Court of Appeal addressed five key issues relevant to the Plan's implementation. Ultimately, the court held that the Department is required to: 1) send notice of the new monetary reimbursement process available to all current and former Medi-Cal recipients who may have claims arising on or after June 27, 1997; 2) provide monetary reimbursement to any individual who has a valid claim for reimbursement arising on or after June 27, 1997; 3) provide reimbursement for valid claims arising from the date an application for Medi-Cal benefits is submitted to the date that the application is granted (the "evaluation period"); 4) provide reimbursement for services rendered by non-Medi-Cal providers if the services were provided during the retroactivity period (the Department is not required to provide reimbursement for services rendered by non-Medi-Cal providers during the evaluation period); and, 5) for valid claims, reimburse the beneficiary the amount paid.

Based on recent discussions with DHS regarding the implementation plan, the California Department of Social Services (CDSS) has developed the process to implement the provisions of Conlan II. DHS will send all claims for retroactive PCSP/IPW benefits to CDSS for processing. DSS will complete the first level of review for the validity of the claim, issue payments for those claims that are approved, and where appropriate, issue denials. For cases that require additional information that the county can supply, (ie. utilizing county files, etc), counties will assist in the adjudication Conlan II claims. DSS estimates that from the 750,690 number of potential eligible IHSS recipients for retroactive benefits from 1997-2006 that only 2.6% will actually file a claim for retroactive benefits resulting in approximately 19,500 claims being submitted for review. To assist the Adult Programs Branch with this new workload, the Department requests $698,000 in one year funding for contractor services equivalent to 7.0 state positions to perform the claims processing activities and provide technical assistance to the counties. In addition to the claims processing resources, the Department also requests $240,000 in contract funds and an .5 one year-limited term Staff Services Analyst/Associate Governmental Program Analyst (SSA/AGPA) to complete the necessary modifications to the Case Management, Information and Payrolling System (CMIPS) needed to comply with the anticipated Conlan II court decision.

The department indicates that the resources requested will ensure the provisions of Conlan II are met. DSS will be able to develop the policies and procedures for the Conlan II court decision, provide instructions to the counties, process 19,500+ claims, provide technical assistance and guidance to the counties on the implementation of the Court of Appeals plan and process the payment of beneficiary claims. Current staffing in the Adult Programs Branch is currently inadequate to handle the additional workload implementation and the claims processing the court order requires.

County Workload: Counties indicate concern that funding or provisional authority has not been provided to reflect additional county workload.

Recommendation: Approve $990,000 ($495,000 General Fund) and establishment of 0.5 one-year limited-term position to comply with the pending *Conlan v. Shewry* court decision. Approve BBL to allow transfer of funding to state operations, but amend the language to require Legislative notification. In addition, adopt BBL to require an estimate of the county impact of Conlan by October 1, 2006, and the provision of additional funding to counties to reflect increased workload.

Vote-Only Issue 24: IHSS Quality Assurance

Description: The 2004-05 Budget Act established an IHSS Quality Assurance (QA) program to make county determinations of service hours consistent throughout the state, and to comply with federal waiver requirements.

On March 23rd, the Subcommittee heard an update from the department on implementation of QA, and also heard public testimony about concerns with the development process for the QA Hourly Task Guidelines. After the hearing, advocates made four specific requests:

1. Completion of a Consumer Survey for consumers who participated in the field test of the Hourly Task Guidelines Task Tool;
2. Clarification on the timelines and approval process for exceptions that would allow consumers to receive hours that are outside of average range of time. More specifically, clarification on this data and additional information about how exceptions will be processed by IHSS supervisors after the social worker has completed the assessment/reassessment.
3. Further examination of the raw data of the field test.

4. Maintain ongoing IHSS Stakeholder meetings with DSS to formulate performance standards for the QA initiative (that is, how will we know its effect on consumers), review performance data and assess whether adjustments are merited in the Hourly Task Guideline regulations and time ranges.

The Department has agreed to continue the stakeholder process after the regulations have been adopted. DSS and staff are working on language to reflect this agreement in the budget bill.

Recommendation: Conform to Assembly action taken on this issue on May 3rd as follows:

A. Adopt Supplemental Report Language to require DSS to report to the Legislature quarterly on the IHSS utilization data by county, task, and client level. The data will also report the number of exceptions by county, task and client level.
B. Adopt Budget Bill Language to require DSS to report at budget hearings on the impact of the IHSS QA regulations.

Vote-Only Issue 25: Administrative Hearings for IHSS

Description: The May Revision requests that Budget Bill provisional language be added to Item 5180-111-0001 to authorize the transfer of funds to state operations for administrative hearing costs in the SSI/SSP and IHSS programs. This language would be consistent with existing provisional language for the administrative hearing process in the CalWORKs program.

Recommendation: Adopt amended provisional language to add Legislative notification.

Vote-Only Issue 26: Cash Assistance Program for Immigrants (CAPI)

Description: The May Revision maintains the Governor's Budget proposal to extend the deeming period for the Cash Assistance Program for Immigrants (CAPI) from ten to fifteen years for immigrants who entered the country on or after August 22, 1996. This five year extension results in General Fund savings (cost avoidance) of $12.5 million in 2006-07 and $40 million in 2007-08, and is expected to prevent 2,500 applicants from qualifying for CAPI in 2006-07, and 3,000 applicants from qualifying in 2007-08. Advocates have expressed concern that this proposal would deny CAPI eligibility for low-income elderly and disabled immigrants that have been in the United States for ten years, and who have language or disability barriers that make it very difficult for them to become citizens.

Background:

- **CAPI Program Description:** The CAPI program was established in 1998 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 DSS and administered locally by counties. CAPI grants are $10 less than SSI/SSP grants for individuals and $20 less than SSI/SSP grants for couples. CAPI caseload is projected to decrease by 2.8 percent in 2006-07, to 7,817 average monthly recipients. Total funding for the CAPI program is estimated to be $77.3 million General Fund in 2005-06 and $75.5 million General Fund in 2006-07.

- **CAPI Program Eligibility:** Federal law generally limits SSI/SSP benefits for legal immigrants to refugees for seven years, aged and/or disabled persons who were on aid before August 22, 1996, or who were legally residing in the country on August 22, 1996 and subsequently become disabled. In response, California created the CAPI program in 1998 to provide state-only benefits to low-income elderly legal immigrants who meet specified criteria.

- **Deeming Period:** CAPI applicants who entered the US on or after August 22, 1996 are currently subject to a ten year deeming period, which means for ten years after entering the country, both the applicant and sponsor's income and resources are counted when determining CAPI eligibility (unless the sponsor is dead, disabled or abusive, or another deeming exception can be applied). The ten year deeming period will begin to expire for some CAPI beneficiaries and applicants as soon as August 22, 2006. Under current law, DSS estimates that an additional 250 individuals would become eligible for CAPI each month beginning in September 2006.

- **Deeming Extension:** The Administration's proposal would require a sponsor's income and resources to continue to be considered for another five years, preventing an estimated 2,500 applicants from qualifying for CAPI in 2006-07, and 3,000 applicants from qualifying in 2007-08. The total deeming period would be fifteen years.

- **Impact of Deeming Extension for CAPI Applicants:** The people prevented from qualifying for CAPI under this proposal are low-income elderly or disabled legal immigrants who have lived in the US for at least ten years. While many immigrants who have lived in the US for that length of time have become citizens, for elderly or disabled immigrants the citizenship process can be far more difficult due to language, transportation, and other barriers. In addition, after ten years some sponsors have stopped providing assistance due to their own age or infirmity, leaving some CAPI applicants with no means of support except General Assistance in some counties. A fifteen-year deeming period would increase the risk of homelessness, hunger, and illness among this group of immigrants.

Recommendation: Reject the Governor's proposal and maintain the current ten-year deeming period for CAPI applicants.

Vote-Only Issue 27: Federal IV-E Funding Backfills

Description: The May Revision requests funding adjustments to reflect recent determinations that certain claims or activities do not qualify for federal IV-E funding.

A. **CWS Case Management Costs:** The May Revision requests a net decrease of $84,000 (an increase of $195,000 General Fund and a decrease of $279,000 Federal Trust Fund) to backfill the loss of federal Title IV-E funds for CWS case management activities that are no longer eligible under the federal Deficit Reduction Act of 2005.

B. **Backfill for CWS Training:** The May Revision requests a net increase of $1,818,000 (an increase of $1,924,000 General Fund and a decrease of $106,000 Federal Trust Fund) to backfill the reduction of federal Title IV-E funds for certain social worker training activities that do not qualify for enhanced federal financial participation. The federal Administration for Children and Families has recently determined that certain child welfare training costs are not eligible for Title IV-E funding at the 75 percent rate and only qualify for the Title IV-E administrative rate of 50 percent.

C. **Backfill CWS Program Improvement Costs:** An increase of $3,497,000 General Fund and a corresponding decrease of $3,497,000 Federal Trust Fund is requested to backfill the costs of certain PIP and CWS Program Improvement Project activities that are ineligible for federal Title IV-E funding. This request would proactively address the appropriate claiming of federal funds for only those activities that are eligible for Title IV-E funding and likely would avoid future federal disallowances for these costs.

D. **CWS Emergency Hotline Costs:** The May Revision requests an increase of $7,566,000 in federal TANF Block Grant funding to backfill a corresponding decrease in federal Title IV-E funds for certain ineligible CWS Emergency Hotline costs. This results in no net change in federal expenditure authority.

Recommendation: Approve issues A, B, and C. Deny issue D, as TANF funds are needed to support the CalWORKs program, particularly in light of the increased work participation rate requirements and significant federal penalties for not meeting that rate.

Vote-Only Issue 28: CWS Standardized Statewide Training

Description: The May Revision requests an increase of $16.9 million ($6 million General Fund) for additional county social worker training stipulated under the statewide standardized core curriculum for all county child welfare workers. Increased training for county social workers is a key component of the state's approved Program Improvement Plan (PIP) and Title IV-B Children and Family Services Plan to improve the overall performance of the state in meeting federal child welfare outcome measures.

Recommendation: Approve the requested funding.

Vote-Only Issue 29: Title IV-E Waiver

Description: May Revision requests $25.5 million ($10.0 million General Fund) for first year costs for counties that formally commit to participate in 2006-07 in the state's new Title IV-E Child Welfare Waiver Demonstration Project.

This waiver proposal will test a "capped allocation" strategy that will block grant federal Title IV-E foster care funds for up to 20 participating counties. This strategy will permit the flexible use of these funds on early intervention and prevention services in order to reduce the reliance on out-of-home care, promote reunification, and address required state and federal outcomes for child safety, permanence, and well-being. Budget Bill provisional language and trailer bill language are requested to authorize the transfer of funds to and from a newly-created Title IV-E Waiver item for counties that choose to participate in the state's Title IV-E Waiver.

Recommendation: Approve the requested funding. Amend the budget bill language to include Legislative notification. Adopt the trailer bill language as placeholder language, and add provisions that provide flexibility in allowing the $10 million to be used for either the waiver or AB 636 outcome improvements.

Vote-Only Issue 30: Group Home Audit Threshold

Description: Currently all California Group Homes with annual expenditures above $300,000 must undergo an annual financial audit. The federal government has raised its required threshold for annual audits to $500,000, but the State requirements have remained at the $300,000 threshold.

At least two group homes that exceed $300,000 per year in total expenditures but spend less that the federal threshold of $500,000 have raised concerns that this audit requirement results in $5,000 to $10,000 additional administrative costs each year. These group homes would like to increase the State threshold to the federal minimum level. These group homes also comment that a recent federal change will deny federal reimbursements for audits below the federal threshold.

Recommendation: Adopt Placeholder Trailer Bill Language to set the audit threshold for group homes at the level reimbursed by the federal government.

Vote-Only Issue 31: Group Home Rate Relief Provisions

Description: Foster Care group home rates have been increased in only four of the last fourteen years. Although the Consumer Price Index has increased by over 52 percent since 1990-91, group home rates have increased by 27 percent in that time. Group home providers have requested a rate increase in 2006-07, continuance of existing rate relief provisions that mitigate some of the effects of increased costs of doing business, and simplification of the Rate Classification Levels for group homes.

Background: The Legislature adopted group home rate relief provisions in 2002-03, 2003-04, 2004-05, and 2005-06. These provisions allowed facilities more flexibility in the Rate Classification Levels, but do not result in additional General Fund costs. Group home providers have requested continuance of these rate relief provisions in 2006-07.

Recommendation: Approve placeholder trailer bill language to continue group home rate relief in 2006-07.

Vote-Only Issue 32: Community Care Licensing Caseload Transfer

Description: The May Revision requests a shift of $108,000 General Fund from local assistance to state operations and 1.5 permanent positions in state operations to manage the workload associated with the transfer of the Family Child Care Home (FCCH) licensing caseload from Marin County to the state effective July 1, 2006. This request is consistent with statutory mandates that require the state to perform licensing oversight and facilities evaluation functions in the event counties fail to perform these activities.

Recommendation: Approve the requested shift from local assistance to state operations to reflect the shift in licensing workload from Marin County to DSS Community Care Licensing.

Vote-Only Issue 33: Community Care Licensing Web Site

Description: Unlike skilled nursing facilities, information on the number and types of complaints and citations for community care facilities is not available to consumers on the internet, and reports comparing the performance of facilities are not available to the public or policymakers. Compliance information is available to the public, but generally only through an in-person visit or telephone call to a CCL district office. CCL staff must manually review a case file to determine the compliance history of a facility. The department indicates that licensing data is contained within a number of connected data systems. These systems are connected, but not in such a way as to easily allow all data to be combined or queried.

On March 30th the Subcommittee adopted placeholder trailer bill language requiring the department to submit a written plan to the Legislature by March 1, 2007 that outlines the system changes and options to provide compliance history and civil penalty information for CCL facilities to the public via the internet. At the request of the Subcommittee, the Department has provided a cost estimate to begin providing CCL information to the public on the internet. The Department estimates that it will cost $366,000 General Fund. The funding would pay for the following items:

<u>Positions: $266,000</u>: Two (2.0) Associate Programmer Analysts for ISD and one (1.0) AGPA for CCLD, and necessary operating expense support for the positions.

<u>Computing Services: $100,000:</u> Contract with DTS for services and support to host the web site.

The Subcommittee has received substantial feedback from advocates and consumers advocating for more public information of the compliance history of licensed facilities.

Recommendation: Revise previous action on this issue, and conform to Assembly. Adopt $366,000 General Fund and 3.0 positions.

Discussion Agenda

5175 Department of Child Support Services (DCSS)

DCSS Issue 1: Child Support Transitional Arrearages

Description: The May Revision requests $28.5 million ($25.5 million General Fund) to resolve an issue with creation of arrears (outstanding child support obligations) due to a payment processing change implemented by the state. In developing the California Child Support Automation System (CCSAS), the state changed the method by which the date of payment for child support is recorded from the date of withholding from a non-custodial parent's (NCPs) wages to the date the payment is received by the state. This change has resulted in the creation of an arrearage balance for some NCPs. This proposal will allow the state to make payments on behalf of affected NCPs in 2006-07 to clear their arrearage balances and require the NCPs to repay these obligations upon termination of their child support orders.

Of the $28.5 million requested, $23 million would be for arrears payments, $1.5 million would be for the mailing of notification forms and local child support agency staff time to set up receivable accounts and respond to customer inquiries, and $4.0 million would be for automation system enhancements and system queries to identify NCPs affected by this issue. In addition, $1.0 million General Fund is requested for CCSAS automation changes in the Franchise Tax Board (FTB) budget. Budget Bill language is also proposed to: (1) provide the Department of Child Support Services (DCSS) with authority to make the transitional arrearage payments, and (2) to make the expenditure of the automation funding contingent upon review and approval of the Advance Planning Document/Special Project Report by the Department of Finance and subject to 30-day legislative notification.

Trailer bill language is also proposed to: (1) declare that the DCSS has the authority and discretion to prevent, correct, or remedy any impacts resulting from untimely receipt of child support due to implementation of the CCSAS State Disbursement Unit and (2) establish a statutory monthly interest calculation methodology based on the total arrears outstanding on the last day of the month, taking into account all payments received during the current month.

Recommendation: Approve the requested funding and language.

5180 Department of Social Services (DSS)

DSS Issue 1: California Work Opportunity and Responsibility to Kids (CalWORKs) – TANF Reauthorization

[please see handout]

DSS Issue 2: Regional Market Rate for CalWORKs Child Care

Description: The May Revision requests an increase of $8,101,000 Federal Trust Fund for Stage 1 child care to reflect adjustments to child care provider rate ceilings resulting from implementation of the updated Regional Market Rate survey methodology, pursuant to federal requirements. The updated survey is expected to result in an overall increase in provider rate ceilings statewide. However, the specific details of the adjustment have not yet been provided by the Administration.

Recommendation: Amend the requested adjustment to include $2 million additional funding.

DSS Issue 3: Tribal TANF

Description: The May Revision proposes $158.9 million for Tribal TANF programs in 2006-07. This funding level reflects updated estimates for caseload and services provided by Tribal TANF programs. Tribal TANF programs request statutory changes to streamline reporting processes for both the state and tribes, and to amend the funding methodology to more accurately reflect the structure and cost of services provided under Tribal TANF programs. These changes would have no fiscal impact in 2006-07.

Background: Prior to 1996, low-income tribal families received AFDC welfare benefits through county welfare offices, under the same rules as other low-income families. The 1996 Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) gave federally-recognized Indian tribes the option to design and operate their own cash welfare programs for needy children with funds subtracted from their state's TANF block grant. Seven tribes in California have established Tribal TANF programs. Tribal TANF programs operate in 15 states, including California.

PRWORA allows for each Tribal TANF program to receive a Tribal Family Assistance Grant based on FFY 1994 actual expenditures for that tribe. A tribe's TANF grant, which is subtracted from the State's TANF grant, equals federal payments made to the state for fiscal year 1994 for AFDC, Emergency Assistance, and JOBS that are attributable to Indians in its service area. A tribe's grant is smaller than the sum spent on AFDC Indian children in fiscal year 1994 because it lacks the State matching share. Although the existence of a tribal program within a state reduces the state's potential TANF caseload, states are not required to help fund the tribal plan. However, except for Wisconsin and Oklahoma, most states contribute funds to at least some of the tribal programs within their borders. State funds for tribal programs are MOE-countable. In FFY 2001 four states claimed state expenditures on behalf of tribal programs as MOE.

Recommendation: Adopt placeholder trailer bill language to revise the methodology to more accurately reflect structure and costs of Tribal TANF programs.

DSS Issue 4: Farm to Family

Description: The Farm to Family program is a statewide produce program that distributed over 9 million pounds of produce in 2005 with a goal of distributing 12 million pounds in 2006. The California Association of Food Banks (CAFB) is requesting $1.0 million for Farm to Family to cover fees, transportation and equipment needed to move over 10,000,000 lbs of produce to serve over 2 million low-income million individuals:

Processing Fees: $500,000
CAFB receives high-quality produce from growers/packers that is perfectly nutritious but does not meet retail standards. Value Added Processing Fees (VAP) are fees paid to packers to cover costs related to sorting, packing and storing donated food. The average VAP fee for produce is 3 cents/pound. This funding will allow CAFB to acquire over 10 million pounds of produce, including oranges, melons, apples, potatoes, stone fruit and other produce.

Transportation Fees: $350,000
These funds will allow CAFB to utilize the most cost efficient trucking to move produce from the packing house to the local food bank, and the return of empty bins to the packing house to be re-filled again. These round trips will keep produce flowing continuously from the growers to low-income individuals in the fastest method possible, insuring maximum produce freshness. In order to provide excellent service to all, CAFB must be able to provide same day service to donors.

Equipment: $150,000
Bins are used by packers for sorting, storing and distributing produce. The bins are used to move produce from the packing house to the food bank and back to the packing house without any interruption to their existing processes. Expanding our bin supply will allow CAFB to expand our distribution and add new donors. The cost for purchasing 1,000 bins at $150 each is $150,000.

State Agency Partner: CAFB proposes that the Department of Social Services budget be augmented by $1 million to develop a pilot project and expand California's efforts to establish a partnership with the Agricultural Community and the state's Food Banks in their efforts to provide fresh, healthy produce to millions. CAFB would provide documentation of costs and be reimbursed from DSS for expenses.

Benefits of for Agriculture Community:

- Provides funding to growers to cover their processing costs
- Creates new consumers for their products
- Reduces dumping costs for produce that does not meet retail standards
- Provides recognition for Donors' work to benefit their community

Benefits for Food Banks and the Low-Income Community:

- Provides ongoing and steady supply of produce to food banks – this allows food banks to develop produce programs and work with their agencies to distribute more produce.
- Prevents hunger -- Fresh produce is an especially important donation to food banks, because other food industry donations are steadily decreasing, as secondary markets grow and food processing becomes more efficient.
- Prevents obesity -- Healthy food can be more expensive, according to new research, making it more difficult for low-income families to make healthy choices. Free fruits and vegetables at the food bank provide a healthy supplement to low-income families' diets.

Recommendation: Approve $1 million General Fund for Farm to Family Program.

DSS Issue 5: Foster Care and Child Welfare Services

Description: On March 9th the Subcommittee discussed funding issues for foster care and child welfare programs. At the hearing significant concerns were raised about the outcomes for children in the state's foster care and child welfare system. A variety of programs and approaches have been developed in recent years to improve foster care and child welfare outcomes. The Subcommittee may wish to provide $75 million General Fund in additional resources for these programs.

Child Welfare and Foster Care Funding Sources

(As of Governor's Budget - dollars in millions)

2006-07	FEDERAL IV-E	OTHER FEDERAL	STATE	COUNTY	TOTAL
Child Welfare Services	$829.2	$558.2	$630.6	$212.6	**$2,230.7**
Foster Care Grants	510.3	38.6	395.8	676.5	**1,621.2**
Foster Case Mgmt	42.8	4.4	31.0	12.0	**90.2**
KinGAP	0.0	68.0	16.0	16.0	**100.0**
Adoptions	43.9	0.0	54.9	0.5	**99.3**
AAP	284.5	0.0	293.5	97.8	**675.8**
Total	**$1,710.7**	**$669.2**	**$1,421.8**	**$1,015.4**	**$4,817.2**

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

1. **Emergency Response Assessment—**the initial reports of abuse made to county welfare departments that do not result in an investigation.
2. **Emergency Response—**investigations of cases where there is sufficient evidence to suspect that a child is being abused or neglected.
3. **Family Maintenance—**a child is allowed to remain in the home and social workers provide services to prevent or remedy abuse or neglect.
4. **Family Reunification**—a child is placed in foster care and services are provided to the family with the goal of ultimately returning the child to the home.
5. **Permanent Placement—**permanency services provided to a child that is placed in foster care and is unable to return home.

Average Monthly CWS Caseload by Component 2005-06

	Cases	
	Number	**Percent**
Emergency Response Assessment	17,137	10%
Emergency Response	42,776	26
Family Maintenance	25,424	15
Family Reunification	23,566	14
Permanent Placement	55,498	34
Totals	**164,401**	**100%**

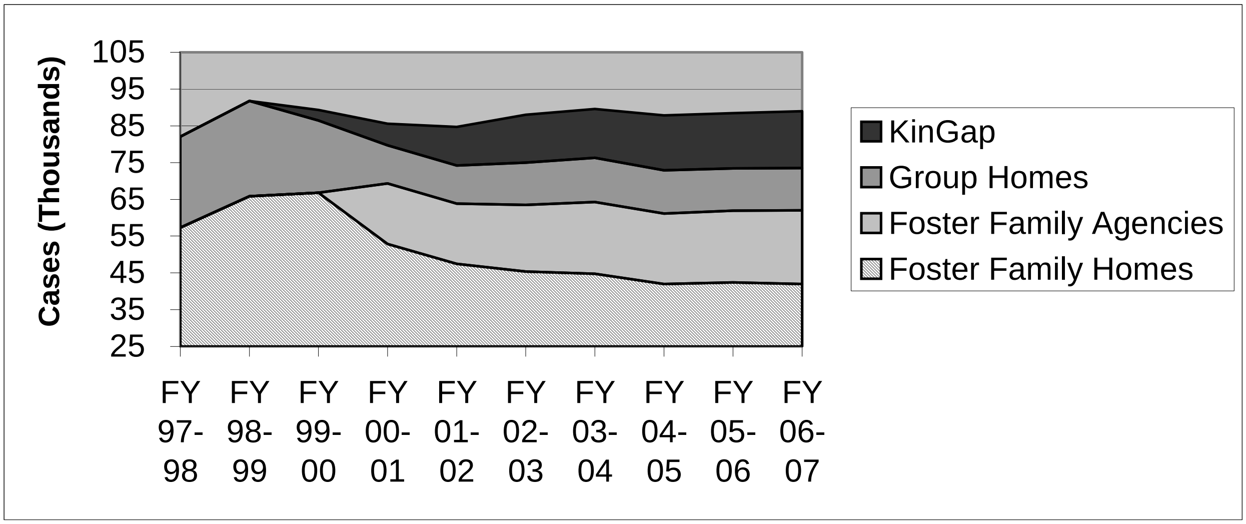
Detail may not total due to rounding.

Foster Care

The State has four major foster care placements:

Foster Care Placements	
Placement Type	**Description**
Foster Family Homes	♦ A residential facility that serves no more than six foster children. ♦ Provides 24-hour care and supervision in a licensee's home. ♦ Foster care grant may be supplemented for care of children with special needs.
Foster Family Agency Homes	♦ Homes operating under nonprofit foster family agencies which provide professional support. ♦ These placements are required by law to serve as an alternative to group home placement.
Group Homes	♦ A facility of any capacity that provides 24-hour non-medical care, supervision, and services to children. ♦ Generally serve children with more severe emotional or behavioral problems who require a more restrictive environment.
Kin-Gap	♦ Considered an exit to the foster care system. ♦ Provides support to children in long-term stable placements with relatives. ♦ Relatives are expected to provide 24-hour care and supervision. ♦ No supplemental payments for children with special needs. ♦ Funded with Federal TANF/ State TANFMOE General Fund.

In the last ten years there have been some dramatic changes to Foster Care placements. Group Home placements and Foster Family Home placements have declined while the Kin-Gap Program has grown since being established in 1999.



Note: Foster Family Agency caseload was reported as Foster Family Home Caseload before 2000.

Issue 5A: Child Welfare Services Workload (SB 2030 Study)

Description: There has been an ongoing effort in the Child Welfare Services (CWS) program to determine how many cases a social worker can carry and still effectively do his or her job. In 2000, the Child Welfare Services Workload Study required by Chapter 785, Statutes of 1998 (SB 2030, Costa) determined that those caseload standards were too high and that social workers had too many cases to effectively ensure the safety and well-being of California's children. Trailer bill language for the Budget Act of 2005 requires the department to report annually on progress made on reaching the SB 2030 CWS caseload standards.

Findings: In 1998, the Department of Social Services commissioned the SB 2030 study of counties' caseloads. At the time, the study concluded that for most categories the caseloads per-worker were twice the recommended levels. According to the study, it was difficult for social workers to provide services or maintain meaningful contact with children and their families because of the number of cases they were expected to carry.

The report also found that the 1984 standards used by the state were based on outdated workload factors, and did not reflect any additional responsibilities that had been placed on social workers by the state and federal governments. These findings and the minimal and optimal social worker standards proposed by the report have been included in budget discussions regarding staffing standards since the report's release. However, due to the state's budget shortfalls, the department has continued to use the 1984 workload standards, instead of the minimal and optimal standards, as the basis for allocating funds to counties for child welfare services staff. Although the 1984 workload standards are still in use, additional funding of approximately $330 million ($143 million General Fund) has been provided in recent years to move closer to SB 2030 standards.

As shown on the attached chart, the current level of resources for child welfare services provides funding for roughly half the number of social workers that would be required to meet the optimal standard identified in the SB 2030 study, and 70 percent of the social workers that would be required to meet the minimal SB 2030 standards.

Issue 5A Recommendation: Approve $50 million General Fund in 2006-07, annualized to $75 million in 2007-08, to protect children's safety and move toward meeting the SB 2030 standard. Adopt placeholder trailer bill language to address funding in future years.

Issue 5B: Transitional Housing Placement Program (THPP)

Description: The Transitional Housing Placement Program (THPP) provides housing assistance to emancipating foster youth aged 16 to 24. Counties have a sixty percent share of cost for THPP services provided to children 18 and older.

Each year, approximately 5,000 youth emancipate from the foster care system in California; many leave without the resources, skills or abilities to find safe housing and support. These youth are at a critical juncture and may become homeless, out of school, unemployed, and receive CalWORKs or, with housing and other support, become healthy and productive citizens.

According to the Campaign for Safe Transitions:

- Nearly a third of foster youth will become homeless at some time within the first year after they leave the system at age 18. Approximately 65% of California youth graduating from foster care in 2000-2001 were in need of safe and affordable housing at the time of graduation.
- Fewer than 10% of foster youth enroll in college and only 1% actually graduate.
- Unemployment rates for emancipated youth are estimated at 50%.
- Emancipated foster youth earn an average of $6,000 per year.
- About one fourth of former foster youth will be incarcerated within the first two years after they leave the system and approximately one third of former foster youth will be on public assistance shortly after aging out of the system.
- It is estimated that 10% of the young women emancipating from foster care in California are parents and that existing services for teen mothers are inadequate.
- 67% of females emancipated from the child welfare system in California had at least one birth within five years of leaving care.
- 40% of emancipated foster youth with one child reported having special needs due to pregnancy or parenting which interfered with independent living.

Recommendation: Increase funding for THPP by $4 million General Fund and adopt placeholder trailer bill language to eliminate the county share of cost for the program.

Issue 5C: Dependency Drug Courts

Description: The May Revision requests an increase of $2.1 million General Fund to maintain expenditures of $1.8 million in 2006-07 for the Dependency Drug Court program expansion initiated in 2004-05 and to provide $300,000 in contract funding for a prospective evaluation of the cost-effectiveness of the existing pilot project.

However, not all counties that applied for Dependency Drug Court funding were able to receive it. (Only 9 counties received grants out of 22 counties that applied). Furthermore, additional counties (including Los Angeles) have indicated an interest in establishing Dependency Drug Courts in 2006-07. For example, Los Angeles County Superior Court has requested that the Subcommittee consider funding for dependency drug courts in that county. More than 27,000 children are the court's jurisdiction in Los Angeles County. The Superior Court has also requested funding for 1) a substance abuse protocol for youth in five of the county's twenty-seven delinquency courts, and 2) development of a systematic approach to providing treatment to youth under Dependency Court jurisdiction who have substance abuse issues. Studies have shown that substance abuse plays a significant role in instances where youth crossover from Dependency Court to Delinquency Court, and that issue is not adequately addressed in Dependency Court. A new approach could be developed to prevent youth from entering the Delinquency system.

Recommendation: Approve the May Revision funding for Dependency Drug Courts, plus $3 million General Fund to expand Dependency Drug Courts to additional counties. Adopt technical conforming changes in the Department of Alcohol and Drug Programs as needed.

Issue 5D: KinGAP

Description: The increasing number and proportion of children in out-of-home care placed in the homes of relatives are among the most important child welfare trends of the decade. The increasing number of children in care and the declining pool of traditional foster families, along with recognition of the benefits of family care, are among the forces that have led to a growing use of kinship care. Relative caregivers are often aging grandparents, single and in declining health, socially isolated or emotionally unprepared to assume the responsibility of raising young children, despite how much they love them. The children, often abused or neglected, may have physical or behavioral problems that require professional help as well as the nurturing attention of the relative caregiver.

Created in 1998, the Kin-GAP program is intended to provide financial assistance for eligible children placed with relative caregivers. These youth are placed with relative caregivers by juvenile court and who are at risk of dependency or delinquency. The intent of the Kin-GAP program is to give relatives the option of assuming custody of a youth relative—which is typically considered a preferred placement—and, in turn, reducing demand traditional foster care. In addition, Kin-GAP enables the youth to benefit from foster care payment rates, which are higher than those under the CalWORKs program.

Under current law, Kin-GAP participants do not receive the same specialized care increment payments and annual clothing allowances provided to foster youth. Specialized care increment (SCI) payments are provided to meet the additional health and/or behavioral problems some children have. This payment is in addition to the basic foster care rate. As the name implies, clothing allowances are intended to meet the clothing needs of foster youth.

According to advocates, these benefits are important to foster families—the absence of these benefits for Kin-GAP youth can deter relatives who might otherwise participate in Kin-GAP.

While it is commonly accepted that relatives (as well as foster parents) do not care for needy youth for financial reasons, the financial burden of caring for a child can prevent some willing families from providing such care. In San Mateo County, SCI payments vary from $188 for Basic Above Average Care to $525 for Maximum Above Average Care. Clothing allowances in San Mateo County range from $312 starting at birth to $465 for 19 year olds. While these additional payments are small, they can make a difference.

The SCI and clothing allowances can be important benefits for foster families, and their unavailability in Kin-GAP can be a deterrent to relatives who might otherwise choose to participate in the program. In such cases, case management and juvenile court jurisdiction continue even when they might not otherwise be needed.

In addition, Kin-Gap does not currently apply to youth who are wards of the juvenile court. These youth are under the jurisdiction of the juvenile court and are supervised by probation officers rather than county welfare social workers. The transfer of the delinquency cases to Kin-Gap would likely result in savings as a result of lower probation and juvenile court costs.

Recommendation: Approve $8 million General Fund to ensure parity of services between KinGAP and Foster Care. Adopt placeholder trailer bill language to extend eligibility for Kin-Gap assistance to probation youth who have been living with a relative for at least 12 months, has kin guardianship case, and whose case has been terminated with the juvenile court.

Issue 5E: Adoptions

Description: The Governor's Budget proposed $12.2 million ($7.1 million General Fund) to hire additional state and county adoptions caseworkers, who are estimated to result in 560 additional adoptions in 2006-07. Funding for adoptions caseworkers has remained relatively flat in recent years, while the number of children needing permanent placement has increased.

Recommendation: Approve $4 million additional General Fund for additional efforts to help with the adoption of hard to place foster children.

Issue 5F: Chafee Scholarship Program

Description: Half of all foster youth do not complete high school, and only 15% take the necessary courses to gain college admission. Foster youth face barriers receiving the necessary academic preparation for college and obtaining the information necessary to complete the application and financial aid process. Not surprisingly, fewer than 10% of foster youth who graduate high school go on to college. If foster youth do manage to overcome existing challenges and enter college, they still struggle to find the financial assistance to fund their living and education expenses and to receive the support on campus to successfully graduate from college. As a result, fewer than 2% of foster youth who go on to college ever graduate.

The California Chafee Foster Youth Grant program provides scholarships to former foster youth. This year, California received approximately $8 million in federal funds for education training vouchers of up to $5,000 per academic year foster youth who:

- Are a minimum age of 16 and who have not reached their 22nd birthday by July 1, 2006
- Were eligible for Chafee Independent Living Program Services between their 16th and 18th birthday.
- With financial need certified by the school
- Up to the Cost of Education, not to exceed $5,000

The current federal funding provides roughly half the unmet financial need for 1,786 students. However, so far in the current year, over 5,000 students applied for Chafee, and of those applications approximately 1,124 eligible youth will not receive assistance through the Chafee program due to limited federal funding. The California Student Aid Commission notes that applications are still being filed, so the current year number continues to change. It would cost $5.7 million General Fund to fully fund the 1,124 eligible applicants that are currently not served by the Chafee program and address the three month federal funding delay for issuing awards.

Of the 1,786 awards that were made this year, 1,283 renewals and 503 new awards.

The California Student Aid Commission has also encountered a cash flow problem associated with the timing of the federal fiscal year that inhibits approving applications before October 1st of each year. Since most schools award financial aid in the fall, this delay hurts students that need the funding to plan for their expenses. The State could "loan" CSAC General Fund for the first three months of the fiscal year, to avoid the delay in making these grants.

Recommendation: Approve $5.7 million to fully fund all eligible foster youth that applied for the Chafee Scholarship program and address the three month federal funding delay for issuing awards.

Issue 5G: Performance Improvement Plan (PIP) Initiatives

Performance Improvement Plan (PIP) Initiatives: The May Revision requests an increase of $19.6 million ($11.9 million General Fund) to expand three Performance Improvement Plan (PIP) initiatives to additional counties in 2006-07 to improve Child Welfare Services program outcomes and achieve compliance with federal performance requirements. This funding would allow the Standardized Safety Assessment initiative to be expanded to an additional 18 counties, and the Differential Response and Permanency Enhancements initiatives to be expanded to an additional 15 counties.

In 2001, AB 636 (Steinberg) created an outcome system to align state performance outcomes with the federal performance outcomes described earlier. The implementation of this system began in 2004 when counties examined their performance data, met with their communities, and developed Self Improvement Plans (SIPs). These SIPs, like the state's Performance Improvement Plan (PIP), identify the level of improvement counties anticipate making on outcomes, and their action plans to make the improvements. Counties receive quarterly reports from the Department of Social Services DSS, in order to monitor their progress on outcomes and adjust their approaches accordingly. (The state contracts with UC Berkeley to compile data by county for each outcome measure.)

Recommendation: Adopt the May Revision funding increase but redirect most of the funding to the CWS Outcome Improvement Project (AB 636 outcome system). Maintain $1 million in the PIP initiatives to expand the standardized safety assessment statewide.

DSS Issue 6: County Costs for Operating Social Services Programs

Description: The California State Association of Counties (CSAC), the Urban Counties Caucus (UCC), and the County Welfare Directors Association (CWDA) have requested that the Subcommittee adopt placeholder trailer bill language that would fund the actual cost of county administration of human services programs beginning in the 2007-08 Budget.

Background: The State provides funding for the county administration of welfare, child protection, and other human services programs. Since 2001, the State has not adjusted these amounts to reflect the actual costs trends in these counties. As a result, the level of services provided by the counties has declined.

On March 9th, the Subcommittee rejected language that would have permanently frozen the cost of doing business for counties at the current year level. Although Cost of Doing Business expenses have not been included in the budget for the last five years, they are assumed in the long term cost projections for the program.

Recommendation: Adopt placeholder trailer bill language to establish a workgroup to review this issue for 2007-08 budget development.

Senate Budget Subcommittee No. 3
May 18, 2006

Response to TANF Reauthorization

The changes to the federal TANF program present an opportunity to significantly increase the number of CalWORKs families that are engaged and working their way toward self-sufficiency. By engaging families at the inception of their participation in CalWORKs, we can help more families leave assistance and become independent, and prevent the state from incurring significant federal penalties. No single strategy will be enough - we must provide a continuum of strategies and services to help families succeed at every stage of the program.

Research shows that applicants and participants who are more engaged from their earliest point of interaction with the county are more likely to work and less likely to become sanctioned. Identifying the supportive service needs of families and providing education, training, and job opportunities directly correlates to better outcomes for families.

While pushing government and participants to do more, we must also help and protect low-income children, so that they can break the cycle of generational poverty and become self-sufficient adults. In California nearly 1.9 million children (19 percent) are living in families with incomes at or below the poverty level ($20,000 per year for a family of four). The state's childhood poverty rate is slightly higher than the national average. Of the 1.3 million persons in CalWORKs, 1 million are children.

The Senate Democrats propose to reinvest $150 million in federal Temporary Assistance for Needy Families (TANF) funds back into the CalWORKs program to improve work participation rates and family outcomes. In addition, the Committee proposes to reprioritize $158 million in existing CalWORKs funds to get more families engaged faster, prevent sanctions, and increase our investment in education, training, and child care.

- **Enhance Up-Front Engagement –** Provide $30 million in competitive grants to counties to encourage innovative engagement strategies such as providing child care at application so parents can do orientation at the same time or screening recipients for barriers to work at appraisal to get them the services they need. Drawing on county best practices, efforts must be made throughout the state to increase engagement. Counties must prepare and submit a plan to the Legislature outlining the specific steps they will take to increase engagement and how the funding would be used.

- **Increasing Work and Training Opportunities** – Provide $25 million to establish a CalWORKs Education, Training, and Employment Collaborative. This effort would include the Department of Social Services, county welfare departments, the Employment Development Department, local workforce investment boards, community colleges, adult education and Regional Occupational Programs. Collaborative programs would emphasize activities that meet federal requirements, but give participants skills that will help them achieve long-term self-sufficiency. Counties and providers must meet outcome measurements tied to the number of new slots created for CalWORKs recipients.

- **CalWORKs in Community Colleges -** $9 million for Community Colleges to provide work study opportunities and counselors for CalWORKs clients attending full- or part-time community college programs.

- **Sanctions Engagement Initiative –** Provide $40 million to prevent sanctions by funding counties to engage non-compliant participants through personal contacts before a sanction is imposed. Eliminate barriers to complying by allowing families to come into compliance at any time when they are in sanction status. To provide sanctioned families an incentive to re-engage, permit families that agree to meet work participation requirements to earn back the funds lost from the sanction.

- **Restore Basic CalWORKs Program to 2004-05 Level –** Restore $140 million for county CalWORKs programs to bring funding back to the actual 2004-05 spending level. Counties use this funding for basic case management, child care, transportation, job club, and basic employment services.

- **Increase Accountability –** Fund the Pay for Performance program at $40 million annually, and clarify the counties' responsibility for potential federal penalties.

- **Invest in Research and Improve Data –** Develop and use all data sources to better articulate best practices and areas of improvement. Accurately reflect work participation and improve program management by improving state and county data reporting policies and practices. Provide $2.5 million for state staff and contract funding for data improvement research, analysis, and reporting to understand caseload components, trends, and dynamics.

- **CalWORKs County Peer Review Program –** Provide $1.5 million for a CalWORKs county peer review program to identify and share best practices that enhance participation and engagement.

Governor's May Revision Issues for TANF Reauthorization

- **CalWORKs Participation Improvement Project—**An increase of $20.0 million Federal Trust Fund is requested to implement a Participation Improvement Project to help counties overcome barriers in engaging CalWORKs recipients in appropriate activities and to improve counties' ability to meet the required federal work participation rate. These funds will be available to counties on a competitive grant basis to implement strategies for addressing unengaged recipients, reducing counties' high sanction and non-compliance rates, or reducing the number of recipients who are able to participate but are not continuously engaged. This proposal requires trailer bill language.

- **CalWORKs Reserve for Contingencies**—Increase the total TANF reserve from $181.4 million to $325.7 million. The TANF reserve is available for unanticipated needs in any program for which TANF Block Grant funds are appropriated, including CalWORKs benefits, employment services, county administration, and child care costs. The increase in the TANF reserve reflects the following:

    - **Pay for Performance—**The reserve includes $40.0 million as an incentive for counties who improve upon specific CalWORKs work participation and employment outcomes in 2006-07 compared to 2005-06. The funds would be allocated in 2007-08 to counties that successfully meet the desired outcomes. Trailer bill language is required for this proposal.

    - **TANF Reauthorization—**The TANF reserve includes $114.6 million to fund future programmatic changes to increase the work participation rate of CalWORKs recipients as required by TANF Reauthorization. The Administration has begun meeting with key stakeholders to explore options and identify the best policy and fiscal approaches that the state should take in responding to the increased work participation requirements. At this time, several critical issues remain to be defined by the federal regulations, and additional time is required to analyze programmatic data and identify options for improvement.

Recommendation for Budget Action:

A. **Enhance Up-Front Engagement:** Redirect $20 million TANF from the May Revision proposed Participation Improvement Project and $10 million TANF from the proposed TANF reauthorization reserve to provide a total of $30 million to encourage innovative engagement strategies.

B. **CalWORKs Education, Training, and Employment Collaborative:** Redirect $25 million from the proposed TANF Reauthorization reserve to fund collaborative programs would emphasize activities that meet federal requirements, but give participants skills that will help them achieve long-term self-sufficiency.

C. **CalWORKs in Community Colleges:** Redirect $9 million from the proposed TANF Reauthorization reserve to count $9 million in Community College Prop 98 funding toward the TANF MOE.

D. **Sanctions Engagement Initiative:** Redirect $40 million from the proposed TANF Reauthorization reserve to prevent sanctions by funding counties to engage non-compliant participants through personal contacts before a sanction is imposed. Eliminate barriers to complying by allowing families to come into compliance when they are in sanction status. To provide sanctioned families an incentive to re-engage, permit families that agree to meet work participation requirements to earn back the funds lost from the sanction.

E. **CalWORKs Homelessness Prevention and Engagement:** Redirect $10 million from the proposed TANF Reauthorization reserve for CalWORKs Homelessness prevention and support to prevent housing instability as a barrier to participation.

F. **Increase Accountability**: Fund the Pay for Performance program at $40 million annually, and clarify the counties' responsibility for potential federal penalties.

G. **Restore Basic CalWORKs Program to 2004-05 Level**: Restore $140 million for county CalWORKs programs to bring funding back to the actual 2004-05 spending level. Shift TANF out of Child Welfare Services and Foster Care to restore county funding.

H. **Realign Foster Care and Child Welfare Services Funding:** Fund $140 million Foster Care and Child Welfare with General Fund, rather than TANF. Adopt placeholder TBL to restrict the use of TANF for Foster Care and Child Welfare Services unless appropriated in Budget Act or authorized in BBL.

I. **Shift Exempt Cases:** Fund Exempt CalWORKs cases with non-MOE General Fund. Adopt placeholder trailer bill language to express Legislative intent that these cases remain a high priority for engagement. Use other countable expenditures to meet the MOE requirement. (No Net General Fund cost or TANF/MOE impact.)

J. **CalWORKs County Peer Review Program:** Redirect $1.5 million from the TANF Reauthorization reserve for a CalWORKs county peer review program to identify and share best practices that enhance participation and engagement. Authorize state staff and contract funding, and budget bill language to authorize the establishment of additional positions and transfer of this funding between local assistance and state operations.

K. **Research and Data Improvement:** Redirect $2.5 million from the TANF Reauthorization reserve for state staff and contract funding for data improvement research, analysis, and reporting to understand caseload components, trends, and dynamics. Authorize state staff and contract funding, and Budget Bill Language that authorizes the establishment of additional positions and transfer of this funding between state operations and local assistance.

L. **Plan for TANF Regulations:** Maintain $15 million of the TANF Reauthorization reserve for automation and implementation activities related to pending June 30th federal regulations.

M. **Conform Employment Training Fund Shift Back to Employment Training Panel**

N. **Adopt necessary placeholder trailer bill language and budget bill language, including, but not limited to:**

   a. Require counties to enact a sanctioned caseload engagement improvement plan by January 1, 2007
   b. Require counties to submit a caseload application, termination engagement plan that contains recommendations to reduce the wait time for engagement.
   c. Clarify county responsibility to use county funding to backfill any federal penalty assessed on the state and passed on to the counties.
   d. Establish a TANF reauthorization Stakeholder process in statute (similar to the Quality Assurance workgroup statute)
   e. Require tracking of all cases over time.
   f. ETP Transfer Reverse
   g. Reject Governor's Budget current year reduction trailer bill language.
   h. Foster Care/Child Welfare TANF restriction
   i. New Kinship Care Program
   j. Homeless Prevention Program
   k. Sanctions Engagement strategies
   l. Up-Front engagement strategies
   m. Education, training, and employment collaborative: establish in statute, require outcomes measurement.

Anastasia Dodson, Consultant, 916-651-4103

Hearing Outcomes

Subcommittee No. 3: Thursday, May 18, 2006 (Room 4203)

Vote-Only Agenda

4140 Office of Statewide Health Planning and Development

- Vote-Only Issue 1: Hospital Seismic Safety
  Action: Approve the May Revision requests, and adopt placeholder trailer bill language to provide statutory authority for the training program. **Vote:** 3-0

4170 California Department of Aging

- Vote-Only Issue 2: Multipurpose Senior Services Program
  Action: Approve $6 million ($3 million General Fund) additional funding for MSSP. In addition, to align MSSP program management and funding, consolidate all funding for MSSP in CDA (shift existing MSSP funding in DHS to CDA). **Vote:** 2-1 (Cox)

4200 Department of Alcohol and Drug Programs

- Vote-Only Issue 3: Drug Medi-Cal
  Action:
  A. Approve the May Revision Drug Medi-Cal caseload adjustments to increase funding by $7.6 million ($4.2 million General Fund). **Vote:** 3-0
  B. Adopt placeholder trailer bill language to limit Narcotic Treatment Center fee increases to CPI increases. **Vote:** 3-0
- Vote-Only Issue 4: Drug Medi-Cal – Conlan Implementation
  Action: Approve the request for $5.3 million ($2.7 million General Fund) and 4.0 two-year limited term positions to comply with the court ordered mandates associated with the *Conlan v. Bontá* and *Conlan v. Shewry* lawsuits. **Vote:** 2-1 (Cox)
- Vote-Only Issue 5: Drug Courts
  Action: Increase CDCI Drug Court funding by $4 million General Fund to expand the Adult (Felony) Drug Court program. **Vote:** 3-0

4700 Department of Community Services and Development

- Vote-Only Issue 6: Naturalization Services Program
  Action: Provide an additional $1.5 million General Fund for this program, and adopt placeholder trailer bill language to codify NSP. **Vote:** 2-1 (Cox)

5160 Department of Rehabilitation

- Vote-Only Issue 7: Supported Employment Program
  Action: Approve $3.9 million ($2.4 million General Fund) additional funding to increase the job coaching hourly rate by 10 percent above the three percent increase proposed in the Governor's Budget, and increase the SEP placement payment for successful employment

from $1000 to $2000. Adopt placeholder trailer bill language to implement these changes. **Vote:** 2-0 (Cox abstaining)

5175 Department of Child Support Services

- Vote-Only Issue 8: May Revision Caseload and Technical Adjustments
  A. Child Support Program Basic Federal Incentives.
  B. Collection Enhancement Programs Federal Incentives.
  C. Credit Card Fees for Non-Custodial Parents.
  D. Technical Adjustment: California Child Support Automation System.
  E. Federal Trust Fund and Child Support Recovery Fund Adjustment.
  F. Federal Trust Fund and Child Support Recovery Fund Flexibility Budget Bill Language.
  Action: Approve issues A through E for May Revision caseload and technical adjustments. Amend issue F to require Legislative notification concurrent with adjustments to funding authority. **Vote:** 3-0

5180 Department of Social Services

- Vote-Only Issue 9: CWS/CMS
  A. Planning and Procurement for CWS/CMS "New System" (April 17th Finance Letter)
  B. Extend Existing Vendor Maintenance Contract (May 8th Finance Letter)
  C. CWS/CMS Disaster Recovery Services (May 12th Finance Letter)
  D. CWS/CMS Workstations
  Action: Reduce issue A by $223,000. Approve issues B and C as requested in the May Revision. Approve issue D, funding for CWS/CMS workstation replacement.
  Vote: 3-0

- Vote-Only Issue 10: CMIPS and CMIPS II Procurement
  A. Office of Systems Integration (OSI) CMIPS II Procurement
  B. DSS Existing CMIPS
  C. Reappropriation of Independent Verification & Validation Funding for CMIPS II
  D. CMIPS Direct Deposit
  Action: Approve issue A, B, and C. For issue D, redirect funding from CMIPS II procurement to fund CMIPS and SCO activities to implement direct deposit for IHSS providers in 2006-07, and adopt necessary placeholder trailer bill language. **Vote:** A 2-1 (Cox), B 3-0, C 3-0, D 2-1 (Cox)

- Vote-Only Issue 11: SAWS and Other Automation Project Adjustments
  A. SAWS Interface Testing.
  B. Interim SAWS (ISAWS) Migration.
  C. SAWS Legacy Systems Savings.
  D. Remove Price Increase for OSI.
  E. CalWIN Help Desk Staff.
  Action: Approve issue A funding, but amend the proposed Budget Bill Language to express Legislative intent that development and testing of the SAWS CCSAS interface be considered a high priority for SAWS consortia, county welfare departments, the Department of Social Services, the Office of Systems Integration, the Department of Child Support Services, the Franchise Tax Board, and local child support agencies. Approve issues B, C, and D, and for

Issue E, adopt $5 million ($1.9 million General Fund) to accurately fund the cost of help desk staff. **Vote:** A, B, C, D 3-0, E 2-1 (Cox)

- Vote-Only Issue 12: May Revision Caseload Adjustments
  Action: Approve the May Revision adjustments in funding due to caseload updates, and adopt $1.7 million General Fund savings in Adoptions Assistance Program due to revised caseload estimate identified by the LAO. **Vote:** 3-0

- Vote-Only Issue 13: Prospective Budgeting Estimate Adjustment
  Action: Approve the requested adjustment, and adopt an adjustment of $9.6 million ($3.4 million General Fund) for Food Stamp eligibility. **Vote:** 2-1 (Cox)

- Vote-Only Issue 14: 2004 Welfare Reform (SB 1104) Savings Adjustment
  Action: Amend the May Revision adjustment to reflect an additional $5 million reduction in the estimated savings. **Vote:** 2-1 (Cox)

- Vote-Only Issue 14A: LAO CalWORKs Caseload Adjustment
  Action: Approve $24 million TANF/MOE reduction to reflect LAO estimate. **Vote:** 3-0

- Vote-Only Issue 15: Stage 2 Child Care TANF Transfer Adjustment
  Action: Approve the May Revision. **Vote:** 3-0

- Vote-Only Issue 16: Rosales v. Thompson Adjustment
  Action: Approve the May Revision. **Vote:** 3-0

- Vote-Only Issue 17: Reappropriation Authority for Welfare Fraud Recovery Incentives
  Action: Approve the May Revision. **Vote:** 3-0

- Vote-Only Issue 18: Food Stamp Standard Utility Allowance Adjustment
  Action: Approve the May Revision. **Vote:** 2-1 (Cox)

- Vote-Only Issue 19: IHSS Share of Cost Adjustment
  Action: Approve the May Revision. **Vote:** 2-1 (Cox)

- Vote-Only Issue 20: Deficit Reduction Act of 2005: Impact to SSI/SSP
  Action: Approve the May Revision. **Vote:** 3-0

- Vote-Only Issue 21: Tyler v. Anderson
  Action: Approve the May Revision. **Vote:** 3-0

- Vote-Only Issue 22: IHSS Federal Waiver Program Requirements
  Action: Approve the May Revision. **Vote:** 3-0

- Vote-Only Issue 23: Conlan v. Shewry
  Action: Approve $990,000 ($495,000 General Fund) and establishment of 0.5 one-year limited-term position to comply with the pending *Conlan v. Shewry* court decision. Approve

BBL to allow transfer of funding to state operations, but amend the language to require Legislative notification. In addition, adopt BBL to require an estimate of the county impact of Conlan by October 1, 2006, and the provision of additional funding to counties to reflect increased workload. **Vote:** 3-0

- Vote-Only Issue 24: IHSS Quality Assurance
  Action: Conform to Assembly action taken on this issue on May 3rd as follows:
  A. Adopt Supplemental Report Language to require DSS to report to the Legislature quarterly on the IHSS utilization data by county, task, and client level. The data will also report the number of exceptions by county, task and client level.
  B. Adopt Budget Bill Language to require DSS to report at budget hearings on the impact of the IHSS QA regulations.
  Vote: 3-0

- Vote-Only Issue 25: Administrative Hearings for IHSS
  Action: Adopt amended provisional language to add Legislative notification. **Vote:** 3-0

- Vote-Only Issue 26: Cash Assistance Program for Immigrants (CAPI)
  Action: Reject the Governor's proposal and maintain the current ten-year deeming period for CAPI applicants. **Vote:** 2-1 (Cox)

- Vote-Only Issue 27: Federal IV-E Funding Backfills
  A. CWS Case Management Costs
  B. Backfill for CWS Training
  C. Backfill CWS Program Improvement Costs
  D. CWS Emergency Hotline Costs
  Action: Approve issues A, B, C, and D. **Vote:** 3-0

- Vote-Only Issue 28: CWS Standardized Statewide Training
  Action: Approve the May Revision. **Vote:** 2-1 (Cox)

- Vote-Only Issue 29: Title IV-E Waiver
  Action: Approve the requested funding. Amend the budget bill language to include Legislative notification. Adopt the trailer bill language as placeholder language, and add provisions that provide flexibility in allowing the $10 million to be used for either the waiver or AB 636 outcome improvements. **Vote:** 2-1 (Cox)

- Vote-Only Issue 30: Group Home Audit Threshold
  Action: Adopt Placeholder Trailer Bill Language to set the audit threshold for group homes at the level reimbursed by the federal government. **Vote:** 3-0

- Vote-Only Issue 31: Group Home Rate Relief Provisions
  Action: Approve placeholder trailer bill language to continue group home rate relief in 2006-07. **Vote:** 3-0

- Vote-Only Issue 32: Community Care Licensing Caseload Transfer
  Action: Approve the requested shift from local assistance to state operations to reflect the shift in licensing workload from Marin County to DSS Community Care Licensing.
  Vote: 3-0

- Vote-Only Issue 33: Community Care Licensing Web Site
  Action: Revise previous action on this issue, and conform to Assembly. Adopt $366,000 General Fund and 3.0 positions. **Vote:** 3-0

Discussion Agenda

5175 Department of Child Support Services

- **Issue 1: Child Support Transitional Arrearages**
  Action: Approve the requested funding and language. **Vote:** 3-0

5180 Department of Social Services

- **Issue 1: CalWORKs – TANF Reauthorization**
  Action: Adopt the Senate Democrats' Plan for Response to TANF Reauthorization.
  Vote: 2-1 (Cox)

  A. **Enhance Up-Front Engagement:** Redirect $20 million TANF from the May Revision proposed Participation Improvement Project and $10 million TANF from the proposed TANF reauthorization reserve to provide a total of $30 million to encourage innovative engagement strategies.

  B. **CalWORKs Education, Training, and Employment Collaborative:** Redirect $25 million from the proposed TANF Reauthorization reserve to fund collaborative programs would emphasize activities that meet federal requirements, but give participants skills that will help them achieve long-term self-sufficiency.

  C. **CalWORKs in Community Colleges:** Redirect $9 million from the proposed TANF Reauthorization reserve to count $9 million in Community College Prop 98 funding toward the TANF MOE.

  D. **Sanctions Engagement Initiative:** Redirect $40 million from the proposed TANF Reauthorization reserve to prevent sanctions by funding counties to engage non-compliant participants through personal contacts before a sanction is imposed. Eliminate barriers to complying by allowing families to come into compliance when they are in sanction status. To provide sanctioned families an incentive to re-engage, permit families that agree to meet work participation requirements to earn back the funds lost from the sanction.

E. **CalWORKs Homelessness Prevention and Engagement:** Redirect $10 million from the proposed TANF Reauthorization reserve for CalWORKs Homelessness prevention and support to prevent housing instability as a barrier to participation.

F. **Increase Accountability**: Fund the Pay for Performance program at $40 million annually, and clarify the counties' responsibility for potential federal penalties.

G. **Restore Basic CalWORKs Program to 2004-05 Level**: Restore $140 million for county CalWORKs programs to bring funding back to the actual 2004-05 spending level. Shift TANF out of Child Welfare Services and Foster Care to restore county funding.

H. **Realign Foster Care and Child Welfare Services Funding:** Fund $140 million Foster Care and Child Welfare with General Fund, rather than TANF. Adopt placeholder TBL to restrict the use of TANF for Foster Care and Child Welfare Services unless appropriated in Budget Act or authorized in BBL.

I. **Shift Exempt Cases:** Fund Exempt CalWORKs cases with non-MOE General Fund. Adopt placeholder trailer bill language to express Legislative intent that these cases remain a high priority for engagement. Use other countable expenditures to meet the MOE requirement. (No Net General Fund cost or TANF/MOE impact.)

J. **CalWORKs County Peer Review Program:** Redirect $1.5 million from the TANF Reauthorization reserve for a CalWORKs county peer review program to identify and share best practices that enhance participation and engagement. Authorize state staff and contract funding, and budget bill language to authorize the establishment of additional positions and transfer of this funding between local assistance and state operations.

K. **Research and Data Improvement:** Redirect $2.5 million from the TANF Reauthorization reserve for state staff and contract funding for data improvement research, analysis, and reporting to understand caseload components, trends, and dynamics. Authorize state staff and contract funding, and Budget Bill Language that authorizes the establishment of additional positions and transfer of this funding between state operations and local assistance.

L. **Plan for TANF Regulations:** Maintain $15 million of the TANF Reauthorization reserve for automation and implementation activities related to pending June 30th federal regulations.

M. **Conform Employment Training Fund Shift Back to Employment Training Panel**

N. **Adopt necessary placeholder trailer bill language and budget bill language, including, but not limited to:**

   a. Require counties to enact a sanctioned caseload engagement improvement plan by January 1, 2007

b. Require counties to submit a caseload application, termination engagement plan that contains recommendations to reduce the wait time for engagement.
c. Clarify county responsibility to use county funding to backfill any federal penalty assessed on the state and passed on to the counties.
d. Establish a TANF reauthorization Stakeholder process in statute (similar to the Quality Assurance workgroup statute)
e. Require tracking of all cases over time.
f. ETP Transfer Reverse
g. Reject Governor's Budget current year reduction trailer bill language.
h. Foster Care/Child Welfare TANF restriction
i. New Kinship Care Program
j. Homeless Prevention Program
k. Sanctions Engagement strategies
l. Up-Front engagement strategies
m. Education, training, and employment collaborative: establish in statute, require outcomes measurement.

- **Issue 2: Regional Market Rate for CalWORKs Child Care**
  Action: Amend the requested adjustment to include $399,000 additional funding.
  Vote: 2-1 (Cox)

- **Issue 3: Tribal TANF**
  Action: Adopt placeholder trailer bill language to revise the methodology to more accurately reflect structure and costs of Tribal TANF programs. **Vote:** 3-0
  Action: Increase funding for Indian Health Clinics by $600,000. **Vote:** 2-1 (Cox)

- **Issue 4: Farm to Family Program**
  Action: Approve $1 million General Fund for Farm to Family Program. **Vote:** 2-1 (Cox)

- **Issue 5: Foster Care and Child Welfare Services Improvement Package**

  Issue 5A: Child Welfare Services Workload (SB 2030 Study)
  Action: Approve $50 million General Fund in 2006-07, annualized to $75 million in 2007-08, to protect children's safety and move toward meeting the SB 2030 standard. Adopt placeholder trailer bill language to address funding in future years.
  Vote: 2-1 (Cox)

  Issue 5B: Transitional Housing Placement Program (THPP)
  Action: Increase funding for THPP by $4 million General Fund and adopt placeholder trailer bill language to eliminate the county share of cost for the program.
  Vote: 2-1 (Cox)

  Issue 5C: Dependency Drug Courts
  Action: Approve the May Revision funding for Dependency Drug Courts, plus $3 million General Fund to expand Dependency Drug Courts to additional counties.

Adopt technical conforming changes in the Department of Alcohol and Drug Programs as needed. **Vote:** 3-0

Issue 5D: Kinship Care Program

Action: Establish a new Kinship Care Program, funded outside of TANF/MOE. Eligibility for this program is similar to KinGAP, but aid payments include a specialized care increment and clothing allowance available in the Foster Care program. Approve $8 million General Fund to fund the specialized care increment and clothing allowance. Adopt placeholder trailer bill language to extend eligibility for Kinship Care assistance to probation youth who have been living with a relative for at least 12 months, has kin guardianship case, and whose case has been terminated with the juvenile court. Adopt other placeholder trailer bill language as needed for this action.
Vote: 2-1 (Cox)

Issue 5E: Adoptions

Action: Approve $4 million additional General Fund for additional efforts to help with the adoption of hard to place foster children.
Vote: 2-1 (Cox)

Issue 5F: Chafee Scholarship Program

Action: Approve $5.7 million to fully fund all eligible foster youth that applied for the Chafee Scholarship program and address the three month federal funding delay for issuing awards.
Vote: 2-1 (Cox)

Issue 5G: Performance Improvement Plan (PIP) Initiatives

Action: Adopt the May Revision funding increase but redirect most of the funding to the CWS Outcome Improvement Project (AB 636 outcome system). Maintain $1 million in the PIP initiatives to expand the standardized safety assessment statewide.
Vote: 2-1 (Cox)

- **Issue 6: County Cost of Doing Business for Social Services**
  Action: Adopt placeholder trailer bill language to reestablish methodology to survey actual costs, and require future budget documents to document the degree to which those costs are reflected in the budget.
  Vote: 2-1 (Cox)

Senate Budget and Fiscal Review—Wesley Chesbro, Chair

SUBCOMMITTEE NO. 3 Agenda

Chair, Senator Denise Moreno Ducheny
Senator Dave Cox
Senator Wesley Chesbro

Agenda – Part "B"

Thursday, May 18, 2006
1 p.m.
John L. Burton Hearing Room (4203)
Consultant, Brian Annis

Labor Agency Departments

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.

7100 Employment Development Department

The EDD was previously heard in Subcommittee #3 on April 27, 2006.

Recommended Vote-Only Issues:

Issue 1: Program Benefit Adjustments (May Revision Requests)

Description: The Administration requests budget adjustments to reflect revised estimates of benefit expenditures in the current year and budget year. The adjustments are a result of recent benefit claim levels and of the May 2006 forecast of future claims. None of these changes affects the General Fund – all costs in these areas are funded by employer and employee taxes.

- **Unemployment Insurance (UI):** Benefit payments are estimated to decrease by $295.5 million in 2005-06 (to $5.077 billion) and decrease by $65.0 million in 2006-07 (to $5.258 billion). Operations expenditures are proposed to decrease by 33.8 temporary-help personnel years and $2.2 million in 2005-06 and decrease 20.1 temporary-help personnel years and $1.3 million in 2006-07. Additionally, the Administration requests a related decrease of 9.6 temporary-help personnel years and $800,000 for the California Unemployment Insurance Appeals Board in 2005-06, and a decrease of 8.2 temporary-help personnel years and $686,000 in 2006-07.
- **Disability Insurance (DI) Program:** Benefits payments are estimated to decrease by $111.4 million (to $4.183 billion) in 2005-06 and decrease by $105.5 million (to $3.925 billion) in 2006-07. Operations expenditures are proposed to decrease by 14.5 personnel years and $918,000 in 2005-06 and decrease 34.6 personnel years and $2.2 million in 2006-07. Additionally, the Administration requests a related decrease of 4.8 temporary-help personnel years and $434,000 for the California Unemployment Insurance Appeals Board in 2005-06, and a decrease of 6.0 temporary-help personnel years and $542,000 in 2006-07.
- **School Employees Fund Program:** Benefits payments are estimated to decrease by $11.8 million (to $91.6 million) in 2005-06 and not change from the budgeted amount of $97.0 million in 2006-07. No staffing changes are requested in either year.

Detail / Background: The Administration submits a May Revision request for EDD benefit adjustments every year. If the estimates of benefit payments turn out to be too low, budget bill language allows for upward revision of the appropriations with approval of the Director of Finance and notification to the Legislation. Revisions are not subject to requirements of Budget Control Section 28.00.

Recommendation: Approve the requests.

Issues for Discussion / Vote

Issue 1: Workforce Investment Act – (May Revision Requests)

Description: The Administration submitted two May Revision requests that relate to changes in federal funding for the Workforce Investment Act (WIA) Program.

- **Baseline Funding Adjustments:** The Administration indicates that the 2006 Congressional Rescissions and other federal program changes result in the need to decrease 2005-06 budgeted funding by $108,000 for state operations and by $1.4 million for local assistance. The Administration requests an increase of $351,000 in 2006-07 state operations in order for EDD to utilize WIA Disability Program Navigator grants.
- **WIRED Grant:** The federal Department of Labor selected the California Space Authority (CSA), a non-profit organization representing the commercial, civil, and national defense/homeland security interests of California's space enterprise community, to receive $15 million in funds over a three-year period. The May Revision Finance Letter indicates that $300,000 of the total would be used for state operations. In addition to the federal grant of $15 million, the Administration intends to target up to $1.0 million in WIA discretionary money and up to $2.0 million in Employment Training Fund money to support the project. The intent of the federal program is to foster the development of high-skill and high-wage opportunities in regions that have been affected by global trade, are dependent on a single industry, or are recovering from natural disaster. Note: The Administration requested and received approval to accept first year grant funding of $5 million in 2005-06 via a March 7, 2006, Section 28.00 letter.

  LAO Recommendation: The LAO recommends the adoption of budget bill language to direct, and require reporting for, any budget reductions caused by cuts in federal WIA funding. The federal government has not yet released the state allocations for the fiscal year, so this information is not available with the May Revise. It is anticipated that as in the past few years, the federal allocation will be decreased. EDD will need to make corresponding reductions in the WIA 15 percent discretionary funds appropriation.

  Item 7100-001-0869: *(Follows current provision 1.5) For Schedules (2), (3), and (4); In the event that the Employment Development Department is notified of a reduction in Federal Workforce Investment Act (WIA) 15 percent discretionary funds, the Department of Finance may decrease expenditure authority for schedules (2) though (4) inclusive. Any such decrease that exceeds two-hundred fifty thousand dollars ($250,000) may be authorized not sooner than 30 days after notification in writing is provided to the chairpersons of the committees in each house that consider the State Budget, and the Chairperson of the Joint Legislative Budget Committee, or not sooner than whatever lesser time the Chairperson of the Joint Legislative Budget Committee, or his or her designee, may in each instance determine.*

  Recommendation: Approve the requests with the LAO budget bill language.

Issue 2: Employment Training Panel Funding (BCP #1)

Description: The Administration requests an augmentation of $5.0 million (Employment Training Fund) for the Employment Training Panel (ETP) program and a corresponding reduction of $5.0 million (Employment Training Fund) for the Department of Social Services' CalWORKs program.

Detail / Background: The Employment Training Panel was created in 1982 to improve the skills of California's workforce and retain businesses in the state. The ETP is funded through the Employment Training Tax, a special tax which is levied on employers who participate in the Unemployment Insurance Program. Historically, revenue has annually averaged $70 million to $100 million. The ETP program primarily funds "employer-focused" job training – more than 90 percent of ETP supports training of incumbent workers. The ETP indicates that every $1 million in ETP training funding, supports more than 85 business and 800 workers, primarily in the manufacturing and high-tech sectors. The following table shows how Employment Training Fund money has been distributed between ETP and CalWORKs in recent years ($ in millions).

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07*
ETP Appropriation	$75.8	$76.0	$76.0	$18.2	$44.0	$37.8	$40.3
Percent to ETP	65%	51%	65%	22%	48%	44%	50%
CalWORKS Appropriation	$30.0	$61.7	$30.0	$56.4	$40.0	$37.9	$32.9
Percent to CalWORKS	26%	41%	26%	68%	43%	44%	40.5%

* Proposed

Staff Comment: This issue was discussed at both the April 27 hearing on Labor Departments and at the May 4 hearing when the Department of Social Services and CalWORKs were heard.

In addition to the $5 million shift requested, the California Chamber of Commerce and business groups have requested that the remaining $32.9 million in CalWORKs also be shifted back to ETP.

Recommendation: Restore full program funding to the Employment Training Panel. Augment the Employment Training Panel appropriation by $32.9 million.

7350 Department of Industrial Relations

The EDD was previously heard in Subcommittee #3 on April 27, 2006. One issue was held open and two May Revision requests have been submitted.

Discussion / Vote Issues:

Issue 1: Workers' Compensation – Initial Lien Filing Fees (BCPs #9)

Description: The Governor requests amendments to the Labor Code related to SB 228, (Chapter 639, Statutes of 2003). Current statute requires that medical-legal providers pay a $100 filing fee when filing an initial lien on a claim in order to assert their claim for payment for services provided. The Administration indicates this requirement "has created a workload that does not positively impact the settling of claims and instead has created a process that is inefficient for the division and the district offices." Additionally, the lien fee may be a barrier for legitimate claims by small business such as interpreters, document copy services, and transportation companies. The Administration also proposes to add language to establish a 60-day wait period for the filing of liens to discourage the practice of filing liens before allowing a reasonable period for payment. If the request is denied, the BCP indicates an additional $294,000 and five new positions would be required to address this workload.

April 27, 2006, Hearing: The California Applicants' Attorney Association (CAAA) testified that they had concerns with the 60-day wait period. The Department of Industrial Relations agreed to work with the CAAA to see if language revisions could be made that would address their concerns. The Subcommittee approved the language that repealed the $100 fee on a 3-0 vote, but took no action on the language related to the 60-day wait period.

Revised Language: The Administration and the CAAA have drafted revised trailer bill language that is acceptable to both parties (see Attachment I to this agenda). The new language maintains the 60-day wait, but adds other provisions to ensure that the wait period does not reduce the ability of applicants to recover payment.

Recommendation: Approve the revised trailer bill language (Attachment I).

Issue 2: Farm Workers' Contractor Fund (Staff Issue)

Description: The Administration indicates that the current revenue for the Farmworker Remedial Account is not sufficient to pay all anticipated claims over the next two to three years. The Administration has suggested that the Legislature may want to consider the transfer of $507,000 in the dormant Workplace Health and Safety Revolving Fund to the Farmworker Remedial Account (Issue #3 on the next page relates to an alternative use of this $507,000). This would provide funding to pay expected future claims for the next five years.

Background: Labor Code Section 1684 requires a farm labor contractor to pay a licensing fee of $500 plus a $10 filing fee annually. It requires the Labor Commissioner to deposit $50 of the licensing fee to the Farmworker Remedial Account to compensate applicant farmworkers for unpaid and unrecoverable wages. The remaining $450 of the $500 fee goes to the General Fund. Annually, the fees provide about $70,000 to the Farmworker Remedial Account. The 2005 Budget Act included an appropriation of $102,000 for the payment of wage claims. On November 14, 2005, the Administration submitted a deficiency request to the Legislature to make $338,000 in the fund available for claims. The Administration now estimates expenditures will only total $202,000 in 2005-06. With annual revenues anticipated at $70,000, and claims estimated at $202,000 ongoing, the fund needs additional revenues to fully fund claims.

Staff Comment: This issue is somewhat analogous to the issue the Subcommittee heard on April 27 regarding the Garment Fund Unpaid Wage Claims. In both cases, claims are exceeding 2005-06 appropriations, and any significant increase in expenditure authority can only come through enactment of deficiency legislation. Like the Garment Fund issue, the Administration has proposed budget bill language to fix the problem for 2006-07 by allowing DIR to expend fund balances beyond the appropriation level with approval of the Director of Finance and Legislative notification. A second issue for the Farmworker Remedial Account is insufficient revenues. AB 3054, as introduced, would increase license fees and increase the portion of fees transferred to the Farmworker Remedial Account to $200. Since the passage of AB 3054 is uncertain, the Subcommittee may want to consider transferring some of the Workplace Health and Safety Revolving Fund to the Farmworker Remedial Account.

Recommendation: Hold action on this issue until Issue #3 on the next page is heard, then take a combined action on both issues.

Issue 3: Transfer of Workplace Health and Safety Revolving Fund (Administration Trailer Bill Language Request)

Description: The Administration requests trailer bill language to transfer the $507,000 fund balance of the dormant Workplace Health and Safety Revolving Fund to the Workers' Compensation Administration Revolving Fund.

Background: In 1989, the Legislature created the Workplace Health and Safety Revolving Fund and directed the Department to deposit into the fund civil and administrative penalties against workers' compensation insurers, self-insured employers, and others for failure to comply with the workers' compensation system. Assembly Bill 749 (Chapter 6, Statutes of 2002, Calderon), redirects the civil and administrative penalties previously deposited in the Workplace Health and Safety Revolving Fund to the larger Workers' Compensation Administration Revolving Fund, which became the primary source of funds for the Division of Workers' Compensation. Post AB 749, the Workplace Health and Safety Revolving Fund is no longer an active fund; however, the current account balance is $507,000.

LAO Recommendation: In the *Analysis of the 2006-07 Budget Bill*, the LAO recommends that the $507,000 be transferred to the General Fund instead of the Workers' Compensation Administration Revolving Fund. The LAO notes that the Workers' Compensation Administration Revolving Fund will maintain a $65 million fund balance at the end of 2006-07, and the fund balance of the Workplace Health and Safety Revolving Fund was accumulated during the years in which the General Fund provided the bulk of Division of Workers' Compensation funding.

April 27, 2006, Hearing: The Subcommittee held this issue open pending decisions on other staffing and funding proposals.

Staff Comment: The Administration has suggested a new alternative for the $507,000, which was described in Issue #2 on the prior page. The new alternative is to adopt trailer bill language to transfer the balance to the Farmworker Remedial Account.

Staff Recommendation:
- Transfer $200,000 from the Workplace Health and Safety Revolving Fund to the Farmworker Remedial Account (this should provide a sufficient fund balance in the Farmworker Remedial Account to fully address anticipated claims through 2007-08).
- Transfer the remaining $307,000 from the Workplace Health and Safety Revolving Fund to the General Fund.

Attachment A

Lien Filing Fee Budget Trailer Bill Language

Revised Language – supported by the Administration and California Applicants' Attorney Association

Labor Code sections 4603.2 and 4903.05 are amended as follows:

Amendments to Labor Code section 4603.2. (b) (1)

(b) (1) Except as provided in subdivision (d) of Section 4603.4, or under contracts authorized under Section 5307.11, payment for medical treatment provided or authorized by the treating physician selected by the employee or designated by the employer shall be made at reasonable maximum amounts in the official medical fee schedule, pursuant to Section 5307.1, in effect on the date of service. Payments shall be made by the employer within 45 working days after receipt of each separate, itemization of medical services provided, together with any required reports and any written authorization for services that may have been received by the physician. If the itemization or a portion thereof is contested, denied, or considered incomplete, the physician shall be notified, in writing, that the itemization is contested, denied, or considered incomplete, within 30 working days after receipt of the itemization by the employer. A notice that an itemization is incomplete shall state all additional information required to make a decision. Any properly documented list of services provided not paid at the rates then in effect under Section 5307.1 within the 45-working-day period shall be increased by 15 percent, together with interest at the same rate as judgments in civil actions retroactive to the date of receipt of the itemization, unless the employer does both of the following:

(A) Pays the provider at the rates in effect within the 45-working-day period.

(B) Advises, in the manner prescribed by the administrative director, the physician, or another provider of the items being contested, the reasons for contesting these items, and the remedies available to the physician or the other provider if he or she disagrees. In the case of an itemization that includes services provided by a hospital, outpatient surgery center, or independent diagnostic facility, advice that a request has been made for an audit of the itemization shall satisfy the requirements of this paragraph.

~~If an employer contests all or part of an itemization, any amount determined payable by the appeals board shall carry interest from the date the amount was due until it is paid. If any contested itemization is determined payable by the appeals board, the defendant shall be ordered to reimburse the provider for any filing fees paid pursuant to Section 4903.05.~~

An employer's liability to a physician or another provider under this section for delayed payments shall not affect its liability to an employee under Section 5814 or any other provision of this division.

Repeal Labor Code section 4603.5.

~~§4903.05 (a) A filing fee of one hundred dollars ($100) shall be charged for each initial lien filed by providers, or on behalf of providers, pursuant to subdivision (b) of Section 4903.~~
~~(b) No filing fee shall be required for liens filed by the Veterans Administration, the Medi-Cal program, or public hospitals.~~
~~(c) The filing fee shall be collected by the court administrator. All fees shall be deposited in the Workers' Compensation Administration Revolving Fund. Any fees collected from providers that have not been redistributed to providers pursuant to paragraph~~
~~(2) of subdivision (b) of Section 4603.2, shall be used to offset the amount of fees assessed on employers under Section 62.5.~~
~~(d) The court administrator shall adopt reasonable rules and regulations governing the procedures for the collection of the filing fee.~~

Add Labor Code section 4603.5.

4903.05(a) Except as necessary to comply with Section 4903.5, no lien claim or application for adjudication shall be filed under subdivision (b) of Section 4903 until the expiration of one of the following:
(1) Sixty (60) days after the date of acceptance or rejection of liability for the claim, or expiration of the time provided for investigation of liability pursuant to subdivision (b) of Section 5402, whichever date is earlier;

(2) The time provided for payment of medical treatment bills pursuant to Section 4603.2;

(3) The time provided for payment of medical-legal expenses pursuant to Section 4622.

(b) No declaration of readiness to proceed shall be filed for a lien under subdivision (b) of Section 4903 until the underlying case has been settled by way of a compromise and release or where the applicant chooses not to proceed with his or her case.

(c) The Workers' Compensation Appeals Board (WCAB) shall adopt reasonable rules and regulations to ensure compliance with this section, and shall take such further steps as may be necessary to enforce the rules and regulations, including, but not limited to, impositions of sanctions pursuant to Section 5813.

(d) The limitations imposed by this section shall not apply to lien claims, applications for adjudication, or declarations of readiness to proceed filed by or on behalf of the employee, or to such filings by or on behalf of the employer.

Senate Budget and Fiscal Review—Wesley Chesbro, Chair

SUBCOMMITTEE NO. 3 Agenda

Chair, Senator Denise Moreno Ducheny
Senator Dave Cox
Senator Wesley Chesbro

HEARING OUTCOMES

Agenda – Part "B"

(Including Agenda – Part "B" ADDENDUM)

Thursday, May 18, 2006
1 p.m.
John L. Burton Hearing Room (4203)
Consultant, Brian Annis

Labor Agency Departments

7100 Employment Development Department

The EDD was previously heard in Subcommittee #3 on April 27, 2006.

Recommended Vote-Only Issues:

Issue 1: Program Benefit Adjustments (May Revision Requests)

Description: The Administration requests budget adjustments to reflect revised estimates of benefit expenditures in the current year and budget year. The adjustments are a result of recent benefit claim levels and of the May 2006 forecast of future claims. None of these changes affects the General Fund – all costs in these areas are funded by employer and employee taxes.

- **Unemployment Insurance (UI):** Benefit payments are estimated to decrease by \$295.5 million in 2005-06 (to \$5.077 billion) and decrease by \$65.0 million in 2006-07 (to \$5.258 billion). Operations expenditures are proposed to decrease by 33.8 temporary-help personnel years and \$2.2 million in 2005-06 and decrease 20.1 temporary-help personnel years and \$1.3 million in 2006-07. Additionally, the Administration requests a related decrease of 9.6 temporary-help personnel years and \$800,000 for the California Unemployment Insurance Appeals Board in 2005-06, and a decrease of 8.2 temporary-help personnel years and \$686,000 in 2006-07.
- **Disability Insurance (DI) Program:** Benefits payments are estimated to decrease by \$111.4 million (to \$4.183 billion) in 2005-06 and decrease by \$105.5 million (to \$3.925 billion) in 2006-07. Operations expenditures are proposed to decrease by 14.5 personnel years and \$918,000 in 2005-06 and decrease 34.6 personnel years and \$2.2 million in 2006-07. Additionally, the Administration requests a related decrease of 4.8 temporary-help personnel years and \$434,000 for the California Unemployment Insurance Appeals Board in 2005-06, and a decrease of 6.0 temporary-help personnel years and \$542,000 in 2006-07.
- **School Employees Fund Program:** Benefits payments are estimated to decrease by \$11.8 million (to \$91.6 million) in 2005-06 and not change from the budgeted amount of \$97.0 million in 2006-07. No staffing changes are requested in either year.

Detail / Background: The Administration submits a May Revision request for EDD benefit adjustments every year. If the estimates of benefit payments turn out to be too low, budget bill language allows for upward revision of the appropriations with approval of the Director of Finance and notification to the Legislation. Revisions are not subject to requirements of Budget Control Section 28.00.

Staff Recommendation: Approve the requests.

Action: Approved requests on a 3-0 vote.

Issues for Discussion / Vote

Issue 1: Workforce Investment Act – (May Revision Requests)

Description: The Administration submitted two May Revision requests that relate to changes in federal funding for the Workforce Investment Act (WIA) Program.

- **Baseline Funding Adjustments:** The Administration indicates that the 2006 Congressional Rescissions and other federal program changes result in the need to decrease 2005-06 budgeted funding by $108,000 for state operations and by $1.4 million for local assistance. The Administration requests an increase of $351,000 in 2006-07 state operations in order for EDD to utilize WIA Disability Program Navigator grants.
- **WIRED Grant:** The federal Department of Labor selected the California Space Authority (CSA), a non-profit organization representing the commercial, civil, and national defense/homeland security interests of California's space enterprise community, to receive $15 million in funds over a three-year period. The May Revision Finance Letter indicates that $300,000 of the total would be used for state operations. In addition to the federal grant of $15 million, the Administration intends to target up to $1.0 million in WIA discretionary money and up to $2.0 million in Employment Training Fund money to support the project. The intent of the federal program is to foster the development of high-skill and high-wage opportunities in regions that have been affected by global trade, are dependent on a single industry, or are recovering from natural disaster. Note: The Administration requested and received approval to accept first year grant funding of $5 million in 2005-06 via a March 7, 2006, Section 28.00 letter.

  LAO Recommendation: The LAO recommends the adoption of budget bill language to direct, and require reporting for, any budget reductions caused by cuts in federal WIA funding. The federal government has not yet released the state allocations for the fiscal year, so this information is not available with the May Revise. It is anticipated that as in the past few years, the federal allocation will be decreased. EDD will need to make corresponding reductions in the WIA 15 percent discretionary funds appropriation.

  Item 7100-001-0869: *(Follows current provision 1.5) For Schedules (2), (3), and (4); In the event that the Employment Development Department is notified of a reduction in Federal Workforce Investment Act (WIA) 15 percent discretionary funds, the Department of Finance may decrease expenditure authority for schedules (2) though (4) inclusive. Any such decrease that exceeds two-hundred fifty thousand dollars ($250,000) may be authorized not sooner than 30 days after notification in writing is provided to the chairpersons of the committees in each house that consider the State Budget, and the Chairperson of the Joint Legislative Budget Committee, or not sooner than whatever lesser time the Chairperson of the Joint Legislative Budget Committee, or his or her designee, may in each instance determine.*

  Staff Recommendation: Approve the requests with the LAO budget bill language.

Action: Approved requests, and adopted LAO budget bill language, on a 3-0 vote. The Department will provide the Subcommittee with additional detail on WIA expenditures.

Issue 2: Employment Training Panel Funding (BCP #1)

Description: The Administration requests an augmentation of $5.0 million (Employment Training Fund) for the Employment Training Panel (ETP) program and a corresponding reduction of $5.0 million (Employment Training Fund) for the Department of Social Services' CalWORKs program.

Detail / Background: The Employment Training Panel was created in 1982 to improve the skills of California's workforce and retain businesses in the state. The ETP is funded through the Employment Training Tax, a special tax which is levied on employers who participate in the Unemployment Insurance Program. Historically, revenue has annually averaged $70 million to $100 million. The ETP program primarily funds "employer-focused" job training – more than 90 percent of ETP supports training of incumbent workers. The ETP indicates that every $1 million in ETP training funding, supports more than 85 business and 800 workers, primarily in the manufacturing and high-tech sectors. The following table shows how Employment Training Fund money has been distributed between ETP and CalWORKs in recent years ($ in millions).

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07*
ETP Appropriation	$75.8	$76.0	$76.0	$18.2	$44.0	$37.8	$40.3
Percent to ETP	65%	51%	65%	22%	48%	44%	50%
CalWORKS Appropriation	$30.0	$61.7	$30.0	$56.4	$40.0	$37.9	$32.9
Percent to CalWORKS	26%	41%	26%	68%	43%	44%	40.5%

* Proposed

Staff Comment: This issue was discussed at both the April 27 hearing on Labor Departments and at the May 4 hearing when the Department of Social Services and CalWORKs were heard.

In addition to the $5 million shift requested, the California Chamber of Commerce and business groups have requested that the remaining $32.9 million in CalWORKs also be shifted back to ETP.

Staff Recommendation: Restore full program funding to the Employment Training Panel. Augment the Employment Training Panel appropriation by $32.9 million.

Action: Approved staff recommendation to restore all Employment Training Funds to the Employment Training Panel. (This would augment the Employment Training Panel appropriation by $32.9 million and decrease the Department of Social Services appropriation by $32.9 million) On a 2-1 vote with Senator Cox voting no.

7350 Department of Industrial Relations

The EDD was previously heard in Subcommittee #3 on April 27, 2006. One issue was held open and two May Revision requests have been submitted.

Discussion / Vote Issues:

Issue 1: Workers' Compensation – Initial Lien Filing Fees (BCPs #9)

Description: The Governor requests amendments to the Labor Code related to SB 228, (Chapter 639, Statutes of 2003). Current statute requires that medical-legal providers pay a $100 filing fee when filing an initial lien on a claim in order to assert their claim for payment for services provided. The Administration indicates this requirement "has created a workload that does not positively impact the settling of claims and instead has created a process that is inefficient for the division and the district offices." Additionally, the lien fee may be a barrier for legitimate claims by small business such as interpreters, document copy services, and transportation companies. The Administration also proposes to add language to establish a 60-day wait period for the filing of liens to discourage the practice of filing liens before allowing a reasonable period for payment. If the request is denied, the BCP indicates an additional $294,000 and five new positions would be required to address this workload.

April 27, 2006, Hearing: The California Applicants' Attorney Association (CAAA) testified that they had concerns with the 60-day wait period. The Department of Industrial Relations agreed to work with the CAAA to see if language revisions could be made that would address their concerns. The Subcommittee approved the language that repealed the $100 fee on a 3-0 vote, but took no action on the language related to the 60-day wait period.

Revised Language: The Administration and the CAAA have drafted revised trailer bill language that is acceptable to both parties (see Attachment I to this agenda). The new language maintains the 60-day wait, but adds other provisions to ensure that the wait period does not reduce the ability of applicants to recover payment.

Recommendation: Approve the revised trailer bill language (Attachment I).

Action: Approved revised trailer bill language on a 3-0 vote.

Issue 2: Farm Workers' Contractor Fund (Staff Issue)

Description: The Administration indicates that the current revenue for the Farmworker Remedial Account is not sufficient to pay all anticipated claims over the next two to three years. The Administration has suggested that the Legislature may want to consider the transfer of $507,000 in the dormant Workplace Health and Safety Revolving Fund to the Farmworker Remedial Account (Issue #3 on the next page relates to an alternative use of this $507,000). This would provide funding to pay expected future claims for the next five years.

Background: Labor Code Section 1684 requires a farm labor contractor to pay a licensing fee of $500 plus a $10 filing fee annually. It requires the Labor Commissioner to deposit $50 of the licensing fee to the Farmworker Remedial Account to compensate applicant farmworkers for unpaid and unrecoverable wages. The remaining $450 of the $500 fee goes to the General Fund. Annually, the fees provide about $70,000 to the Farmworker Remedial Account. The 2005 Budget Act included an appropriation of $102,000 for the payment of wage claims. On November 14, 2005, the Administration submitted a deficiency request to the Legislature to make $338,000 in the fund available for claims. The Administration now estimates expenditures will only total $202,000 in 2005-06. With annual revenues anticipated at $70,000, and claims estimated at $202,000 ongoing, the fund needs additional revenues to fully fund claims.

Staff Comment: This issue is somewhat analogous to the issue the Subcommittee heard on April 27 regarding the Garment Fund Unpaid Wage Claims. In both cases, claims are exceeding 2005-06 appropriations, and any significant increase in expenditure authority can only come through enactment of deficiency legislation. Like the Garment Fund issue, the Administration has proposed budget bill language to fix the problem for 2006-07 by allowing DIR to expend fund balances beyond the appropriation level with approval of the Director of Finance and Legislative notification. A second issue for the Farmworker Remedial Account is insufficient revenues. AB 3054, as introduced, would increase license fees and increase the portion of fees transferred to the Farmworker Remedial Account to $200. Since the passage of AB 3054 is uncertain, the Subcommittee may want to consider transferring some of the Workplace Health and Safety Revolving Fund to the Farmworker Remedial Account.

Recommendation: Hold action on this issue until Issue #3 on the next page is heard, then take a combined action on both issues.

Action: See next issue for combined action.

Issue 3: Transfer of Workplace Health and Safety Revolving Fund (Administration Trailer Bill Language Request)

Description: The Administration requests trailer bill language to transfer the $507,000 fund balance of the dormant Workplace Health and Safety Revolving Fund to the Workers' Compensation Administration Revolving Fund.

Background: In 1989, the Legislature created the Workplace Health and Safety Revolving Fund and directed the Department to deposit into the fund civil and administrative penalties against workers' compensation insurers, self-insured employers, and others for failure to comply with the workers' compensation system. Assembly Bill 749 (Chapter 6, Statutes of 2002, Calderon), redirects the civil and administrative penalties previously deposited in the Workplace Health and Safety Revolving Fund to the larger Workers' Compensation Administration Revolving Fund, which became the primary source of funds for the Division of Workers' Compensation. Post AB 749, the Workplace Health and Safety Revolving Fund is no longer an active fund; however, the current account balance is $507,000.

LAO Recommendation: In the *Analysis of the 2006-07 Budget Bill*, the LAO recommends that the $507,000 be transferred to the General Fund instead of the Workers' Compensation Administration Revolving Fund. The LAO notes that the Workers' Compensation Administration Revolving Fund will maintain a $65 million fund balance at the end of 2006-07, and the fund balance of the Workplace Health and Safety Revolving Fund was accumulated during the years in which the General Fund provided the bulk of Division of Workers' Compensation funding.

April 27, 2006, Hearing: The Subcommittee held this issue open pending decisions on other staffing and funding proposals.

Staff Comment: The Administration has suggested a new alternative for the $507,000, which was described in Issue #2 on the prior page. The new alternative is to adopt trailer bill language to transfer the balance to the Farmworker Remedial Account.

Staff Recommendation:
- Transfer $200,000 from the Workplace Health and Safety Revolving Fund to the Farmworker Remedial Account (this should provide a sufficient fund balance in the Farmworker Remedial Account to fully address anticipated claims through 2007-08).
- Transfer the remaining $307,000 from the Workplace Health and Safety Revolving Fund to the General Fund.

Action: Approved Staff Recommendation on a 3-0 vote.

Attachment A

Lien Filing Fee Budget Trailer Bill Language

Revised Language – supported by the Administration and California Applicants' Attorney Association

Labor Code sections 4603.2 and 4903.05 are amended as follows:

<u>Amendments to Labor Code section 4603.2. (b) (1)</u>

(b) (1) Except as provided in subdivision (d) of Section 4603.4, or under contracts authorized under Section 5307.11, payment for medical treatment provided or authorized by the treating physician selected by the employee or designated by the employer shall be made at reasonable maximum amounts in the official medical fee schedule, pursuant to Section 5307.1, in effect on the date of service. Payments shall be made by the employer within 45 working days after receipt of each separate, itemization of medical services provided, together with any required reports and any written authorization for services that may have been received by the physician. If the itemization or a portion thereof is contested, denied, or considered incomplete, the physician shall be notified, in writing, that the itemization is contested, denied, or considered incomplete, within 30 working days after receipt of the itemization by the employer. A notice that an itemization is incomplete shall state all additional information required to make a decision. Any properly documented list of services provided not paid at the rates then in effect under Section 5307.1 within the 45-working-day period shall be increased by 15 percent, together with interest at the same rate as judgments in civil actions retroactive to the date of receipt of the itemization, unless the employer does both of the following:

(A) Pays the provider at the rates in effect within the 45-working-day period.

(B) Advises, in the manner prescribed by the administrative director, the physician, or another provider of the items being contested, the reasons for contesting these items, and the remedies available to the physician or the other provider if he or she disagrees. In the case of an itemization that includes services provided by a hospital, outpatient surgery center, or independent diagnostic facility, advice that a request has been made for an audit of the itemization shall satisfy the requirements of this paragraph.

~~If an employer contests all or part of an itemization, any amount determined payable by the appeals board shall carry interest from the date the amount was due until it is paid. If any contested itemization is determined payable by the appeals board, the defendant shall be ordered to reimburse the provider for any filing fees paid pursuant to Section 4903.05.~~

An employer's liability to a physician or another provider under this section for delayed payments shall not affect its liability to an employee under Section 5814 or any other provision of this division.

<u>Repeal Labor Code section 4603.5.</u>

~~§4903.05 (a) A filing fee of one hundred dollars ($100) shall be charged for each initial lien filed by providers, or on behalf of providers, pursuant to subdivision (b) of Section 4903.~~
~~(b) No filing fee shall be required for liens filed by the Veterans Administration, the Medi-Cal program, or public hospitals.~~
~~(c) The filing fee shall be collected by the court administrator. All fees shall be deposited in the Workers' Compensation Administration Revolving Fund. Any fees collected from providers that have not been redistributed to providers pursuant to paragraph~~
~~(2) of subdivision (b) of Section 4603.2, shall be used to offset the amount of fees assessed on employers under Section 62.5.~~
~~(d) The court administrator shall adopt reasonable rules and regulations governing the procedures for the collection of the filing fee.~~

<u>Add Labor Code section 4603.5.</u>

4903.05(a) Except as necessary to comply with Section 4903.5, no lien claim or application for adjudication shall be filed under subdivision (b) of Section 4903 until the expiration of one of the following:
(1) Sixty (60) days after the date of acceptance or rejection of liability for the claim, or expiration of the time provided for investigation of liability pursuant to subdivision (b) of Section 5402, whichever date is earlier;

(2) The time provided for payment of medical treatment bills pursuant to Section 4603.2;

(3) The time provided for payment of medical-legal expenses pursuant to Section 4622.

(b) No declaration of readiness to proceed shall be filed for a lien under subdivision (b) of Section 4903 until the underlying case has been settled by way of a compromise and release or where the applicant chooses not to proceed with his or her case.

(c) The Workers' Compensation Appeals Board (WCAB) shall adopt reasonable rules and regulations to ensure compliance with this section, and shall take such further steps as may be necessary to enforce the rules and regulations, including, but not limited to, impositions of sanctions pursuant to Section 5813.

(d) The limitations imposed by this section shall not apply to lien claims, applications for adjudication, or declarations of readiness to proceed filed by or on behalf of the employee, or to such filings by or on behalf of the employer.

<u>Agenda – Part “B” ADDENDUM</u>

7350 Department of Industrial Relations

Issue 4: CalOSHA Staffing (Staff Issue)

Description: The Department indicates that there are 235 authorized staff in the California Occupational Safety and Health Administration (CalOSHA), that the resulting ratio of CalOSHA inspectors to the civilian workforce is about 1:74,103. Advocates for the California Association of Professional Scientists suggest that California’s staffing ratio is below that of other states and the Subcommittee should augment CalOSHA staffing.

April 27, 2006, Hearing: The Subcommittee heard testimony on this issue at the April 27 hearing and requested that the LAO research the issue and present their findings at the next hearing.

Detail/Background: The Department indicates, and has provided data that demonstrates, that the California staffing to employment ratio is about the same as the average for those states that use federal OSHA inspectors. When the ratios are compared to states which, like California, utilize state staff for OSHA inspector, California falls below the staffing average. The average ratio for the state-run programs is 1:50,166.

Staff Comment: Upon request, the Department provided data to indicate that 10 new positions could be added if funding were augmented by $1 million.

Questions:

1. LAO: Please present your findings on this issue.

Staff Recommendation: Augment the Department’s budget by $1.0 million to add 10 new CalOSHA positions.

Action: Approved Staff Recommendation on a 2-1 vote, with Senator Cox voting no.

Senate Budget and Fiscal Review—Wesley Chesbro, Chair

SUBCOMMITTEE NO. 3 Agenda

Chair, Senator Denise Moreno Ducheny
Senator Dave Cox
Senator Wesley Chesbro

HEARING OUTCOMES

Agenda – Part "B"

(Including Agenda – Part "B" ADDENDUM)

Thursday, May 18, 2006
1 p.m.
John L. Burton Hearing Room (4203)
Consultant, Brian Annis

Labor Agency Departments

7100 Employment Development Department

The EDD was previously heard in Subcommittee #3 on April 27, 2006.

Recommended Vote-Only Issues:

Issue 1: Program Benefit Adjustments (May Revision Requests)

Description: The Administration requests budget adjustments to reflect revised estimates of benefit expenditures in the current year and budget year. The adjustments are a result of recent benefit claim levels and of the May 2006 forecast of future claims. None of these changes affects the General Fund – all costs in these areas are funded by employer and employee taxes.

- **Unemployment Insurance (UI):** Benefit payments are estimated to decrease by $295.5 million in 2005-06 (to $5.077 billion) and decrease by $65.0 million in 2006-07 (to $5.258 billion). Operations expenditures are proposed to decrease by 33.8 temporary-help personnel years and $2.2 million in 2005-06 and decrease 20.1 temporary-help personnel years and $1.3 million in 2006-07. Additionally, the Administration requests a related decrease of 9.6 temporary-help personnel years and $800,000 for the California Unemployment Insurance Appeals Board in 2005-06, and a decrease of 8.2 temporary-help personnel years and $686,000 in 2006-07.
- **Disability Insurance (DI) Program:** Benefits payments are estimated to decrease by $111.4 million (to $4.183 billion) in 2005-06 and decrease by $105.5 million (to $3.925 billion) in 2006-07. Operations expenditures are proposed to decrease by 14.5 personnel years and $918,000 in 2005-06 and decrease 34.6 personnel years and $2.2 million in 2006-07. Additionally, the Administration requests a related decrease of 4.8 temporary-help personnel years and $434,000 for the California Unemployment Insurance Appeals Board in 2005-06, and a decrease of 6.0 temporary-help personnel years and $542,000 in 2006-07.
- **School Employees Fund Program:** Benefits payments are estimated to decrease by $11.8 million (to $91.6 million) in 2005-06 and not change from the budgeted amount of $97.0 million in 2006-07. No staffing changes are requested in either year.

Detail / Background: The Administration submits a May Revision request for EDD benefit adjustments every year. If the estimates of benefit payments turn out to be too low, budget bill language allows for upward revision of the appropriations with approval of the Director of Finance and notification to the Legislation. Revisions are not subject to requirements of Budget Control Section 28.00.

Staff Recommendation: Approve the requests.

Action: Approved requests on a 3-0 vote.

Issues for Discussion / Vote

Issue 1: Workforce Investment Act – (May Revision Requests)

Description: The Administration submitted two May Revision requests that relate to changes in federal funding for the Workforce Investment Act (WIA) Program.

- **Baseline Funding Adjustments:** The Administration indicates that the 2006 Congressional Rescissions and other federal program changes result in the need to decrease 2005-06 budgeted funding by $108,000 for state operations and by $1.4 million for local assistance. The Administration requests an increase of $351,000 in 2006-07 state operations in order for EDD to utilize WIA Disability Program Navigator grants.
- **WIRED Grant:** The federal Department of Labor selected the California Space Authority (CSA), a non-profit organization representing the commercial, civil, and national defense/homeland security interests of California's space enterprise community, to receive $15 million in funds over a three-year period. The May Revision Finance Letter indicates that $300,000 of the total would be used for state operations. In addition to the federal grant of $15 million, the Administration intends to target up to $1.0 million in WIA discretionary money and up to $2.0 million in Employment Training Fund money to support the project. The intent of the federal program is to foster the development of high-skill and high-wage opportunities in regions that have been affected by global trade, are dependent on a single industry, or are recovering from natural disaster. Note: The Administration requested and received approval to accept first year grant funding of $5 million in 2005-06 via a March 7, 2006, Section 28.00 letter.

  LAO Recommendation: The LAO recommends the adoption of budget bill language to direct, and require reporting for, any budget reductions caused by cuts in federal WIA funding. The federal government has not yet released the state allocations for the fiscal year, so this information is not available with the May Revise. It is anticipated that as in the past few years, the federal allocation will be decreased. EDD will need to make corresponding reductions in the WIA 15 percent discretionary funds appropriation.

  Item 7100-001-0869: *(Follows current provision 1.5) For Schedules (2), (3), and (4); In the event that the Employment Development Department is notified of a reduction in Federal Workforce Investment Act (WIA) 15 percent discretionary funds, the Department of Finance may decrease expenditure authority for schedules (2) though (4) inclusive. Any such decrease that exceeds two-hundred fifty thousand dollars ($250,000) may be authorized not sooner than 30 days after notification in writing is provided to the chairpersons of the committees in each house that consider the State Budget, and the Chairperson of the Joint Legislative Budget Committee, or not sooner than whatever lesser time the Chairperson of the Joint Legislative Budget Committee, or his or her designee, may in each instance determine.*

  Staff Recommendation: Approve the requests with the LAO budget bill language.

Action: Approved requests, and adopted LAO budget bill language, on a 3-0 vote. The Department will provide the Subcommittee with additional detail on WIA expenditures.

Issue 2: Employment Training Panel Funding (BCP #1)

Description: The Administration requests an augmentation of $5.0 million (Employment Training Fund) for the Employment Training Panel (ETP) program and a corresponding reduction of $5.0 million (Employment Training Fund) for the Department of Social Services' CalWORKs program.

Detail / Background: The Employment Training Panel was created in 1982 to improve the skills of California's workforce and retain businesses in the state. The ETP is funded through the Employment Training Tax, a special tax which is levied on employers who participate in the Unemployment Insurance Program. Historically, revenue has annually averaged $70 million to $100 million. The ETP program primarily funds "employer-focused" job training – more than 90 percent of ETP supports training of incumbent workers. The ETP indicates that every $1 million in ETP training funding, supports more than 85 business and 800 workers, primarily in the manufacturing and high-tech sectors. The following table shows how Employment Training Fund money has been distributed between ETP and CalWORKs in recent years ($ in millions).

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07*
ETP Appropriation	$75.8	$76.0	$76.0	$18.2	$44.0	$37.8	$40.3
Percent to ETP	65%	51%	65%	22%	48%	44%	50%
CalWORKS Appropriation	$30.0	$61.7	$30.0	$56.4	$40.0	$37.9	$32.9
Percent to CalWORKS	26%	41%	26%	68%	43%	44%	40.5%

* Proposed

Staff Comment: This issue was discussed at both the April 27 hearing on Labor Departments and at the May 4 hearing when the Department of Social Services and CalWORKs were heard.

In addition to the $5 million shift requested, the California Chamber of Commerce and business groups have requested that the remaining $32.9 million in CalWORKs also be shifted back to ETP.

Staff Recommendation: Restore full program funding to the Employment Training Panel. Augment the Employment Training Panel appropriation by $32.9 million.

Action: Approved staff recommendation to restore all Employment Training Funds to the Employment Training Panel. (This would augment the Employment Training Panel appropriation by $32.9 million and decrease the Department of Social Services appropriation by $32.9 million) On a 2-1 vote with Senator Cox voting no.

7350 Department of Industrial Relations

The EDD was previously heard in Subcommittee #3 on April 27, 2006. One issue was held open and two May Revision requests have been submitted.

Discussion / Vote Issues:

Issue 1: Workers' Compensation – Initial Lien Filing Fees (BCPs #9)

Description: The Governor requests amendments to the Labor Code related to SB 228, (Chapter 639, Statutes of 2003). Current statute requires that medical-legal providers pay a $100 filing fee when filing an initial lien on a claim in order to assert their claim for payment for services provided. The Administration indicates this requirement "has created a workload that does not positively impact the settling of claims and instead has created a process that is inefficient for the division and the district offices." Additionally, the lien fee may be a barrier for legitimate claims by small business such as interpreters, document copy services, and transportation companies. The Administration also proposes to add language to establish a 60-day wait period for the filing of liens to discourage the practice of filing liens before allowing a reasonable period for payment. If the request is denied, the BCP indicates an additional $294,000 and five new positions would be required to address this workload.

April 27, 2006, Hearing: The California Applicants' Attorney Association (CAAA) testified that they had concerns with the 60-day wait period. The Department of Industrial Relations agreed to work with the CAAA to see if language revisions could be made that would address their concerns. The Subcommittee approved the language that repealed the $100 fee on a 3-0 vote, but took no action on the language related to the 60-day wait period.

Revised Language: The Administration and the CAAA have drafted revised trailer bill language that is acceptable to both parties (see Attachment I to this agenda). The new language maintains the 60-day wait, but adds other provisions to ensure that the wait period does not reduce the ability of applicants to recover payment.

Recommendation: Approve the revised trailer bill language (Attachment I).

Action: Approved revised trailer bill language on a 3-0 vote.

Issue 2: Farm Workers' Contractor Fund (Staff Issue)

Description: The Administration indicates that the current revenue for the Farmworker Remedial Account is not sufficient to pay all anticipated claims over the next two to three years. The Administration has suggested that the Legislature may want to consider the transfer of $507,000 in the dormant Workplace Health and Safety Revolving Fund to the Farmworker Remedial Account (Issue #3 on the next page relates to an alternative use of this $507,000). This would provide funding to pay expected future claims for the next five years.

Background: Labor Code Section 1684 requires a farm labor contractor to pay a licensing fee of $500 plus a $10 filing fee annually. It requires the Labor Commissioner to deposit $50 of the licensing fee to the Farmworker Remedial Account to compensate applicant farmworkers for unpaid and unrecoverable wages. The remaining $450 of the $500 fee goes to the General Fund. Annually, the fees provide about $70,000 to the Farmworker Remedial Account. The 2005 Budget Act included an appropriation of $102,000 for the payment of wage claims. On November 14, 2005, the Administration submitted a deficiency request to the Legislature to make $338,000 in the fund available for claims. The Administration now estimates expenditures will only total $202,000 in 2005-06. With annual revenues anticipated at $70,000, and claims estimated at $202,000 ongoing, the fund needs additional revenues to fully fund claims.

Staff Comment: This issue is somewhat analogous to the issue the Subcommittee heard on April 27 regarding the Garment Fund Unpaid Wage Claims. In both cases, claims are exceeding 2005-06 appropriations, and any significant increase in expenditure authority can only come through enactment of deficiency legislation. Like the Garment Fund issue, the Administration has proposed budget bill language to fix the problem for 2006-07 by allowing DIR to expend fund balances beyond the appropriation level with approval of the Director of Finance and Legislative notification. A second issue for the Farmworker Remedial Account is insufficient revenues. AB 3054, as introduced, would increase license fees and increase the portion of fees transferred to the Farmworker Remedial Account to $200. Since the passage of AB 3054 is uncertain, the Subcommittee may want to consider transferring some of the Workplace Health and Safety Revolving Fund to the Farmworker Remedial Account.

Recommendation: Hold action on this issue until Issue #3 on the next page is heard, then take a combined action on both issues.

Action: See next issue for combined action.

Issue 3: Transfer of Workplace Health and Safety Revolving Fund (Administration Trailer Bill Language Request)

Description: The Administration requests trailer bill language to transfer the $507,000 fund balance of the dormant Workplace Health and Safety Revolving Fund to the Workers' Compensation Administration Revolving Fund.

Background: In 1989, the Legislature created the Workplace Health and Safety Revolving Fund and directed the Department to deposit into the fund civil and administrative penalties against workers' compensation insurers, self-insured employers, and others for failure to comply with the workers' compensation system. Assembly Bill 749 (Chapter 6, Statutes of 2002, Calderon), redirects the civil and administrative penalties previously deposited in the Workplace Health and Safety Revolving Fund to the larger Workers' Compensation Administration Revolving Fund, which became the primary source of funds for the Division of Workers' Compensation. Post AB 749, the Workplace Health and Safety Revolving Fund is no longer an active fund; however, the current account balance is $507,000.

LAO Recommendation: In the *Analysis of the 2006-07 Budget Bill*, the LAO recommends that the $507,000 be transferred to the General Fund instead of the Workers' Compensation Administration Revolving Fund. The LAO notes that the Workers' Compensation Administration Revolving Fund will maintain a $65 million fund balance at the end of 2006-07, and the fund balance of the Workplace Health and Safety Revolving Fund was accumulated during the years in which the General Fund provided the bulk of Division of Workers' Compensation funding.

April 27, 2006, Hearing: The Subcommittee held this issue open pending decisions on other staffing and funding proposals.

Staff Comment: The Administration has suggested a new alternative for the $507,000, which was described in Issue #2 on the prior page. The new alternative is to adopt trailer bill language to transfer the balance to the Farmworker Remedial Account.

Staff Recommendation:
- Transfer $200,000 from the Workplace Health and Safety Revolving Fund to the Farmworker Remedial Account (this should provide a sufficient fund balance in the Farmworker Remedial Account to fully address anticipated claims through 2007-08).
- Transfer the remaining $307,000 from the Workplace Health and Safety Revolving Fund to the General Fund.

Action: Approved Staff Recommendation on a 3-0 vote.

Attachment A

Lien Filing Fee Budget Trailer Bill Language

Revised Language – supported by the Administration and California Applicants' Attorney Association

Labor Code sections 4603.2 and 4903.05 are amended as follows:

<u>Amendments to Labor Code section 4603.2. (b) (1)</u>

(b) (1) Except as provided in subdivision (d) of Section 4603.4, or under contracts authorized under Section 5307.11, payment for medical treatment provided or authorized by the treating physician selected by the employee or designated by the employer shall be made at reasonable maximum amounts in the official medical fee schedule, pursuant to Section 5307.1, in effect on the date of service. Payments shall be made by the employer within 45 working days after receipt of each separate, itemization of medical services provided, together with any required reports and any written authorization for services that may have been received by the physician. If the itemization or a portion thereof is contested, denied, or considered incomplete, the physician shall be notified, in writing, that the itemization is contested, denied, or considered incomplete, within 30 working days after receipt of the itemization by the employer. A notice that an itemization is incomplete shall state all additional information required to make a decision. Any properly documented list of services provided not paid at the rates then in effect under Section 5307.1 within the 45-working-day period shall be increased by 15 percent, together with interest at the same rate as judgments in civil actions retroactive to the date of receipt of the itemization, unless the employer does both of the following:

(A) Pays the provider at the rates in effect within the 45-working-day period.

(B) Advises, in the manner prescribed by the administrative director, the physician, or another provider of the items being contested, the reasons for contesting these items, and the remedies available to the physician or the other provider if he or she disagrees. In the case of an itemization that includes services provided by a hospital, outpatient surgery center, or independent diagnostic facility, advice that a request has been made for an audit of the itemization shall satisfy the requirements of this paragraph.

~~If an employer contests all or part of an itemization, any amount determined payable by the appeals board shall carry interest from the date the amount was due until it is paid. If any contested itemization is determined payable by the appeals board, the defendant shall be ordered to reimburse the provider for any filing fees paid pursuant to Section 4903.05.~~

An employer's liability to a physician or another provider under this section for delayed payments shall not affect its liability to an employee under Section 5814 or any other provision of this division.

<u>Repeal Labor Code section 4603.5.</u>

~~§4903.05 (a) A filing fee of one hundred dollars ($100) shall be charged for each initial lien filed by providers, or on behalf of providers, pursuant to subdivision (b) of Section 4903.~~
~~(b) No filing fee shall be required for liens filed by the Veterans Administration, the Medi-Cal program, or public hospitals.~~
~~(c) The filing fee shall be collected by the court administrator. All fees shall be deposited in the Workers' Compensation Administration Revolving Fund. Any fees collected from providers that have not been redistributed to providers pursuant to paragraph~~
~~(2) of subdivision (b) of Section 4603.2, shall be used to offset the amount of fees assessed on employers under Section 62.5.~~
~~(d) The court administrator shall adopt reasonable rules and regulations governing the procedures for the collection of the filing fee.~~

<u>Add Labor Code section 4603.5.</u>

4903.05(a) Except as necessary to comply with Section 4903.5, no lien claim or application for adjudication shall be filed under subdivision (b) of Section 4903 until the expiration of one of the following:
(1) Sixty (60) days after the date of acceptance or rejection of liability for the claim, or expiration of the time provided for investigation of liability pursuant to subdivision (b) of Section 5402, whichever date is earlier;

(2) The time provided for payment of medical treatment bills pursuant to Section 4603.2;

(3) The time provided for payment of medical-legal expenses pursuant to Section 4622.

(b) No declaration of readiness to proceed shall be filed for a lien under subdivision (b) of Section 4903 until the underlying case has been settled by way of a compromise and release or where the applicant chooses not to proceed with his or her case.

(c) The Workers' Compensation Appeals Board (WCAB) shall adopt reasonable rules and regulations to ensure compliance with this section, and shall take such further steps as may be necessary to enforce the rules and regulations, including, but not limited to, impositions of sanctions pursuant to Section 5813.

(d) The limitations imposed by this section shall not apply to lien claims, applications for adjudication, or declarations of readiness to proceed filed by or on behalf of the employee, or to such filings by or on behalf of the employer.

7350 Department of Industrial Relations

Issue 4: CalOSHA Staffing (Staff Issue)

Description: The Department indicates that there are 235 authorized staff in the California Occupational Safety and Health Administration (CalOSHA), that the resulting ratio of CalOSHA inspectors to the civilian workforce is about 1:74,103. Advocates for the California Association of Professional Scientists suggest that California's staffing ratio is below that of other states and the Subcommittee should augment CalOSHA staffing.

April 27, 2006, Hearing: The Subcommittee heard testimony on this issue at the April 27 hearing and requested that the LAO research the issue and present their findings at the next hearing.

Detail/Background: The Department indicates, and has provided data that demonstrates, that the California staffing to employment ratio is about the same as the average for those states that use federal OSHA inspectors. When the ratios are compared to states which, like California, utilize state staff for OSHA inspector, California falls below the staffing average. The average ratio for the state-run programs is 1:50,166.

Staff Comment: Upon request, the Department provided data to indicate that 10 new positions could be added if funding were augmented by $1 million.

Questions:

1. LAO: Please present your findings on this issue.

Staff Recommendation: Augment the Department's budget by $1.0 million to add 10 new CalOSHA positions.

Action: Approved Staff Recommendation on a 2-1 vote, with Senator Cox voting no.

Senate Budget and Fiscal Review—Wesley Chesbro, Chair

SUBCOMMITTEE NO. 3 Agenda

Senator Denise Moreno Ducheny, Chair
Senator Dave Cox
Senator Wesley Chesbro

Thursday, May 18, 2006
1:00 p.m.
Room 4203

Consultant: Dave O'Toole

"A" AGENDA

DEPARTMENT OF VETERANS AFFAIRS

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.

8950 Department of Veterans Affairs

The Department of Veterans Affairs (DVA) has three primary objectives: (1) provide comprehensive assistance to veterans and dependents of veterans in obtaining benefits and rights to which they may be entitled under state and federal laws; (2) afford California veterans the opportunity to become homeowners through loans available to them under the Cal-Vet farm and home loan program; and (3) provide support for California veterans' homes where eligible veterans may live in a retirement community and where nursing care and hospitalization are provided.

The department operates veterans' homes in Yountville (Napa County), Barstow (San Bernardino County), and Chula Vista (San Diego County). The homes provide medical care, rehabilitation, and residential home services. With $50 million in general obligation bonds available through Proposition 16 (2000), $162 million in lease-revenue bonds (most recently amended by AB 1077 [Chapter 824, Statutes of 2004]), and federal funds, new homes will be constructed in West Los Angeles, Lancaster, Saticoy, Fresno, and Redding.

The Governor's budget funds 1,608.6 positions (including 139.1 new positions) and budget expenditures of $314.7 million for the department, including the veterans' homes.

VOTE-ONLY ITEMS

A. Capital Outlay Finance Letter: Yountville Veterans Home Member Services Building

The Administration proposes to increase expenditures by $1.3 million (Public Buildings Construction Funds) to reflect updated cost estimates for the remodel of the Member Services Building at the Yountville Veterans Home. Total state project costs are expected to be $9.3 million. In addition, this project is expected to receive $14.0 million in federal funds in the 2007-08 fiscal year. Costs have risen due to a March 2006 fire and increased costs for construction, inspection, and construction management. This request would also make a change to the title to Member Services Building to conform to federal nomenclature.

B. Finance Letter: Technology Refresh

The Administration requests $421,000 for consultants to prepare two feasibility study reports leading to the replacement of the Veterans Home Information System (VHIS) and updating the technology infrastructure in the Department of Veterans Affairs. The VHIS has required frequent and expensive maintenance for the database. The department also faces a looming need for an up-to-date electronic information system to accommodate the Greater Los Angeles Ventura County home to open in 2008 and other Veterans Homes. The department does not have staff with the relevant health care and IT backgrounds to conduct the needed feasibility study reports.

VOTE on Vote-Only Items:

DISCUSSION ITEMS

1. Finance Letter: Position Funding Realignment from Farm and Home Program
The Department of Veterans Affairs requests a permanent General Fund augmentation of $2.117 million to realign funding for positions that had been funded out of the Farm and Home Program. The Bureau of State Audits has expressed support for this realignment.

Staff Comment: The BSA Audit from May 2000 noted that, "a rapid decline in the population of eligible California veterans and limited funding threaten the long-term viability of the California Veterans Farm and Home Purchase Program." Since that time, program activity has dropped further, while the DVA has not evidently reduced staff to reflect decreased workload. This request represents $2.117 million in position expense for positions redirected to other purposes more appropriately funded by General Fund.

The department reports that the Farm and Home Loan Program has reduced positions (including 55 in 2003) pursuant to the decline in workload, as well as redirected positions to address the steep workload increase caused by the opening of the Barstow Veterans Home in 1995 and Chula Vista in 2000. Rather than charge the General Fund for that additional workload, the department has used Farm and Home Loan Program funds.

At the April 27 Subcommittee hearing, the department testified on the difficulty of identifying positions that have been redirected from the Farm and Home Program since 1999 to work on General-funded programs. The following language has been suggested to direct the department to conduct a formal workload analysis of the $2.117 million (approximately 25 positions worth of shifted funding) for consideration in the next budget cycle.

> *X. Of the amount appropriated in this item, $2,117,000 is for the realignment of 25 positions from the Farm and Home Program to other programs supported by schedule (4) of this item. No later than January 10, 2007, the Department of Veterans Affairs will submit to the Department of Finance and the Joint Legislative Budget Committee a workload justification and budget change proposal to support the ongoing need for these 25 positions and funding.*

Staff Recommendation: ADOPT the Finance Letter and budget bill language above.

VOTE:

2. BCP: Salary Savings Adjustment for Barstow, Chula Vista, and Yountville Veterans Homes
The Department of Veterans Affairs requests $1.7 million General Fund to reduce salary savings by an amount equivalent to 27.8 nursing positions. This adjustment would recognize the significant overtime work of 24-hour care staff at the Veterans Homes and under funding of personal services budgets.

The Administration asserts that such exemptions would be consistent with existing practice for other 24-hour care state facilities. This proposal would not result in actual nurses being hired, but rather a reduction to the current salary savings rate used for the veterans homes. This BCP seeks a lower rate in order to recognize overtime commitments that reduce available funding.

Staff Comment: In their *Analysis of the 2006-07 Budget Bill*, the LAO had recommended that this BCP be rejected, based largely on the absence of analysis of specific positions that have experienced trouble with providing care. The request did not recognize that departments are generally expected to use management strategies to accommodate coverage issues, such as using overtime, adjusting schedules to accommodate after-hours workload, coordinating vacation schedules, and other similar approaches.

At the April 27 hearing, this issue was left open to allow the department, DOF, and LAO to revisit the request and come up with a more suitable proposal. It was noted in that hearing that the request for exemption from statewide salary savings practice for 27.8 positions is an unrelated solution to the significant hiring and retention problem.

The department has revised their proposal and identified an temporary fix to address the hiring and retention challenges for nursing positions. The following adjustments to temporary help and overtime budgets are proposed for the 2006-07 fiscal year and identify a need for $1.122 million in the budget year.

Veterans Home Location	Overtime	Temporary Help
Yountville	$585,922	$85,928
Barstow	153,800	$245,291
Chula Vista	(25,946)*	$76,911
Total Adjustment:	$713,777	$408,131

*The department believes they will be overappropriated for overtime costs.

Also noted at the April 27 hearing, several BCPs submitted by the department include positions but no salary savings. The department did this to reflect the salary savings policy change underlying this proposal. Consistent with the issue revision described above, those salary savings should be restored. The salary savings adjustments are discussed in issues below.

Staff Recommendation:
1. REJECT the BCP.

2. AUGMENT the DVA budget by $1.122 million for the overtime and temporary help costs described in the staff comments. This revised proposal will be approved on a one-year basis only, with the expectation that the department will return next year with a long-term solution to overtime and retention problems.

VOTE:

3. BCP: Yountville Veterans Home: Open Renovated Annex I for Alzheimer's and Dementia Patients

The Department of Veterans Affairs requests $3.8 million General Fund and 75.7 positions to open the newly rebuilt and renovated Annex 1 for Alzheimer's and Dementia patients. The Yountville Veterans Home plans to open this facility to serve 40 patients on

July 1, 2006, and the remaining 35 patients on January 1, 2007. A corresponding augmentation of $1.3 million ($371,000 General Fund) and 33.5 positions will staff and backfill two nursing wards with other patients after the existing Alzheimer's and Dementia Unit is vacated.

Staff Comment: The position request does not include a reduction for salary savings. Consistent with the prior discussion, salary savings should be budgeted at five percent and any funding shortfalls addressed with a specific proposal. Furthermore, since these positions will not be filled at the start of the budget year, recognition of a five percent salary savings is especially appropriate in the first year.

At the April 27 hearing, the Subcommittee reduced this request by $32,000 to remove classification advertising funding.

Staff Recommendation: REDUCE the proposal by $96,000 to reflect a five percent salary savings.

VOTE:

4. BCP: Yountville Veterans Home – Increased Food Budget

The Department of Veterans Affairs requests $132,000 General Fund ongoing to augment the food budget at the Yountville Veterans Home. Allowances per day have remained unchanged at $5.75/day per resident since 1999-00. The department proposes to increase the rate to $6.72/day.

Staff Comment: The proposed 17 percent food budget augmentation at the Yountville Veterans Home is based on DGS Price Letter calculations. Price Letter figures for foodstuffs are based on a statewide rate, applied regardless of function or location of a facility. A more instructive comparison may be comparing a similar facility, such as the nearby Sonoma Developmental Center, which budgets $8.00/day for their patients.

At the April 27 hearing, the department was directed to provide a comparison of food costs by home. It was explained at that hearing that the Yountville Veterans Home is the only home that does not contract out dining services and therefore a straight cost comparison between homes would be difficult. The department was been able to parse out labor costs (incidentally, contracted labor for food services are cheaper at the Barstow and Chula Vista Veterans Homes) and made a food comparison as follows:

Barstow Veterans Home:	$7.34/day
Chula Vista Veterans Home:	$7.61/day
Yountville Veterans Home:	$5.75/day

Another important comparison made in the response is the menu cycle. The Chula Vista and Barstow Veterans Homes have a five week menu cycle, whereas the Yountville Veterans Home has a three week menu cycle.

Staff Recommendation: APPROVE the budget change proposal.

VOTE:

5. Departmental Operating Expense Projections
The Department of Veterans Affairs has revised their budget to reflect updated calculations for operating expense. The change reduces the headquarters unit operating expense budget in the 2006-07 from $11,460,000 to $9,398,000, a savings of $2,062,000

Staff Recommendation: REDUCE the Veterans Affairs—Headquarters Unit operating expense budget by $2,062,000.

VOTE:

6. BCP: Yountville Veterans Home: Re-open Skilled Nursing Wards 1A and 1B
The Department of Veterans Affairs requests 33.5 positions and $1.3 million ($371,000 General Fund) to re-open Wards 1A and 1B as a skilled nursing unit at the Yountville Veteran's Home in January 2007. The full year cost of this proposal is $2.5 million. This reopening will allow the facility to expand its available skilled nursing unit beds from 1160 to 1200. The existing skilled nursing unit operates at near capacity and has a waiting list of over 300 persons.

Staff Comment: The position request does not include a reduction for salary savings. Consistent with the prior discussion, salary savings should be budgeted at five percent and any funding shortfalls addressed with a specific proposal. Furthermore, since these positions will not be filled at the start of the budget year, recognition of a five percent salary savings is especially appropriate in the first year.

This request includes $5000 for advertising expenditures. Consistent with actions taken by the Subcommittee on April 27, these costs are unsupportable as an augmentation. The department should consider redirections for this purpose.

Staff Recommendation: AMEND the request by eliminating funding for advertising (-$5000) and adjusting the salary savings level to five percent (-$30,000).

VOTE:

7. BCP: Barstow Veterans Home—Intermediate Care Facility to Full Capacity
The Department of Veterans Affairs requests to expand available beds from 40 to 60 at the intermediate care facility at the Barstow Veterans Home. The department will add 10.6 positions and augment by $1.334 million ($906,000 General Fund). The 20 beds were voluntarily shut down in 2003 after a series of incidents involving mistreatment of residents at the Barstow facility. The Department of Health services restored the Barstow Veterans Home authority to begin reopening a nursing facility in April 2005.

Staff Comment: The position request does not include a reduction for salary savings. Consistent with the discussion in issue #5, salary savings should be budgeted at five percent and any funding shortfalls addressed with a specific proposal. Furthermore, since these positions will not be filled at the start of the budget year, recognition of a five percent salary savings is especially appropriate in the first year.

A 2003-04 negative BCP, which recognized the closure of the specialized nursing facility at the Barstow Veterans Home, shows a minimal loss of non-consultant, non-equipment, operating expense (OE) related to the 174 positions lost. Specifically, only $47,000 was reduced along with those positions. At an absolute minimum, each position reduction should have been accompanied by an OE reduction of $3000 per position, or $522,000.

The DVA has disclosed that since the closure of the Barstow skilled nursing facility in October 2003, the Home has redirected approximately $311,000 in operating expense to temporary help. On an annualized basis, the department has redirected approximately $120,000/year from available OE to temp help.

Based on this information, the OE funding requested with the ten new positions, $405,000, should be reduced by $355,000 ($522,000 - $120,000 - $47,000) to reflect already available OE funds.

Staff Recommendation: REDUCE the request by $374,000 to reflect five percent salary savings (reduction of $19,000) and an operating expense complement of $50,000 for the new positions (reduction of $355,000).

VOTE:

8. BCP: Veteran's Home Barstow – Staffing Adjustment for Certified Nursing Assistants

The Department of Veterans Affairs requests 4.2 positions and $233,000 General Fund to conform to federal staffing requirements for certified nursing assistants at the intermediate care facilities at the Barstow Veterans Home. Total required staffing is 16 positions.

Staff Comment: The DVA has acknowledged an error in budgeting facilities costs. The original BCP included $10,000 for facilities costs that were subsequently determined to be unnecessary.

The position request does not include a reduction for salary savings. Consistent with the salary savings issue considered previously, salary savings should be budgeted at five percent and any funding shortfalls addressed with a specific proposal. Furthermore, since these positions will not be filled at the start of the budget year, recognition of a five percent salary savings is especially appropriate in the first year.

Staff Recommendation: REDUCE the operating expense budget by $10,000 and personal services funding by $7000 to recognize five percent salary savings (total reduction of $17,000).

VOTE:

Senate Budget and Fiscal Review—Wesley Chesbro, Chair

SUBCOMMITTEE NO. 3 Agenda

Chair, Senator Denise Moreno Ducheny
Senator Dave Cox
Senator Wesley Chesbro

Agenda – Part "B" ADDENDUM

Thursday, May 18, 2006
1 p.m.
John L. Burton Hearing Room (4203)
Consultant, Brian Annis

Labor Agency Departments

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.

7350 Department of Industrial Relations

Issue 4: CalOSHA Staffing (Staff Issue)

Description: The Department indicates that there are 235 authorized staff in the California Occupational Safety and Health Administration (CalOSHA), that the resulting ratio of CalOSHA inspectors to the civilian workforce is about 1:74,103. Advocates for the California Association of Professional Scientists suggest that California's staffing ratio is below that of other states and the Subcommittee should augment CalOSHA staffing.

April 27, 2006, Hearing: The Subcommittee heard testimony on this issue at the April 27 hearing and requested that the LAO research the issue and present their findings at the next hearing.

Detail/Background: The Department indicates, and has provided data that demonstrates, that the California staffing to employment ratio is about the same as the average for those states that use federal OSHA inspectors. When the ratios are compared to states which, like California, utilize state staff for OSHA inspector, California falls below the staffing average. The average ratio for the state-run programs is 1:50,166.

Staff Comment: Upon request, the Department provided data to indicate that 10 new positions could be added if funding were augmented by $1 million.

Questions:

1. LAO: Please present your findings on this issue.

Staff Recommendation: Augment the Department's budget by $1.0 million to add 10 new CalOSHA positions.

SUBCOMMITTEE NO. 3 Agenda
Health, Human Services, Labor & Veteran's Affairs

Chair, Senator Denise Ducheny

Senator Wesley Chesbro
Senator Dave Cox

May 19th, 2006

11:00 PM

Room 4203

May Revision and Remaining Issues

(Diane Van Maren)

Item	Department
4280	**Managed Risk Medical Insurance Board**
4260	**Department of Health Services**
4120	**Emergency Medical Services Authority** ***(Jointly heard with DHS)***
4300	**Department of Developmental Services**
4440	**Department of Mental Health**

PLEASE NOTE:

(1) ALL previous actions taken by the Subcommittee remain, unless the Subcommittee otherwise modifies the proposal at the May Revision hearing.

(2) The "VOTE ONLY" CALENDAR for each department may include the modification or denial of proposals, as well as acceptance of proposals. This will be noted in the Agenda as applicable.

(3) Only those issues in today's agenda are before the Subcommittee.

(4) Issues will be discussed in the order as noted in the Agenda unless otherwise directed by the Chair. Thank you.

I. ISSUES RECOMMENDED FOR "VOTE ONLY" *(Through to Page 17)*

A. Item 4280--Managed Risk Medical Insurance Board *(Vote Only)*

1. Access for Infants and Mothers (AIM) Program (issues 121 and 122)

Governor's May Revision. A total of $120.4 million ($51.8 million Perinatal Insurance Fund and $68.6 million federal funds) is proposed for AIM in 2006-07. **This funding level reflects an increase of $5.9 million (total funds) over the January budget.** The increased cost reflect infants being transitioned out of AIM and enrolled directly into the Healthy Families Program, leaving a larger share of relatively higher cost pregnant women in the AIM Program.

With a declining number of infants/toddlers enrolled in AIM, the Managed Risk Medical Insurance Board has had to increase provider rates to recognize the relatively higher cost of pregnancies for a higher share of the caseload. The average capitation fee for pregnant women has been revised to $9,530 (one-time capitation fee) based on the negotiated rates and projected enrollment plan. This rate is $619 or almost 7 percent higher than the rate used for the January budget.

Average monthly enrollment is expected to be 1,616 women and infants, or about 5 percent lower than assumed in the January budget. About 12,211 pregnant women will in enroll in AIM for the budget year.

Additional Background Information. The Access for Infants and Mothers (AIM) Program provides health insurance coverage to women during pregnancy and up to 60 days postpartum, and covers their infants up to two years of age. Eligibility is limited to families with incomes from 200 to 300 percent of the poverty level. Subscribers pay premiums equal to 2 percent of the family's annual income plus $100 for the infant's second year of coverage.

As of July 1, 2004, infants born to AIM women are automatically enrolled in the Healthy Families Program (HFP) at birth. Infants born during 2004-05 to AIM mothers who enrolled in AIM prior to July 1, 2005 will remain in AIM through two years of age. Therefore, infant enrollment is declining and shifting to the HFP. This is because infants will age out of the AIM Program at two years old while no new infants will be enrolled after July 1, 2004, unless the AIM mother was enrolled prior to that date. **Therefore, the AIM Program is transitioning to focusing only on pregnant women and 60-day post partum health care coverage.**

Subcommittee Staff Recommendation. It is recommended to approve the May Revision. The cost increase is due to new negotiated rates which have been approved by the Managed Risk Medical Insurance Board. No issues have been raised.

2. County Health Initiative Matching Fund (CHIM) Program (issue 120)

Governor's May Revision. The May Revision proposes an increase of $156,000 ($101,000 federal funds and $55,000 County Health Initiative Matching Fund) for total expenditures of $3.9 million ($2.5 million federal and $1.4 million County Health Initiative Matching Fund).

The May Revision reflects a revised estimate for the CHIM Program. Specifically, the MRMIB assumes an enrollment level of 3,015 children (35,712 enrollment months), which reflects an increase of 48 children as compared to the January budget. The pilot counties include Alameda, Santa Clara, San Mateo, San Francisco, Santa Cruz and Tulare.

It should be noted that the enabling legislation for the program clearly notes that the federal S-CHIP funds made available for this program are provided only because they are not being used for the state's Healthy Families Program. In the event the federal funds are needed to support the Healthy Families Program, these programs would be scaled back under existing law.

Background—County Health Initiative Matching Fund (CHIM) Program: AB 495, Statutes of 2001, allows county governments and public entities to provide local matching funds to draw down federal S-CHIP funds for their Healthy Kids Programs (i.e., children 250 to 300 percent of poverty who are citizens). The State Plan Amendment approved by the federal CMS provided for four pilot counties (i.e., Alameda, San Francisco, San Mateo, and Santa Clara) with a phase-in of additional counties (i.e., Santa Cruz and Tulare) in 2005-06.

Subcommittee Staff Recommendation. It is **recommended to approve the May Revision**. No issues have been raised.

B. Item 4260 — Department of Health Services *(Vote Only)*

1. Child Health Disability Prevention (CHDP) Program (issue 513)

Governor's May Revision: The **May Revision proposes total expenditures of $3.4 million** ($3.4 million General Fund and $24,000 Childhood Lead Poisoning Prevention Funds) for the program. **This reflects a decrease of almost $300,000 ($219,000 General Fund).**

The program will provide about 50,544 health screens for children. This reflects a decrease of 5,156 screens as compared to the January budget.

No policy changes are proposed.

Subcommittee Staff Recommendation: It is recommended to **adopt the May Revision.** No issues have been raised.

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.

2. Genetically Handicapped Persons Program (GHPP) (issue 514)

Governor's May Revision. The May Revision **proposes total expenditures of $51.3 million for a *reduction* of $4.3 million ($3.1 million General Fund) as compared to the January budget.** Of the total amount appropriated for the program, $45.8 million (total funds) is used to support individuals with Hemophilia by providing blood factor product and related assistance. Part of this reduced cost is attributable to a reduction in caseload as compared to January (about 31 cases less is projected).

As discussed in a prior Subcommittee hearing, the GHPP will now be participating in the Medi-Cal rebate program for blood factor product. **As such, it is assumed that rebates will increase by about $3.2 million which will be used to offset General Fund support.**

Subcommittee Staff Recommendation: It is recommended to **adopt the May Revision** as proposed. It should be noted that a prior Subcommittee action to adopt placeholder trailer bill language to provide access to the Medi-Cal rebate program for the GHPP will remain. Subcommittee staff will be working with the Administration to finalize this language.

Overall Background: The Genetically Handicapped Persons Program (GHPP) provides comprehensive health care coverage for persons with specified genetic diseases including Cystic Fibrosis, Hemophilia, Sickle Cell Disease, Huntington's Disease, Joseph's Disease, metabolic diseases and others. GHPP also provides access to social support services that may help ameliorate the physical, psychological, and economic problems attendant to genetically handicapping conditions.

Persons eligible for GHPP must reside in California, have a qualifying genetic disease, and be otherwise financially ineligible for the CCS Program. GHPP clients with adjusted gross income above 200 percent of poverty pay enrollment fee and treatment costs based on a sliding fee scale for family size and income.

3. California Children's Services (CCS) Program (issue 512)

Governor's May Revision: The May Revision proposes total expenditures of $208.3 million ($49 million General Fund) which reflects an increase of $12.1 million ($4.5 million General Fund). Most of this increase is attributable to infants born into the AIM and HFP programs that have CCS-eligible conditions and therefore need specialized CCS Program medical services. In addition, it is estimated that 649 more children will need services in 2006-07 (total of 39,446 children). Medical therapy costs have also increased as compared to January.

The May Revision also reflects several shifts in funding sources. The Administration proposes to no longer use federal Title V Maternal and Child Health (MCH) grant funds for the program due to the recent reduction in California's grant. Also, as discussed in a prior Subcommittee hearing, federal funds obtained under the newly implemented Medi-Cal Hospital Waiver Program are to be used for the CCS Program. The May Revision reflects a total of $53.3 million (federal funds) from this funding source which reflects an increase of $6.3 million as compared to January.

Subcommittee Staff Recommendation: It is recommended to **adopt** the May Revision as proposed. No issues have been raised.

Overall Background on 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.

The CCS is the oldest managed health care program in the state and the only one focused specifically on children with special health care needs. It depends on a network of specialty physicians, therapists and hospitals to provide this medical care. By law, CCS services are provided as a separate and distinct medical treatment (i.e., carved-out service). CCS was included in the State-Local Realignment of 1991 and 1992. As such, counties utilize a portion of their County Realignment Funds for this program.

CCS enrollment consists of children enrolled as: **(1)** CCS-only (not eligible for Medi-Cal or the Healthy Families Program), **(2)** CCS and Medi-Cal eligible, and **(3)** CCS and Healthy Families eligible. Where applicable, the state draws down a federal funding match and off-sets this match against state funds as well as county funds.

4. Genetic Disease Screening Programs (issue 511)

May Revision. The May Revision **provides a total increase of $8.587 million (Genetic Disease Testing Fund) for the Genetic Disease Screening Programs (the Newborn Screening Program and the Prenatal Screening Program) as compared with the January budget.**

Specifically, the May Revision proposes the following for each program:

- *Newborn Screening Program.* A total of $36.8 million (Genetic Disease Testing Fund) is proposed for this program which reflects an increase of $6.6 million (Genetic Disease Testing Fund) over the January budget. This increase is primarily due to increased expenditures in the technical and scientific contracts and laboratory contracts.

  The cost per screen is $46 and the number of tests anticipated to be provided is 566,916. No fee increases are proposed for this existing program.

  The average cost per case for follow-up, referral, and counseling can vary from year to year, contingent upon the needs identified. For example, in 2004-05 the average cost was $941 dollars per case (3,775 cases), in 2005-06 it was $678 per case (6,732 cases), and in 2006-07 it is estimated at $836 dollars per case (6,793 cases). No additional fee is charge for this follow-up assistance.

- *Prenatal Screening Program.* A total of $31.9 million (Genetic Disease Testing Fund) is proposed for this program which reflects an increase of almost $2 million (Genetic Disease Testing Fund) over the January budget. This increase is primarily due to increased expenditures in the technical and scientific contracts, and laboratory contracts, as well as in follow-up costs. The cost per screen is $21.98 which reflects an increase of 52 cents as compared to 2005-06.

Background--Summary of Programs. The Newborn Screening Program provides screening of all newborns for genetic and congenital disorders that are preventable or remediable by early intervention. The Prenatal Screening Program provides screening of pregnant women who consent to screening for serious birth defects. The screening programs provide public education, laboratory and diagnostic clinical services through contracts with private vendors meeting state standards. The programs are self-supporting on fees collected from screening participants through the hospital of birth, third party payers or private parties using a special fund—Genetic Disease Testing Fund.

Subcommittee Staff Recommendation. It is **recommended to approve** the May Revision.

5. Augmentation for the Alzheimer's Research Centers (issue 366)

May Revision. The May Revision proposes an increase of $2 million (General Fund) to increase the grants provided to the 10 Alzheimer's Research Centers of California (Centers). These funds are to be used to continue diagnostic, education and consultation services, and to expand clinical research.

The Centers are currently funded at $4 million so this augmentation provides a 50 percent increase in funding. The funding is appropriated to the DHS and is distributed through grants to each of the 10 Centers. The augmentation will provide an additional $185,000 to each of the Centers. The remaining $150,000 will be provided to UC San Francisco (Institute for Heath and Aging). The last augmentation provided to the Centers was in 1998-99.

Background. The Alzheimer's Research Centers were created through funding established in 1984 for the Alzheimer's Disease Program to (1) provide diagnostic and treatment services to improve the quality of care for persons with this disease, (2) conduct research directed towards the cause and cure of Alzheimer's, and (3) provide training and consultation for professionals in-training and for families and caregivers.

Subcommittee Staff Recommendation. It is recommended **to approve** the May Revision.

6. Align Federal Authority to Match Federal Bioterrorism Grant Awards (issue 362)

May Revision. The May Revision **proposes to reduce by $6.975 million (federal funds) and 6 vacant positions to accurately align federal grant awards with the state budget appropriation authority.**

The current federal grant award to California is $103.8 million (federal funds) which represents a reduction of $6.975 million from the existing state budget authority of $110.775 million. The Administration notes the federal grant awards have been declining since the initial grant authorization provided in 2000-01.

This proposal addresses the inflated budget authority by reducing it to a level of anticipated federal funding.

Subcommittee Staff Recommendation. It is **recommended to approve** the May Revision. No issues have been raised.

7. Conforming Action to Senate Subcommittee #2—Shift Positions to the DHS

Senate Budget Subcommittee No. 2 Action. On May 8, Senate Budget Subcommittee #2 rejected the Governor's Finance Letter proposal and instead recommended transferring the positions that support specific programs within the CALFED program back to the departments that implement the programs. The **Department of Health Services** is an implementing agency for the CALFED Drinking Watery Quality Program.

The Senate Budget Subcommittee No. 2 has recommended moving two positions and $253,000 in General Fund monies from the Bay-Delta Authority to the Department of Health Services to support development of performance measures, strategic planning, drinking water data model development and science to support the CALFED Drinking Water Quality Program. The Department of Health Services currently has $125,000 and one position funded by Proposition 50 bond funds in its Division of Drinking Water and Environmental Management to support development of a regional strategic framework, performance measures and conceptual models.

Subcommittee Staff Recommendation. Staff recommends that the Subcommittee approve $253,000 from the General Fund and two positions to accommodate the transfer of two positions currently established at the Bay-Delta Authority to conform.

Finance Letter. A Finance Letter (dated April 18, 2006) proposes to transfer 68 of the 71 existing positions from the California Bay-Delta Authority to the Office of the Secretary for Resources. This proposal includes two positions that have been working on drinking water quality issues.

Background. The CALFED Bay-Delta Program (CALFED), a consortium of 12 state and 13 federal agencies, was created to address a number of interrelated water problems in the state's Bay-Delta region. Over the last year the Administration undertook a comprehensive program, fiscal and governance review of the CALFED Bay-Delta Program, which found serious deficiencies in the program and in its governance. Recently, the administration released a 10-Year Action Plan that proposes further study and reorganization.

8. Caseload Adjustments for Cancer Detection—"Every Woman Counts" (issue 367)

Governor's May Revision. The May Revision proposes an increase of $4.1 million (Proposition 99 Funds) to the Every Woman Counts" Program due to (1) a reduction of $2.650 million in federal grant funds, and (2) an increase in caseload (263,066 screenings to 272,410 screenings for women) and related technical adjustments. Proposition 99 Funds (Unallocated Account) are presently used for this purpose.

Subcommittee Staff Recommendation. It is recommended to adopt the May Revision. No issues have been raised.

<u>9. Administration's Technically Modified Proposition 99 TBL for Emergency Physicians</u>

Governor's May Revision. The May Revision makes a technical conforming change to language that was approved by the Subcommittee in a prior hearing.

Subcommittee Staff Recommendation. It is recommended to adopt the minor change. No issues have been raised and staff also discussed this issue with affected constituency groups.

C. Item 4300 — Department of Developmental Services *(Vote Only)*

1. Adjustment to Prior Subcommittee Action—RC Contract Language (issue 223)

Prior Subcommittee Actions (April 3rd Hearing—Rejected Proposal). In a prior Subcommittee hearing action was taken to reject the Governor's January budget proposal to make extensive Regional Center contract language changes to reduce services and supports provided to consumers served by Regional Centers. The rejection of this budget proposal, and corresponding trailer bill language, resulted in (1) a decrease of $7.6 million (General Fund) for RC Operations, and (2) an increase of $14.3 million ($10.6 million General Fund). **The Legislature has rejected this proposal four years in a row.**

Subcommittee Staff Recommendation (Reject and Adjust Fiscal for May Revision). Since the Governor's May Revision continues this reduction to consumer services, **it is recommended to update the Subcommittee's prior action (i.e., rejection of the proposal) to reflect technical fiscal changes. Specifically, it is recommended to (1) decrease by $7 million (General Fund) for RC Operations, and (2) increase by $14.7 million ($10.9 million General Fund) the RC Purchase of Services.**

Additional Background—Governor's RC Contract Language for Expanded Cost Containment. The Governor's May Revision maintains his January budget proposal to make substantial policy changes by modifying the state's contract with Regional Centers to require them to apply new restrictions on consumers at the time of their Individual Program Plan (IPP) development or scheduled review.

The May Revision assumes a reduction of $14.7 million ($10.9 million General Fund) in the RC Purchase of Services, and an increase of $7 million (General Fund) to expand RC Operations related to controlling the purchase of services and supports by consumers. An individual's IPP is to be reviewed no less than once every three years. As such, the budget assumes that one-third of the consumer's would have their plans reviewed each year. **As noted in the table below, full implementation would be achieved in 2008-09.**

Table: Summary of Governor's Reduction's to RC Purchase of Services (May Revision)

Fiscal Year and Cumulative Effect	Reduction To Services (Total Funds)	Proposed General Fund Savings
2006-07 One-third of population is reviewed.	$14.7 million	$10.9 million
2007-08 Continue 2006-07 savings and review next one-third of population.	$29.5 million	$21.9 million
2008-09 Continue 2006-07 and 2007-08 savings and review next one-third of population.	$44.2 million	$32.8 million

The Governor's proposed Purchase Of Services requirements are as follows:

- *1. Vendor Selection Based On Lowest Cost:* The cost of providing services by different vendors, if available, would be reviewed by an RC and the least costly vendor who is able to meet the consumer's needs, as identified in the consumer's IPP, would be selected.
- *2. Statement of RC Services:* RCs would annually provide the consumer or their parent/guardian a statement of RC purchased services and supports. This statement would include the type, unit, and cost of the services and supports. This provision of the guidelines is intended to serve as a validation that the described services and supports are indeed being provided to the consumer by the designated vendor.
- *3. Directs RCs to Adhere to Existing Laws and Regulations In Purchasing Services:* RCs would be directed to establish internal processes to ensure that (1) their staff is following all laws and regulations when purchasing services and supports for consumers, and (2) other services, such as generic services provided by other agencies in the community, are pursued and used prior to authorizing the expenditure of RC funds for consumers.
- *4. Services to a Minor Child:* Under the Governor's proposal, legislation would be enacted to require RCs to take into account the family's responsibility for providing similar services to a minor child without disabilities when determining which services or supports would be purchased by the RC for the child.
- *5. RC Clinical Review:* RCs would be required to have a clinician review all requests for certain services and supports prior to the RC authorizing their purchase for the consumer. This review would pertain to certain supplemental program supports, assistive technology and environmental adaptations, behavioral services, specialized medical or dental services, and therapeutic services.
- *6. Use of Group Modality:* RCs would be directed to give preference for purchasing a service or support using a group modality, in lieu of an individual intervention, if a consumer's needs, as identified in their IPP, could be met using a group modality for the following services: Behavioral Services, Social and Recreation Activities, and Non-Medical Therapy Services.

2. Best Buddies Program

Issue. The Best Buddies Program is presently funded at $1 million (General Fund). This program provides services through the Regional Centers to children and adolescents. It has not received an increase for many years and could expand to other areas of the state if an augmentation is provided.

Subcommittee Staff Recommendation. It is **recommended to increase the Best Buddies Program** by $500,000 (General Fund).

D. Item 4440 — Department of Mental Health *(Vote Only)*

1. Healthy Families Program—*Supplemental Mental Health Services* (issue 150)

Governor's May Revision: The May Revision **proposes an increase of $1.1 million (Reimbursements from the MRMIB) to primarily reflect technical caseload adjustments to the HFP supplemental mental health services**. This adjustment is due to updated paid claims data and county administration adjustments.

Subcommittee Staff Comment and Recommendation: It is recommended to **adopt** the May Revision as proposed. No issues have been raised.

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.

2. Adjustments for San Mateo Pharmacy and Laboratory Services (issue 160)

Governor's May Revision. The May Revision proposes a decrease of $4.6 million ($2.6 million General Fund) to reflect adjustments to this project. Most of this adjustment is attributable to the full year impact of the Medicare Part D Drug Program.

Subcommittee Staff Recommendation. It is **recommended to adopt the May Revision.** No issues have been raised.

Additional Background—What is the San Mateo Project? The San Mateo County Mental Health Department has been operating as the mental health plan under a federal Waiver agreement and state statute since 1995. **San Mateo is the only county that has responsibility for the management of some financial risk and the management of pharmacy and related laboratory services, in addition to being responsible for psychiatric inpatient hospital services and outpatient specialty mental health services.**

This project is intended to test managed care concepts which may be used as the state progresses towards the complete consolidation of specialty mental health services and eventually, a capitated or other full-risk model. As the San Mateo Project has matured and evolved, additional components have been added and adjusted.

Additional Background—What is the San Mateo Field Test Project? 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" project since 1995. San Mateo is the only county that has responsibility for the management of some financial risk through a case rate system and the management of pharmacy and related laboratory services, in addition to being responsible for psychiatric inpatient hospital services and outpatient specialty mental health services.

The field test is intended to test managed care concepts which may be used as the state progresses towards the complete consolidation of specialty mental health services and eventually, a capitated or other full-risk model. As the San Mateo Field Test Project has matured and evolved, additional components have been added and adjusted.

3. Mental Health Managed Care Adjustments (issue 140)

Governor's May Revision The May Revision reflects two adjustments—one to local assistance and the other to state support. For local assistance, a reduction of $1 million ($509,000 General Fund) is proposed. For state support, an increase of $106,000 (General Fund) is made which reflects a technical transfer of funds from the Department of Health Services appropriation to the DMH.

The $1 million ($509,000 General Fund) reduction in local assistance is primarily due to a decrease in the number of Medi-Cal eligibles obtaining services.

Subcommittee Staff Recommendation. It is **recommended to adopt the May Revision.** No issues have been raised.

Background—Overview of Mental Health Managed Care: Under Medi-Cal Mental Health Managed Care psychiatric inpatient hospital services and outpatient specialty mental health services, such as clinic outpatient providers, psychiatrists, psychologists and some nursing services, are the responsibility of a single entity, the Mental Health Plan (MHP) in each county.

Full consolidation was completed in June 1998. This consolidation required a Medicaid Waiver ("freedom of choice") and as such, the approval of the federal government. Medi-Cal recipients *must* obtain their mental health services through the County MHP.

The Waiver promotes plan improvement in three significant areas—access, quality and cost-effectiveness/neutrality. The DMH is responsible for monitoring and oversight activities of the County MHPs to ensure quality of care and to comply with federal and state requirements.

Background—How Mental Health Managed Care is Funded: Under this model, County 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. **County MHPs access County Realignment Funds (Mental Health Subaccount) for this purpose.**

An annual state General Fund allocation is also provided to the County MHP's. 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.

The state's allocation is contingent upon appropriation through the annual Budget Act.

Based on the most recent estimate of expenditure data 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.)

4. Governor's Homelessness Initiative Phase II (Proposition 63) (issue 303)

Governor's May Revision. The **May Revision proposes an increase of $1.2 million to provide administrative support to implement the Governor's Homelessness Initiative Phase II (permanent supportive housing).** Specifically, these funds will be used to **(1)** hire three Associate Mental Health Specialists, and **(2)** hire consultants to do a variety of functions related to housing assistance. These dollars are considered state support and must therefore be appropriated through the budget process. (All local assistance for this project--$75 million--, as well as all other Proposition 63 local assistance is continuously appropriated. As such there is no annual appropriation through the Budget Act.)

Subcommittee Staff Recommendation. It is **recommended to approve the proposal for the state funding. No issues have been raised.**

5. Proposition 63—Oversight and Accountability Commission Adjustment (issue 300)

Governor's May Revision. The May Revision proposes an increase of $534,000 (Mental Health Services Fund—Proposition 63) to support the activities of the Oversight and Accountability Commission (Commission). Specifically, $226,000 is to be used for specified contracts and the remaining amount is to make technical adjustments for expenditures relating to changes in personnel classifications that were just approved, telecommunications, printing and reproduction, stakeholder involvement, travel and other such items.

Subcommittee Staff Recommendation. It is recommended **to approve the May Revision**. No issues have been raised.

Background—Oversight and Accountability Commission. The Commission, as stated in the Proposition, has the following responsibilities:

- Oversee the implementation of the Mental Health Services Act (MHSA) regarding (1) community services and supports, (2) education and training, (3) innovative programs, and (4) prevention and early intervention;
- Develop strategies to overcome stigma and accomplish all objectives of innovative programs and prevention and early intervention programs;
- Review and approve all county mental health program expenditures for innovative and prevention and early intervention programs; and
- Ensure the perspective of mental health clients and their family members is a significant factor in all recommendations for MHSA implementation.

The Commission consists of 16 voting members comprised of the following: (1) the Attorney General or designee; (2) Superintendent of Public Instruction or designee, (3) Chairperson of Senate Health and Human Services Committee; (4) Chairperson of Assembly Health and Human Services Committee; and (5) 12 members appointed by the Governor.

The Commission has both general and specific responsibilities with regard to oversight of expenditures of MHSA Funds. It is statutorily mandated to review, approve, and determine mechanisms to provide close oversight on all county plans in the area of prevention, early intervention and innovation (20 percent of the funds). They must develop strategies to overcome stigma related to mental illness, inform the Governor and Legislature about mechanisms to improve mental health care in California, work closely with clients of CA public mental health system and their family members and establish technical advisory committees so that consumers and family members can play an integral role in shaping recommendations. The Commission meets on a monthly basis. In addition, there are presently 7 subcommittees working on a variety of select issues related to the act and its functions.

6. Implementation of the Conlan Court Order (Medi-Cal Recipients) (issue 302)

Governor's May Revision. The May **Revision proposes a *one-time only* increase of $3.318 million ($1.6 million General Fund) to comply with the requirements of the Conlan Court Order (*Conlan v. Shewry*).** Several departments are affected by this DHS lawsuit.

The DMH requested amount is based on assumptions agreed to jointly by the Administration across several departments. The request of $3.318 million equates to half of the total estimate of retroactive and co-pay claims. In addition, the DMH proposes to utilize part of the funding to contract with an organization to process the retroactive/co-pay claims and to coordinate the reimbursement of those claims.

The DMH must process claims from Medi-Cal beneficiaries who had unreimbursed expenditures for medical expenses **(1)** during the three-month period prior to applying for Medi-Cal benefits if determined eligible during that period, **(2)** during the period that an application for Medi-Cal was pending, and **(3)** during the period between a denial of their application for eligibility and reversal of that decision. In addition, it also applies to Medi-Cal beneficiaries with other health coverage that erroneously paid excess co-payments to a provider.

Subcommittee Staff Recommendation. It is **recommended to adopt the May Revision.** No issues have been raised. The state must comply with the court order by October 2006 or face sanctions. (The Department of Health Services is the lead state entity.)

Background—Conlan v. Shewry. This lawsuit has a long history resulting in the issuance of several court decisions. The first decision was issued in 2002 and directed the DHS to adopt and implement procedures to ensure that Medi-Cal recipients entitled to reimbursement for covered services obtained during the "retroactive period" (defined as the three-month period prior to application for Medi-Cal) are promptly reimbursed.

Now, as ordered in May 2006 the court ordered that the DHS must have a reimbursement process fully implemented by October 2006. Failure to meet this deadline would result in contempt sanctions by the court against the DHS.

Since these issues pertain to the Medi-Cal Program and Medi-Cal beneficiaries, the court ruling affects several departments, including the DMH.

7. Forensic Conditional Release Program (issue 110)

May Revision. The May Revision is requesting **an increase of $456,000 (General Fund)** for the Forensic Conditional Release Program to reflect an increase in the number of patients being discharged that are expected to be in the Conditional Release Program (CONREP) in 2006-07. **According to the DMH, a total of $22.7 million (General Fund) is needed for the program in 2006-07, including all ancillary contracts, which reflects an increased need of $456,000 to provide for 20 additional patients and a slightly increased cost per patient.** It is assumed that 740 total patients will use CONREP.

Subcommittee Staff Recommendation. No issues have been raised regarding the Administration's proposal. It is **recommended for approval.**

Background. This program provides for (1) outpatient services to patients into the Conditional Release Program (CONREP) via either a court order or as a condition of parole, and (2) hospital liaison visits to patients continuing their inpatient treatment at State Hospitals who may eventually enter CONREP. The patient population includes: (1) Not Guilty by Reason of Insanity, (2) Mentally Disordered Offenders, (3) Mentally Disordered Sex Offenders, and (4) Sexually Violent Predators. The DMH contracts with counties and private organizations to provide these mandated services in the state, although patients remain DMH's responsibility per statute when they are court-ordered into CONREP community treatment and supervision.

The program as developed by the DMH includes sex offender treatment, dynamic risk assessments, and certain screening and diagnostic tools. Supervision and monitoring tools include

Global Positioning System (GPS), polygraphs, substance abuse screening, and collaboration with law enforcement.

8. Required Evaluations for Sexually Violent Predators (issue 120)

Governor's May Revision. The May Revision is requesting **an increase of $548,000 (General Fund) to reflect an increase in the number of SVP evaluations to be performed by private contractors, as well as costs for evaluator court testimony.** The DMH is continuing to use a one-year regression analysis of the most recent billing data in developing the costs for SVP evaluations and court testimony. They believe this method serves as the most accurate predictor of costs at this time. The total amount for these activities in 2006-07 would be $5.422 million (General Fund).

The table below summarizes the May Revision changes as compared to the January budget.

SVP Program Evaluation & Court Estimate	2006-07 January	**May Revision**	**Difference**
Initial Evaluations	$1,798,000	$2,271,000	$473,000
Initial Court Testimony	348,000	139,000	-209,000
Evaluation Updates	323,000	218,000	-105,000
Recommitment Evaluations	705,000	1,347,000	642,000
Recommitment Court Testimony	1,051,000	831,000	-220,000
Recommitment Updates	461,000	408,000	-53,000
Airfare Costs	141,000	156,000	15,000
Consultation Costs	47,000	52,000	5,000
Totals	**$4,874,000**	**$5,422,000**	**$548,000 Need**

Subcommittee Staff Recommendation. It is **recommended to adopt the May Revision.** No issues have been raised.

II. ISSUES FOR DISCUSSION

A. Item 4280--Managed Risk Medical Insurance Board (*Discussion Items*)

1. Healthy Families Program—*Baseline Program and Caseload Estimate* (issues 123 & 110)

May Revision. A total of $1.027 billion ($371.1 million General Fund, $646.3 million Federal Title XXI Funds, $2.2 million Proposition 99 Funds, and $7.7 million in reimbursements) is proposed for the HFP, excluding state administration. **This reflects a *decrease* of $19.8 million ($6.1 million General Fund) as compared to the January budget.**

The proposed adjustments reflect (1) an increase in the rates paid to participating health plans, (2) a reduction in caseload, (3) the implementation of the Medi-Cal to Healthy Families Bridget Performance Standards, and (4) the expansion of the Health-e-App. With respect to rates, a 3.2 percent increase in the average monthly rate for health, dental and vision coverage to children aged 1 through 18 years was provided by the MRMIB as of March 1, 2006. An increase of 0.2 percent was also provided for infant coverage (0 to 1 year).

The May Revision assumes a total enrollment of 867,727 children as of June 30, 2007, a decrease of 65,384 children as compared to the January budget. The May Revision caseload reflects an increase of about 11 percent over the revised current-year.

This projected enrollment level reflects a higher growth trend primarily attributable to **(1)** proposed modifications to the enrollment process; **(2)** increased funding for outreach; and **(3)** a proposed incentive plan for the Certified Application Assistance Program.

As required by the health trailer bill for implementation of the Budget Act of 2005, the May Revision includes an increase of $5.4 million ($1.9 million General Fund) for the enrollment impact in the HFP from the implementation of the Medi-Cal to HFP Bridge Performance Standards. These standards place requirements on the counties to effectively process applications, as applicable, for the enrollment of children into the program.

The May Revision also proposes an increase of $1.8 million ($1 million foundation grant funds and about $800,000 federal funds) to make the Health-e-App available to the public. Developing a publicly available web-based version of the Health-e-App will assist with enrollment and retention. The January budget had also made this assumption but did not fully address the availability of obtaining resources for it. Therefore, this funding is provided in the May Revision.

Overall Background on the HFP. The Healthy Families Program (HFP) provides health, dental and vision coverage through managed care arrangements to uninsured children (through age 18) in families with incomes up to 250 percent of the federal poverty level, who are not eligible for Medi-Cal but meet citizenship or immigration requirements.

The benefit package is modeled after that offered to state employees. Eligibility is conducted on an annual basis.

In addition, infants born to mothers enrolled in the Access for Infants and Mothers (AIM) Program (200 percent of poverty to 300 percent of poverty) are immediately enrolled into the Healthy Families Program and can remain under the HFP until *at least* the age of two. If these AIM to HFP two-year olds have families that exceed the 250 percent income level, then they would no longer be eligible to remain in the HFP.

Table: Summary of Eligibility for Healthy Families Program

Type of Enrollee	Family Income Level	Comment
AIM infants (born to AIM mothers)	200 % to 300 %	Up to 2-years only, if above 250 %. Otherwise, through age18.
Children 1 to 5 years of age	Above 133% to 250%	Children this age who are under 133% are eligible for Medi-Cal.
Children 6 years up through age 18.	101 % to 250%	Children this age who are 100% and below are eligible for Medi-Cal.
Some children enrolled in county "healthy kids" programs. (AB 495 projects)	250% to 300%	State provides federal S-CHIP funds to county projects as approved by MRMIB.

Families pay a monthly premium and copayments as applicable. The amount paid varies according to a family's income and the health plan selected. Families that select a health plan designated as a "community provider plan" receive a $3 discount per child on their monthly premiums.

The Budget Act of 2004 and accompanying trailer bill language increased the premiums paid by higher income families effective as of July 1, 2005. Specifically, as of July 1, 2005, families with incomes between 200 percent and 250 percent of poverty will pay $12 to $15 per child per month (currently it is $4 to $9 per child). The family maximum per month will be $45 (currently it is $27 per family) for these families.

Families below 200 percent of poverty pay premiums ranging from $4 to $9 per child per month, up to a family maximum of $27 per month. This premium level has not changed.

California receives an annual federal *allotment* of Title XXI funds (federal State-Children's Health Insurance Program) for the program for which the state must provide a 35 percent General Fund match. The federal allotment slightly varies contingent upon appropriation by Congress. This is *not* a federal entitlement program.

Subcommittee Staff Recommendation. It is **recommended to approve the May Revision. No issues have been raised with these baseline adjustments to the program.**

Questions. The Subcommittee has requested the MRMIB to respond to the following questions.

1. **MRMIB**, Please provide a brief summary of the request, highlighting the caseload aspect.

2. Proposed Modification to New Incentive Program for CAA's (issue 124) *(See Hand Out)*

Prior Subcommittee Action (April 17th). In a prior hearing, the Subcommittee took the following actions to expand access to the HFP and Medi-Cal programs:

- Adopted trailer bill language and positions to streamline the HFP enrollment process;
- Adopted an increase of $19.7 million ($8.5 million General Fund) to implement a county-based outreach, enrollment and retention program;
- Approved an increase of $11.8 million (total funds) to provide the $50 fee and $25 fee to Certified Application Assistants (CAAs) for each successful new enrollee and redetermination; and
- *Rejected* an increase of $2.5 million ($1 million General Fund) to create a new incentive program for CAAs. Under this proposal, the Administration would have paid an incentive payment if a CAA had increased the number of their assisted applications by 20 percent over their prior quarter applications. The incentive payment would have been 40 percent of the total payments made in the qualifying quarter. (The LAO and several constituency groups also recommended rejection of this new incentive program.)

May Revision—Creates a New Incentive CAA Program. The May Revision proposes to change the Administration's January budget proposal regarding the establishment of a new incentive CAA Program. **The new proposal would do the following:**

- *Change Annual Eligibility Redetermination Payment.* This proposal would increase the amount paid to CAAs for successful "annual eligibility redeterminations" (AERs) from $25 to $50 per application. A total of about $1.1 million ($400,000 General Fund) is provided for this purpose. The purpose of this proposal is to place the AER on par with the payment made for assisting with new applications (i.e., $50).

- *Additional Incentive if Health-e-App Used.* This proposal would provide an additional $25 to CAAs for any new application or AER that is successfully completed using the Health-e-App web-based application. A total of $3 million ($1.1 million General Fund) is provided for this purpose.

- Rescinds the January budget proposal that was previously rejected by the Subcommittee.

As previously noted, the MRMIB proposes to expand the statewide availability of the **"Health-e-App", a web-based application** that is now only available through Certified Application Assistants (CAAs) and only in some counties. This expanded availability is to take place during 2006-07, as noted in the previous agenda item.

Subcommittee Staff Recommendation. It **is recommended to (1)** adopt the proposal to increase the payment made to CAAs for successful AERs from $25 to $50, and corresponding technical trailer bill language, *and* **(2)** reject the $3 million ($1.1 million General Fund) for the use of the Health-e-App.

It makes sense to provide CAAs $50 for AERs since retention and continued enrollment are now a core concern of the program, with enrollment now covering almost 800,000 children. Clearly it is most beneficial to the child to maintain enrollment and it is cost-beneficial to the program as well since the "churning" of enrollment just adds administrative costs to the program.

With respect to the Health-e-App incentive payment proposal, it appears to be premature. The Health-e-App still needs to be developed for statewide use, including various administrative adjustments, and it does require access to computers. The baseline CAA Program was just restored last year and is in the process of building up again. In addition, CAAs should already be using Health-e-App, *when applicable,* because it generally enrolls children more quickly.

Further, Health-e-App does not serve as a screening device for the more complex Medi-Cal enrollment categories such as disability-linked Medi-Cal and the 1931 (b) family Medi-Cal program. It does however serve as a useful tool for screening children for the federal poverty level programs (such as the 100 percent program and the 133 percent programs) prior to enrollment into the HFP. (Federal law states that Children's Health Insurance Programs, the Healthy Family Program in California, are to be used for those children not eligible for Medicaid and who are citizens.)

Questions. The Subcommittee has requested the MRMIB to respond to the following questions.

1. **MRMIB**, Please provide a brief summary of the May Revision proposal.

3. Proposed Modification to Trailer Bill Language Regarding AIM to Conform

Issue. The Assembly Subcommittee adopted a modification to the Administration's trailer bill language regarding the interactions between the Access for Infant's and Mothers Program (AIM) and the Healthy Families Program. **Specifically, Section 12695.05 (d) (3) was changed to provide an additional subscriber contribution for two months. The Assembly's language change is noted below:**

> (3) In addition to the subscriber contribution specified in this subdivision, for subscribers enrolled on or after July 1, 2007, the board may also assess an additional subscriber contribution to cover the AIM-linked infant enrolled in the Healthy Families Program pursuant to clause (ii) of subparagraph (A) of paragraph (6) of subdivision (a) of Section 1693.70 for two months using all applicable discounts pursuant to Section 12693.43.

This language was modified because the Administration did not specify in their language how much of a premium could be collected in advance. Instead, the Administration assumed that implementing regulations would be crafted to address this issue.

Background--Prior Subcommittee Action. In the April 17th hearing, the Subcommittee adopted the Administration's proposed trailer bill language to eliminate the potential for duplicative enrollment in the Access for Infants and Mothers (AIM) Program and provided a one-time only augmentation as contained in the Governor's Budget.

<u>Background--Governor's January Budget Proposal.</u> The MRMIB proposed to make several changes regarding the linkage between the Access for Infants and Mothers Program (AIM) and the Healthy Families Program (HFP). **These changes require a *one-time time* only augmentation, as well as statutory changes proposed through trailer bill legislation**. First, a *one-time only* increase of $300,000 ($105,000 General Fund) was requested for the Administrative Vendor to make system changes. The purpose of this HFP system change would be to eliminate the potential for AIM-linked infants to be enrolled in either the no-cost Medi-Cal Program or private insurance, as well as in the HFP.

Once implemented the proposal is to result in *annual savings* to the state of about $951,000 ($333,000 General Funds). These savings would come from not enrolling infants into the HFP who are already enrolled in no-cost Medi-Cal or employer supported insurance. It is assumed that system changes would be effective as of July 1, 2007 (i.e., next fiscal year).

The proposal would also expedite HFP enrollment for infants born to AIM mothers by allowing MRMIB to redirect a portion of the AIM subscriber contribution to the HFP account and to apply this money towards the infant's HFP premium for a period of HFP enrollment. The Administration is proposing trailer bill legislation to amend the HFP and AIM statutes to make the above referenced changes. **Specifically, the proposed trailer bill legislation would do the following:**

- Identify AIM-linked infants who are enrolled in no-cost Medi-Cal or employer sponsored insurance at the time of registration (and therefore not eligible for the HFP);
- Enable the MRMIB to assess an additional HFP subscriber contribution as part of the AIM subscriber contribution and require that this portion of the AIM subscriber contribution be used as *pre-payment* of the HFP premium for an AIM-linked infant's initial enrollment into the HFP; and
- Provides for the transfer of the above contribution from the mother's AIM account to the child's HFP account.

According to the MRMIB, over 20 infants each month are enrolled in the HFP as AIM-linked infants ***and*** also are enrolled in no-cost Medi-Cal. As such, California and the federal governments may be paying twice for the coverage of these infants. In addition, it is unknown how many AIM-linked infants are enrolled in employer sponsored health care coverage, since the current enrollment process does not require the disclosure of this information. **Therefore, the MRMIB is recommending the Administrative Vendor system changes and trailer bill legislation to prevent dual enrollment (i.e., in the HFP and Medi-Cal or employer sponsored coverage) and to clarify the subscriber payments.**

<u>Background on AIM and HFP Relationship.</u> The Budget Act of 2003, and accompanying trailer bill legislation, provided for the automatic enrollment of infants into the HFP when born to AIM mothers who were enrolled in AIM on or after July 1, 2004 (i.e., AIM-linked infants). This action was proposed by the Administration because the contract costs in AIM were increasing steadily and the cost for providing health care services for the infants would be less in the HFP than in AIM. Prior to this change, AIM infants were eligible for AIM up to the age of two years.

Currently, AIM requires an enrollee to pay 1.5 percent of her household income as the family contribution towards the cost of participation in AIM. To enroll the infant born of this pregnancy in the HFP, an additional $15 premium payment is required. According to the MRMIB, the requirement for a separate HFP premium can lead to delays in enrollment of the infant. Under current law MRMIB does not have the authority to charge an AIM subscriber for care provided to her child in the HFP, which is a separate program.

Subcommittee Staff Recommendation. It is recommended to adopt the proposed language change to **conform to the Assembly**. This technical language change makes it clear

Questions. The Subcommittee has requested the MRMIB to respond to the following questions.

1. MRMIB, from a technical assistance perspective, please describe the proposed change.

4. County Health Initiative Interim Assistance—*One Time Funding* (issue 128)
(See Hand Out)

Governor's May Revision. The May Revision **proposes a *one time only* amount of $22.8 million (General Fund) to be allocated by the MRMIB to County Health Initiative programs to enroll about 24,000 children in 2006-07. In addition, an increase of $251,000 (General Fund) is requested for state support to fund three limited-term positions—a Research Specialist I, Associate Accounting Analyst and an Office Technician—to administer the funds.**

In addition, trailer bill language is proposed. This is discussed below.

The MRMIB states that they anticipate a total of 18,000 children (aged 6 to 18 years) to be on waiting lists for enrollment into County Health Initiative programs during 2006-07. This is because some of the County Healthy Kids programs have had to cap their enrollments due to high program demand and limited funding. Most of the capped programs have formed "wait lists" so that as older children graduate from the program or children drop out, other children can be enrolled. The wait lists are only for children ages 6 to 18 years since funding from the First 5 Commission has been sufficient to cover all children ages 0 to 5 years that are eligible.

Most counties have reported that the cost of covering one child is from $80 to $120 per month. Most County Health Initiatives utilize health plans with existing Medi-Cal and Healthy Families Program provider networks to serve their enrollees. **Therefore, the Administration assumed a cost of about $100 per child for their cost calculation, or about $1,195 as an annual cost (12 months).**

The Administration states that the first priority for funding allocation would be to 10 counties that presently have a waiting list of about 11,000 children (See Table below). The remaining funds would be allocated across all 18 counties that have a program.

The proposed trailer bill language would do the following:

- Create the County Health Initiative Interim Assistance Program to be administered by the Managed Risk Medical Insurance Board (MRMIB);
- Make one-year grants to the Children Health Initiatives for the provision of health care for children **ages six through 18 years** who are not insured or eligible for coverage under the HFP or full-scope Medi-Cal with no share of cost;
- Designates that the **first priority** for the grants will be for Children's Health Initiatives that, as of **May 1, 2006**, had an established waiting list of children;
- Designates that the **second priority** for the grants, if any funding remains from the first priority, would be for all Children's Health Initiatives, not just those with waiting lists. The MRMIB would develop criteria for awarding such grants but would include, among others, the following:
    - Whether the program can use the grant to leverage other funds;
    - Whether the funds of the program, absent a grant, are sufficient to cover the projected number of eligible children;
    - How many children would be served as a result of the grant; and
    - Evidence that the program is adequately screening children to ensure that they are not eligible for other comprehensive public programs (i.e., Medi-Cal or the HFP).
- Require the Children Health Initiatives receiving funds to certify to the MRMIB that funds are being used for the specified purposes; and
- Enables the MRMIB to review, monitor or otherwise review the information provided by the Children Health Initiatives and may require funds to be returned.

The requested MRMIB positions would generally be used as follows:

- The Research Program Specialist I would oversee the program, coordinate with counties and review programs in the field;
- The Associate Analyst would establish and maintain the required fiscal reporting systems, analyze certified documentation received from the programs (such as financial statements, fiscal projections and related material), and assist in field reviews; and
- The Office Technician would provide clerical support.

Additional Background—County Health Initiative Programs. Presently there are **18 county-based programs** (often referred to collectively as County Health Initiative programs) that provide health care coverage to uninsured children in families with incomes below 300 percent of poverty (400 percent for one county). **These uninsured children are not eligible for full-scope, no cost Medi-Cal or the Healthy Families Program.** These existing programs cover about 85,000 children. Counties have used many funding sources to support these programs including resources from the counties themselves, local First Five Commissions, foundations, and federal funds. In addition, there are 14 other counties that are planning to implement programs.

According to a recent report (May 2006 funded by the CA Endowment), there are about **10,200 children (aged 6 to 18 years) (based on *January 2006* available data) who are on a waiting list as noted in the table below.**

Table: Children Enrolled in County Health Initiative Programs (from referenced report)

County Healthy Kids	Total Children Enrolled (0 to 18 yrs)	**Wait Listed Children** (6 to 18 years)	Estimated Total Eligible Children
Santa Clara	13,460	970	18,000
San Francisco	4,180	0	5,000
Riverside	7,080	2,370	17,000
San Mateo	5,910	0	7,150
San Bernardino	3,710	1,620	22,000
Los Angeles	42,940	3,970	70,000
San Joaquin	2,110	160	3,000
Santa Cruz	1,760	0	2,300
Kern	100	n/a	2,000
San Luis Obispo	490	90	2,200
Alameda	580	0	11,000
Santa Barbara	180	0	4,000
Tulare	0	930	6,800
Fresno	100	0	8,550
Solano	860	0	2,000
Sonoma	1,700	100	2,700
Yolo	0	0	2,350
TOTALS	**85,210**	**10,210**	**186,050**

Subcommittee Staff Recommendation. It is **recommended to approve the May Revision.** The intent of the $22.8 million (General Fund) is to provide a interim assistance to operating County Health Initiatives in the short term until resolution of the children's health initiative on the ballot in November. It is a constructive use of one-time only funding. Further, the workload for the requested positions seems justified in order to ensure the integrity of the allocations and their use for health care services.

Questions. The Subcommittee has requested the MRMIB to respond to the following questions.

1. **MRMIB**, Please briefly describe how the program would operate, including when the first phase of grants would be provided.

B. Item 4260 Department of Health Services (*Discussion Items*)

MEDI-CAL PROGRAM ISSUES

1. Medi-Cal Baseline Estimate Package & Technical Adjustments to Prior Actions

Governor's May Revision: The entire Medi-Cal Estimate is recalculated at the May Revision. As such, the Estimate package needs to technically be adopted as a baseline **and *then*** individual issues are adjusted as needed (as discussed in the issues noted in the Agenda below).

The Medi-Cal Program local assistance expenditures for 2006-07 are estimated to be $31.410 billion ($13.768 billion General Fund), excluding special funds provided to hospitals. This reflects a *net* increase of $545.9 million (**increase of $29.7 million General Fund**) as compared to the January budget. Estimated expenditures are shown below by category.

Summary Totals of Governor's May Revision for Medi-Cal Program

Component of the Medi-Cal Program	May Revision 2006-07
Medical Care Services	$29.070 billion ($12.974 billion GF)
County Administration	$2.030 billion ($700 million GF)
Fiscal Intermediary	$310 million ($93.6 million GF)
TOTAL	$31.410 billion ($13.769 billion GF)

The average monthly caseload for 2006-07 is projected to be 6,664,700 Medi-Cal enrollees which represents a **decrease** of 142,100 people, or 2.1 percent from the January budget.

Adjustments for Prior Actions by Subcommittee. In prior hearings the Subcommittee took action to make adjustments to the Medi-Cal Program's local assistance item. These adjustments need to be technically updated to correspond to the May Revision changes for caseload and related items. **Therefore, it is recommended to make the following adjustments to the May Revision baseline budget as follows:**

- *County Administration Change.* The Subcommittee **rejected** the DHS proposal to reduce County Administration by $42.4 million ($21.2 million General Fund). The May Revision has lowered their reduction amount to be $24.3 million ($12.2 million General Fund). **Therefore, it is recommended to *revise* the Subcommittee's prior action to increase by $24.3 million ($12.2 million General Fund) to reject the Administration's proposal.**

Questions:

1. DHS, Please provide a *brief* summary of the baseline adjustments for Medi-Cal.

2. County Performance Measures

Issue and Subcommittee Staff Recommendation. Concerns have been raised regarding the ability of counties to meet statutorily required performance measures, as discussed below, in the event of not being appropriately funded for the cost of administering Medi-Cal Program eligibility processing. As noted below, the state savings over $200 million (General Fund) by the counties meeting these performance measures.

In an effort to continue discussions through the Joint Budget Conference Committee process between the Administration and the counties on the topic of funding and the efficiency of conducting Medi-Cal eligibility processing and other related important county administration functions, it is recommended to adopt the following Budget Bill Language for the Medi-Cal local assistance item:

> Provision x.
>
> It is the Legislature's intent to provide appropriate funding to the counties for the effective administration of the Medi-Cal Program at the local level to ensure that counties can reasonably meet the purposes of the performance measures as contained in Section 14154 of the Welfare and Institutions Code.

Background—County Performance Standards. Through SB 26 (First Extra Ordinary Session), Statutes of 2003, the Legislature enacted comprehensive "county performance standards". Under these standards, counties must meet specified criteria regarding completing eligibility determinations and performing timely re-determinations. Specific work standards—including timeframes and percentages that need to be completed—are outlined in the enabling statute. **If a county does not meet these performance standards, their administrative funding may be reduced by up to two percent as determined by the Department of Health Services. Further, implementation of a corrective action plain in those counties that fail to meet one or more of the standards are required.**

The county performance standards address requirements for **(1)** Medi-Cal eligibility application processing, **(2)** Medi-Cal annual redetermination processing, and **(3)** bridging processing which is used to shift children from Medi-Cal to Healthy Families and back as appropriate due to different program eligibility standards.

As contained in the Medi-Cal Estimate for 2006-07, these ongoing county performance standards are estimated to save about $445.7 million ($222.8 million General Fund).

The DHS states that it received 4 positions (two permanent and two limited-term) for this purpose.

Background—County Cost Containment Plans. Through the Budget Act of 2004, and accompanying trailer bill language, the DHS in collaboration with the County Welfare Directors Association were directed to develop options and recommendations for modifying the budgeting and allocation methodologies for county Medi-Cal administration. Recommendations from this process were provided to the Legislature in 2005.

A principle component of the cost containment plan is the application of productivity standards in determining the number of eligibility workers needed for the Medi-Cal determination process which is based upon a county's computer consortia. **The Governor's budget reflects savings of $5.6 million ($2.8 million General Fund) for this purpose.**

Background—Medi-Cal Eligibility Determination System (MEDS) Reconciliation. Additional standards were implemented in the Budget Act of 2003, and accompanying trailer bill language to ensure that counties were appropriately reconciling their Medi-Cal eligibility files with the state's system. This included the establishment of standards regarding the processing of error "alerts", as well as submitting quarterly reconciliation files to the DHS for data verification and correcting any subsequent identified errors. **If a county fails to follow these standards, the DHS will request a Corrective Action Plan from the county. If the county fails to meet the Corrective Action Plan's benchmarks, the DHS may reduce the county administrative allocation for Medi-Cal by two percent.**

Background—Medi-Cal Eligibility Processing. Each county is responsible for implementing Medi-Cal eligibility and for interpreting state guidance on policies and procedures. Counties determine eligibility for Medi-Cal under a set of complex rules that require staff to collect and verify a variety of information. **In fact the DHS provides counties with a 900-plus page state Medi-Cal Eligibility Procedures Manual that is updated on a constant basis through state issued "All County Letters". There are more than 150 aid codes, and dozens of state Medi-Cal related forms.**

Counties are provided with an annual allocation from the state to conduct Medi-Cal Program eligibility processing activities for the state (federal law requires that a governmental entity complete all Medicaid (Medi-Cal) applications.) The allocation is contained within the annual Medi-Cal Estimate Package provided to the Legislature as part of the annual budget deliberations. The budget proposes expenditures of about $1.3 billion (total funds) for county administration of the Medi-Cal Program.

County-Based Constituency Organization's Request. The Subcommittee is in receipt of a letter that **(1)** requests denial of the Administration's proposal, and **(2)** adoption of placeholder trailer bill language to fund the **actual** cost to counties to administer both human services and Medi-Cal beginning in 2007-08.

Among other things, the letter notes that counties provide important services to their local constituents while serving as an arm of the state. Further, County Counsels' Association has opined that not funding increases to counties for costs to administer programs on behalf of the state amounts to a cost shift triggering the mandate reimbursement provisions of Proposition 1A.

The County Welfare Directors Association (CWDA) appropriately notes the inconsistency of the DHS by proposing to cut funding for county Medi-Cal operations while leaving all statutory performance requirements intact.

3. Conlan v. Shewry –Request for Budget Bill Language

Issue. The Subcommittee is in receipt of a letter requesting that Budget Bill Language be added to enable counties to establish specific timeframes for assessing the (1) impact on county Medi-Cal eligibility processing and (2) allocating funds to counties for these new activities.

The Conlan v. Shewry settlement will require the state to revise policies and procedures for allowing Medi-Cal beneficiaries to claim costs for health care received during a three-month period before eligibility. Initially, the new rules must be applied retroactively to clients granted Medi-Cal since 1997, and then to all new clients. Counties will be required to research cases and provide information to assist in determining retrospective funding amounts. Prospectively, the application process for Medi-Cal eligibility will be lengthened after these new rules are implemented.

It is unclear at this time the number of cases involved or the amount of time each case will require. **However, the court ordered that the DHS must have a reimbursement process fully implemented by *October 2006*. Therefore, the CWDA is seeking Budget Bill Language which will enable the DOF to transfer funding to the counties for Medi-Cal eligibility assistance. This language is as follows:**

> Item 4260-101-0001
> Provision x. Not later than October 1, 2006, the Director of Finance shall authorize the transfer of amounts from Schedule (3) of this item to Schedule (1) of this item in order to fund increased costs to county Medi-Cal eligibility programs associated with compliance in the Conlan v. Shewry court decision.

Background—Conlan v. Shewry. This lawsuit has a long history resulting in the issuance of several court decisions. The first decision was issued in 2002 and directed the DHS to adopt and implement procedures to ensure that Medi-Cal recipients entitled to reimbursement for covered services obtained during the "retroactive period" (defined as the three-month period prior to application for Medi-Cal) are promptly reimbursed.

Now, as ordered in May 2006 the court ordered that the DHS must have a reimbursement process fully implemented by October 2006. Failure to meet this deadline would result in contempt sanctions by the court against the DHS.

Subcommittee Staff Recommendation. It is recommended to adopt the proposed Budget Bill Language as referenced above.

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

1. **DHS**, Please provide a brief description of the Conlan v. Shewry decision. Is it likely to have an affect on counties?

4. Proposed Adjustment to Treatment Authorization Requests--Podiatry

Issue. The Subcommittee is in receipt of a letter from constituency groups requesting trailer bill language that would enable a doctor of podiatric medicine, within their scope of practice, to provide treatment under the Medi-Cal Program for certain procedures without having to submit a "treatment authorization request" (TAR).

In discussions with the DHS, from a technical assistance basis only, it appears that crafting trailer bill language would facilitate the ability of the DHS to indeed, not require TARs for these procedures. **Specifically, *no* TAR would be required for billing codes related to trauma, infection management, pain control, would management, diabetic foot care, and limb salvage.** Only a small number of codes would be affected by this change. The procedures specified are urgent conditions that are medically required, not those that could be over utilized.

Medi-Cal patients who benefit from this change are medically compromised diabetics, dialysis patients, peripheral vascular disease patients, and patients with trauma (limb damage).

Additional Background Information--TARs. Medi-Cal requires providers to obtain prior authorization for specific medical procedures and services before Medi-Cal reimbursement can be approved. To file a TAR, providers must fill out one of several types of TAR forms and forward the TAR, usually by mail but also electronic, to the appropriate DHS TAR office (six Medi-Cal Field Offices and two Pharmacy offices). The DHS then processes the TAR to either (1) approve, (2) modify—such as quantity of service, (3) defer—return to provide for more information, or (4) deny the request.

Generally, the purpose of any prior authorization system is to (1) assist in reviewing medical necessity, (2) assist in cost control, and (3) assist in fraud detection.

Subcommittee Staff Recommendation. It is **recommended to (1)** adopt **"placeholder"** trailer bill language, in order to obtain technical assistance from the DHS, ***and* (2)** increase by $200,000 ($100,000 General Fund) since the DHS believes that nominal costs will be incurred.

Questions. The Subcommittee has requested the DHS to provide technical assistance by responding to the following questions.

1. **DHS**, from a technical assistance basis, please comment on the proposal.

5. Medi-Cal Managed Care Plan Payment Adjustments—*Two Issues* (issue 130)

Governor's May Revision. The May Revision proposes **two adjustments** to the rates paid to health plans participating in the Medi-Cal Managed Care Program. The Medi-Cal Managed Care Program serves over 3.2 million enrollees (almost half of all enrollees) using three models—Two Plan Counties, County Organized Healthcare Systems (COHS) and Geographic Managed Care.

First, the 5 percent rate reduction required by AB 1762, Statutes of 2003, sunsets as of December 31, 2006. As such, the May Revision reflects this sunset date and provides **an increase of $65.4 million ($32.7 million General Fund) to be effective as of January 1, 2007 (half year funding).** The adjustments are *not* affected by a plans' Medi-Cal Program contract date. **The adjustments for this are shown below.**

Table: Restoration of 5 Percent as of January 1, 2007

Managed Care Model	Total Dollar Amount
Two-Plan Model	$45,000,000
County Organized Healthcare Systems	$13,500,000
Geographic Managed Care (Sacramento and San Diego)	$6,600,000
TOTAL Medi-Cal Managed Care	**$65.1 million**
Pilot Programs:	
PACE	$20,000
SCAN	$45,000
AIDS Healthcare Foundation	$200,000
Kaiser Prepaid Health Plan	$50,000
TOTAL Pilot Programs	**$315,000**

***Second*, an increase of $61.2 million ($30.6 million General Fund) is provided based upon a DHS financial review of the 22 Managed Care plans.** This financial review process was discussed in the Subcommittee on May 8th, and is referenced below in the background section. But generally, the purpose of the DHS financial review was threefold:

- Determine which health plans exhibit evidence of a declining "tangible net equity" (TNE) or depleting financial reserves to a level that would render the health plan non-compliant with state regulations prior to 2007-08 (i.e., below 200 percent of TNE);
- Ascertain if funding for a rate increase is justified; and
- Establish the amount of funding to be requested in the May Revision for 2006-07.

Of the 22 Managed Care Plans reviewed, 10 plans warranted DHS criterion for consideration of a rate increase to maintain financial compliance. As such, the DHS did a more comprehensive "secondary" financial review. After this secondary review, 6 plans were included in the May Revision for a rate increase.

The DHS made recommendations as noted below. The total amount of $78.050 million ($39.025 million General Fund) should have been reflected in the May Revision. **<u>However, a technical correction to the May Revision is needed to appropriately reflect the full amount</u>. *Specifically*, an increase of $16.875 million ($8.438 million General Fund) <u>above</u> the May Revision amount of $61.2 million (total funds) is needed to reflect the full amount identified by the DHS. The total amount for each plan is shown below with their "correction" shown where applicable.**

• Central Coast Alliance for Health (COHS)	$17.370 million (correction of $9.7 million)
• Health Plan of San Mateo (COHS)	$7.670million
• Partnership Health Plan (COHS)	$25.3 million
• Santa Barbara Health Authority (COHS)	$11.160 million (correction of $6.3 million)
• Contra Costa Health Plan (Two-Plan Model)	$2.860 million (correction of $875,000)
• Community Health Group (Geographic)	$13.690 million

It should also be noted that the Administration has stated that this rate adjustment for 2006-07 is to be viewed as a "stop-gap" measure and that additional changes to rates and the methodology used to development them will be evolving once the Mercer Report and subsequent analysis is completed.

<u>Background—Department of Health Services Financial Review of Medi-Cal Managed Care Plans.</u> The DHS did an extensive review of the financial condition of each contractor in *<u>all</u>* of the Medi-Cal Managed Care Programs (i.e., Two-Plan Model, County Organized Healthcare Systems (COHS), and Geographic Managed Care (GMC)).

Key data that the DHS is reviewed regarding each of the plans included the following:
(1) *<u>Net income.</u>* The earnings of the company as calculated as revenues minus expenses.

(2) *<u>Cash Flow Position.</u>* The DHS review will analyze the liquidity of the health plan.

(3) *<u>Tangible Net Equity.</u>* This is a measure of the plan's financial reserves and provides a margin of financial safety if it is necessary for a plan to sustain losses over some period.

(4) *<u>Medical Loss Ratio.</u>* This provides the percentage of revenues devoted to providing medical care plan enrollees.

(5) *<u>Administrative Expense Ratio.</u>* These are costs necessarily incurred to operate a health plan.

(6) *<u>Profit Margin.</u>* This value shows a plan's profits or losses as a percentage and is calculated as net income divided by total revenue.

(7) *<u>Medi-Cal Enrollment as a Percent of Total Enrollments.</u>* This is an important factor given as it provides the ability or inability for a plan to subsidize across lines of business.

(8) Data from Most Recent Audited Financial Statements. These statements are reviewed by auditors who then consider if the health plan is a viable and ongoing entity.

<u>Background—Quality Improvement Assessment Fee Rate Increase.</u> Medi-Cal Managed Care Plans, except for COHS', are also participating in the "Quality Improvement Assessment" fee effective as of July 1, 2005. This arrangement enables plans to pay the state a fee (6 percent) that is then matched with federal funds to provide a rate increase. The state was able to offset General Fund expenditures from this arrangement as well. This arrangement enabled plans to receive about a 3 percent increase on average. This program is scheduled to end by 2009 due to recent changes in federal law.

Background—Mercer Managed Care Rate Methodology Study. The DHS has contracted with Mercer to conduct an analyses regarding Medi-Cal Managed Care Program rates. According to the DHS, this analysis should be completed by **August 2006**. The objectives of this study were discussed in the Subcommittee's May 8th agenda.

Subcommittee Staff Recommendation. It is recommended **to increase the May Revision by $16.875 million ($8.438 million General Fund) to correct the calculation.**

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

1. **DHS,** Please provide a brief summary of the proposal and how the rate adjustments were determined.

6. Expansion of Disease Management Pilot Project to Include Second Contract (issue 142)

Governor's May Revision. The May Revision **proposes an increase of $2 million ($1 million General Fund) to expand the Disease Management Project to include an *additional* pilot to be designed to serve people with HIV/AIDS.** The DHS states that this project would be a separate (stand-alone) contract and would begin January 1, 2007. The DHS notes that a separate project would be done since HIV/AIDS presents different medical issues than those in other disease management programs.

The DHS contends that it can indeed have this project operational because they have learned from the development of the prior contract (first project).

Prior Subcommittee Action. As noted earlier, the Subcommittee adopted an LAO recommendation to reduce by $1 million ($500,000 General Fund) to reflect a delay in the implementation of the *first contract* for Disease Management that addresses other conditions, including Advanced Atherosclerotic Disease Syndrome, Asthma, Coronary Artery Disease, Diabetes and Chronic Obstructive Pulmonary Disease. **(This action is separate and apart from this May Revision request, since it pertained to the *first* contract.)**

Additional Background Information. The Disease Management Pilot Project was approved by the Legislature through the Budget Act of 2003. The purpose of this three-year pilot project is to test the efficacy of providing a disease management benefit to Medi-Cal enrollees. This is to include, but not be limited to, the use of evidence-based practice guidelines, supporting adherence to care plans, providing patient education, monitoring, and strategies for healthy lifestyle changes.

Legislative Analyst's Office Recommendation. The LAO recommends rejecting the May Revision proposal to add a second contract for HIV/AIDS for savings of $2 million ($1 million General Fund). They contend that other existing projects are already taking significant actions to improve care, control costs, and achieve better health outcomes for individuals with HIV/AIDS.

Subcommittee Staff Recommendation. It is **recommended to give the DHS a *second chance* on a Disease Management project and to approve this second concept on HIV/AIDS as contained in the May Revision. (The Subcommittee's prior action would remain.)**

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

1. **DHS**, Please provide a brief summary of the proposal.

7. Trailer Bill Language Proposed for Federal Deficit Reduction Act (issue 143) (See Hand Out)

Governor's May Revision. The May Revision **proposes trailer bill language to implement certain provisions of the federal Deficit Reduction Act (DRA) of 2005, as well as related Budget Bill Language that would provide for a transfer of funds to County Social Services Departments to conduct additional activities.**

Background on the Federal DRA and What it Could Mean for California. The DRA requires all U.S. citizens and nationals who apply for Medicaid (Medi-Cal) to provide **evidence of citizenship or national status as a condition of eligibility. The DHS states that the DRA does *not* apply to or affect people who are applying for Medi-Cal who are legal immigrants.**

This new federal requirement is effective July 1, 2006 and would be required when people apply for Medi-Cal benefits or, for current beneficiaries, at re-determination of eligibility. There are no exceptions to this requirement.

These new federal requirements require both state statutory changes, as well as an amendment to the State's Medi-Cal Plan. **By September 30, 2006, the DHS must submit a State Plan Amendment (SPA) to implement this change which becomes effective July 1, 2006 (federal law contains this date).** (Generally, the federal CMS requires that states can only go back one-quarter for changes to Medicaid programs.)

Implementation of these DRA requirements is a condition of the state *receiving* federal funds. The DHS states that failure by California to act puts $15 billion in annual federal funds at risk. Federal funds (Title XIX funds) expended by other state departments, counties and schools would also be at risk.

According to the DHS, the *primary* forms of documentation acceptable would be either a passport (by its self), or a birth presented together with a document that confirms identity, such as a driver's license with a photograph.

The federal CMS is working on directions to the states, which could provide flexibility to states to accept *alternative forms* of documentation, including electronic verification of birth certificates and affidavits for children to prove their identify. They are also working to provide direction that could allow states to rely upon the verification of other programs, such as SSI and foster care as proof that this requirement has been met. In addition, they are working to provide applicants and beneficiaries a "reasonable opportunity period" which would allow people to be eligible without presenting the documentation and then provide it within the first two months of eligibility. The DHS notes that discussions with the federal CMS indicate that states should have some flexibility in implementation.

Eligible people could lose their Medi-Cal coverage because they do not have a birth certificate, passport, or other acceptable alternative documentation available during the process used to apply or reapply for Medi-Cal coverage. Once a person has proven citizenship at either their time of application or determination, they will not have to meet this requirement again.

The federal CMS is also required to conduct outreach to applicants and beneficiaries as part of the implementation of this program. The DHS states that they are also looking at various outreach alternatives including providing routine notices to beneficiaries about this requirement, working closely with County Social Services Departments and Health Departments, as well as community-based organizations

Summary of the Proposed Trailer Bill Language & Budget Bill Language. The proposed trailer bill would require the DHS to implement the federal requirement using additional sources of documentation, to the extent allowable under federal law. Additional sources of documentation may include, but are not limited to, an electronic verification of birth certificate data for people born in California.

The DHS is requesting Budget Bill Language to provide for the transfer of funds between Medi-Cal programs if higher county administration costs materialize since the fiscal impact of this new requirement is unclear and undetermined at this time. **The Administration's proposed Budget Bill Language is as follows (for Item 4260-101-0001):**

> "Nothwithstanding any other provision of law and Section 26.00 of this act, the Department of Finance may authorize transfer of expenditure authority from Schedule (3) of this Item to Schedule (1) of this Item for the purposes of implementing changes required by the federal Deficit Reduction Act of 2005. The Director of Finance shall notify the Legislature within 15 days of authorizing such a transfer unless prior notification of the transfer has been included in the Medi-Cal estimates submitted pursuant to Section 14100.5 of the Welfare and Institutions Code.

The DHS notes that their proposed Budget Bill Language would allow necessary funds to be used for outreach as well; *however*, the language does not specifically state this fact.

Background—Current State Policy and Procedure. Currently in Medi-Cal, U.S. citizens and nationals are required to provide a Social Security Number (SSN) as a condition of eligibility for Medi-Cal. **Each individual's SSN is validated against the data files at the Social Security Administration for accuracy and authenticity.** Individuals who are unable to provide a valid SSN are provided limited scope services. Non-citizens applying as legal immigrants for full-scope Medi-Cal must provide documentation of their immigration status. **The DHS checks computerized federal records to verify their status.**

Medi-Cal has existing proof of identify requirements. In most cases, eligibility workers obtain identification from the "head" of household. Many Medi-Cal applicants are not currently required to provide verification of identify (like a photo ID) such as persons in institutions where contact is made with the facility to verify presence in the institution, and persons not acting on their own behalf (like infants and children).

Verification of identify for the head of household can be met by providing a driver's license or identification card issued by the Department of Motor Vehicles or any other document (preferably with a photo) which appears to be valid and establishes identify (school identification card, Social Security card, marriage record, divorcee decree, passport, birth certificate, work badge or an adoption record, etc.)

<u>Constituency Concerns.</u> The Subcommittee is in receipt of **numerous letters** expressing significant concerns regarding the federal DRA. There are many issues which reflect the need to have further continued discussions in order to clarify what the most constructive approaches would be for proceeding**. Some key suggestions for discussion and consideration are as follows:**

- **Use electronic data matching for verification purposes to the extent allowable by federal law.** For example, the DHS could crosscheck eligibility in other programs that require proof of citizenship.
- **Allow a parental affidavit for children of citizen parents.** This is a commonly accepted proxy for citizenship and should be adopted to ensure that eligible children do not lose coverage.
- **Allow proof of a request for a birth certificate or citizenship papers to remain enrolled in full-scope Medi-Cal.** CA cannot require another state to respond to a request for a birth certificate, or proof of citizenship in any given time frame. Some states may take weeks or months to process a request. The onslaught of requests as a result will make delays worse. It does not make sense that a Medi-Cal enrollee would be disenrolled for the failings of a state to provide citizenship documentation in a timely manner.
- **Grant as much time as is federally allowable for Medi-Cal enrollees to obtain proof of citizenship before they are disenrolled (a grace period).** Continuity of care is very important for Medi-Cal patients. The DHS should implement the maximum federally allowable grace period.
- **Implementation should include outreach and education to patients, providers, county social services offices, community organizations and others.**
- **Exceptions in extreme circumstances.** There may be some circumstances in which a Medi-Cal enrollee is not able to obtain documentation of their citizenship status (such as a patient with dementia for example.).
- **Work with other states to help facilitate document sharing**.
- **Potential to Impact Emergency Departments and Community Clinic Systems.** To the extent that people who have been disenrolled in Medi-Cal as a result of this new law, many of them will likely show up in emergency departments and community clinic systems seeking assistance, with no insurance coverage.

<u>Subcommittee Staff Recommendation.</u> It is recommended to **adopt "placeholder" trailer bill language** in order to more comprehensively discuss issues with constituency groups and the Administration. This is a **very complex** issue that has very significant consequences if not done well. **In addition, it is recommended to modify the Budget Bill Language as follows:**

> "Nothwithstanding any other provision of law and Section 26.00 of this act, the Department of Finance may authorize transfer of expenditure authority from Schedule (3) of this Item to Schedule (1) of this Item for the purposes of implementing changes required

by the federal Deficit Reduction Act of 2005, which will include, but not be limited to, providing assistance to individuals in meeting these verification rules and for county eligibility activities. It is the intent of the Legislature for transfers to be provided on a timely basis in order to ensure the health and safety of Californians. The Director of Finance shall notify the Legislature within 15 days of authorizing such a transfer unless prior notification of the transfer has been included in the Medi-Cal estimates submitted pursuant to Section 14100.5 of the Welfare and Institutions Code.

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

1. **DHS**, Please provide a brief overview of the DRA provisions referenced, and a summary of the proposed trailer bill language and Budget Bill Language.

8. Request to Fund Pharmacy Study Due to Federal DRA Changes

Issue. The Subcommittee is in receipt of a request from several organizations involved in the pharmacy industry. **Specifically they are seeking an increase of $600,000 ($300,000 General Fund) to the Medi-Cal Program in order for the DHS to use a consultant to conduct a study of Medi-Cal pharmacy reimbursement.** This issue has been raised to the forefront due to changes contained in the federal Deficit Reduction Act (DRA) that affect "generic" drugs.

The Medi-Cal Program does ***not*** have to make any changes to its pharmacy reimbursement formula in order to implement these federal DRA changes**. However it is unknown at this time what the fiscal affect is going to be on the Pharmacists participating in the Medi-Cal Program**, **other than it is likely their overall reimbursement for generic drugs will be lower due to the federal reductions.** As such, **a study is requested** in order to obtain better data as to what is occurring in the field. Further, the last study completed in this area was published in June 2002 and used data from 1999-2000.

Existing State Statute Provides Flexibility Regarding Reimbursement for Generic Drugs. Currently existing state statute sets generic drug reimbursement at the "lowest of the average wholesale price minus 17 percent, the selling price, the federal upper limit (federal UPL) or the maximum allowable ingredient cost (MAIC). Therefore, no state statutory changes are needed to implement the federal DRA changes as discussed below.

Summary of Federal DRA Changes to Generic Drug Reimbursement in Medicaid. Among other things, **the federal DRA changed the formula and conditions on when the "federal upper payment limit (federal UPL)" is set. The new requirements take effect January 1, 2007, and require the federal CMS to use 250 percent of the "average manufacturers price" (AMP) of a drug.**

The AMP is the price reported to the federal CMS by drug manufacturers and is intended to reflect the *net* (i.e., *after* discount) price paid by retail pharmacies. It is generally believed that the AMP is significantly lower than the "wholesaler acquisition cost" (WAC) which is presently used for multiplesource (generics) drugs.

State Medicaid programs (Medi-Cal) are required to implement the federal UPL by the federal CMS or risk the loss of federal financial participation (federal match) for drugs that exceed the limit. States are typically given 30-days from the date on the federal CMS letter of notification to implement new prices (this happens fairly regularly).

The DRA also lowered the number of therapeutically equivalent drugs needed to compute a federal UPL from three to only two. This change means that a federal UPL can be implemented much sooner. Currently the first generic drug on the market has a 6-month window before the second generic drug is allowed to be marketed. **This change from two therapeutically equivalent drugs now means that the federal CMS can immediately establish a federal UPL upon the introduction of the first generic drug on the market.**

Additional Background—Federal Upper Payment Limit. In 1987, federal regulations limited the amount which Medicaid (Medi-Cal) could reimburse for drugs with available **generic drugs** under the Federal Upper Payment Limit (FUPL) Program. The limits were intended to assure that the Medicaid Program acts as a prudent buyer of drugs. **The concept of the FUPL Program is to achieve savings by taking advantage of the current market prices.**

Since this time other changes have been made. **However, the bottom line is that state Medicaid programs (Medi-Cal) are required to implement the federal upper limit sent to them by the federal CMS or risk the loss of federal financial participation (federal match).**

Subcommittee Staff Recommendation. It is recommended **to increase by $600,000 ($300,000 General Fund) to fund a study regarding Pharmacist reimbursement in order to have more accurate information regarding drug ingredient costs and dispensing fee needs.** Based on technical assistance provided by the DHS, it would take about $600,000 ($300,000) to fund the study and an existing contract could be amended to complete the study in a timely manner (such as in Fall/Winter 2006) which is desired due to the federal date of January 1, 2007. **In addition, it is recommended to adopt the following Budget Bill Language (BBL)**:

> Item 4260-101-0001
>
> Provision x. Of the amount appropriated in this Item, up to $600,000 can be used to conduct a study of the pharmacy reimbursement rates and fees provided under the Medi-Cal Program, including the cost of providing prescription drugs and services. This study shall take into account the revised payments for Medicaid drug ingredient costs mandated by the 2005 federal Deficit Reduction Act. Due to the January 1, 2007 timeline for changes as contained in the federal law, it is the intent of the Legislature for this study to be conducted in an expedited manner to the extent feasible for a quality work product. The department shall provide the results of the study to the Legislature by December 1, 2006.

Questions. The Subcommittee has requested the DHS to provide technical assistance to respond to the following questions.

1. **DHS,** Please briefly explain the key federal DRA changes and how they may affect the Medi-Cal Program. Would a study be useful to complete to assist with implementation?

9. Budget Bill Language for Potential Federal Grant—"Money Follows the Person" (issue 133)

Governor's May Revision. As discussed below, the federal Deficit Reduction Act (DRA) has made a five-year grant available to states on a competitive basis. *Generally*, the grant would provide enhanced federal funding to allow individuals in institutions to move into community settings to receive the same amount of funding that was being provided for the care in the institution instead for home and community-based services.

Due to the timing of knowing if or when California may receive a grant award, the DHS is seeking the following Budget Bill Language (BBL) (for Item 4260-101-0001 Medi-Cal Local Assistance):

> "If a federal grant provides 75 percent federal financial participation to allow individuals in nursing homes to voluntarily move into a community setting and still receive the same amount of funding for services is awarded to the Department of Health Services during the 2006-07 fiscal year, then notwithstanding any other provision of law the department may count expenditures from the appropriation made to this item as state matching funds for that grant."

This BBL would enable the DHS to use existing General Fund support to match the new federal grant on a short-term basis. Since the Medi-Cal estimate pays for nursing home care, it makes sense to use the General Fund for this purpose (i.e., match at the enhanced 75 percent rate). No General Fund cost would result and savings will not be known until a program is up and running (probably late Winter/early Spring 2007). This BBL will enable the DHS to proceed with the development of a program. Further, the DHS will update the Medi-Cal estimate in January 2007 with the release of the Governor's proposed budget. Then information will be readily available.

Background—Summary of "Money Follows the Person" Demonstration Grant Program. The federal DRA authorizes this grant program that will provide states with an enhanced federal fund match for services for up to 12 months for individuals who move from an inpatient setting to a qualified community residence, beginning in January 2007. For California, the enhanced federal fund match would be 75 percent (versus 50 percent) for the services that are provided under this MFTP Grant. The intended outcome of this demonstration program is to increase the use of home and community-based care instead of institutional care by providing individuals with select services necessary to transition and keep them in their home or community.

The demonstration covers a 5-year period and the amount of the available grant awards for states start at $250 million in the first year (2007) and increase in $50 million increments each year and up to $450 million the fifth year (2011). It is anticipated that the federal CMS will release Request for Proposals to states by late summer so that projects can begin by January 2007. California will not know whether it has been awarded a grant until Fall/Winter 2006.

Subcommittee Staff Recommendation. It is **recommended to approve the Budget Bill Language** as proposed in the May Revision.

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

1. **DHS**, Please provide a brief summary of the proposal.

10. Medi-Cal Reimbursement Adjustment for Non-Emergency Transportation

Issue. In a prior Subcommittee hearing, concerns were expressed regarding the Medi-Cal reimbursement rate paid to non-emergency medical transportation. Providers contend that non-emergency medical transportation is in jeopardy and may become unavailable in many parts of California unless relief is provided due to increased gasoline prices and maintenance. The last rate adjustment for these services was in 2000 and according to the providers, gasoline prices have increased about 120 percent since this time.

Non-emergency medical services are primarily provided to dialysis patients and who are reliant on this mode of transportation to receive their treatment at specialty clinics or hospitals. The providers note that they are more "fuel dependent" than other types of Medi-Cal services or other businesses in general. Due to the nature of the treatment, vans must get patients to the clinics on time in order for them to receive full and appropriate treatment.

Non-emergency medical transportation is covered *only* when a recipient's medical and physical condition does not allow that recipient to travel by bus, passenger car, taxicab, or another form of public or private conveyance. Transport is not covered if the care to be obtained is not a Medi-Cal benefit.

Subcommittee Staff Recommendation. It is recommended to provide **an 8 percent rate** increase for non-emergency medical providers **for an increase of $4.855 million ($2.502 million General Fund), effective as of August 1, 2006.**

According to data provided on a technical assistance basis by the DHS at the Subcommittee's request, most of the payments for non-emergency transportation go to wheelchair and litter vans for medically required transportation. The second highest non-emergency medical transportation cost is provided by ambulances. **This proposed rate adjustment would cover all providers of non-emergency transportation.**

11. Adjustments to Certain Durable Medical Equipment Items in Medi-Cal

Issue. There were a series of actions taken in the Budget Act of 2003 regarding Medi-Cal Program reimbursement rates paid to providers of various durable medical equipment products. At the time these reductions were being made, it was unknown what the affect would be to access of care if providers were not being fairly and appropriately reimbursed for their products. Further, other technical changes have occurred that need to be address to allow for a more effective program.

Concerns have been raised regarding the following issues in this area.

- *Catalogue Pricing for Custom Wheelchair Equipment.* In 2004, Medi-Cal changed its policy to require the submission of a current (then 2003 information) manufacturer catalogue page for custom wheelchair equipment. Two concerns have resulted from this change. First 2004 and

2005 catalogues have changed equipment descriptions and prices. Second, most providers access catalogue information via the internet and web based copies are not accepted by Medi-Cal as valid copies.

Based on technical assistance information obtained from the DHS, if the restriction on using the 2003 catalog pricing and related restriction were removed, it would cost about $450,000 ($225,000 General Fund). The provider would simply use the current manufacturer catalogs. Trailer bill language would also be needed for this change.

- *Custom Rehabilitation Equipment Reimbursement.* Medi-Cal changed its policy for custom wheelchair equipment and accessories that were billed on a "by report" basis using a "lesser of" approach and a sliding scale based upon a percentage of the manufacturer's suggested retail price (MSRP). Providers state that it takes additional paperwork and has dramatically increased resources required to process claims under this confusing method of payment. **If existing statute is changed, a more straightforward methodology of using a price of 85 percent of MSRP could be used. Based on technical assistance obtained from the DHS, an increase of $121,000 ($60,500 General Fund) would be needed with this change.**

- ***Oxygen Pricing.*** Medi-Cal reimbursements under different billing codes for stationary oxygen tank systems than for portable oxygen that is used and refilled on a monthly basis. Medi-Cal reimburses providers solely for the equipment and not for delivery, service or maintenance of equipment. Providers contend that it is generally recognized that the current allowable reimbursement for a portable tank delivered to the patient's home is extremely low. **Existing state statute could be changed to use consistent codes for these services and ensure that pricing stays below 80 percent of Medicare payment. Based on technical assistance obtained from the DHS, an increase of $3.9 million ($1.9 million General Fund) would be needed to make this change.**

Subcommittee Staff Recommendation. It is recommended **to increase by $4.471 million ($2.2 million General Fund) and to adopt *placeholde*r trailer bill language to effectuate the changes as noted above.**

Questions. The Subcommittee has requested the DHS to provide technical assistance by responding to the following questions.

1. DHS, From a technical assistance basis do these changes make sense to implement?

<u>12. Proposal to Reduce the Adult Day Health Care Program—*Two Issues*</u>

<u>Governor's May Revision.</u> First, the May Revision **assumes several adjustments. Each of these is discussed below.**

First, the May Revision **continues a moratorium** on the certification of new Adult Day Health Care facilities (ADHCs) that was established in 2004. The May Revision saves about $12 million ($6 million General Fund).

***Second*, that the Medi-Cal Program will achieve $19 million ($9.5 million General Fund) in savings from three changes to the delivery of ADHCs.** These proposed savings estimates reflect only four months of implementation in 2006-07 (implementation of March 2007). **These changes are as follows:**

- Review treatment authorization requests on-site (savings of $353,928 General Fund);
- Tighten the eligibility for services (savings of $1 million General Fund); and
- Unbundling the current single reimbursement rate for ADHCs to establish separate rates for some services ($8 million General Fund).

Once fully implemented, annual savings are estimated to be $116 million ($58 million General Fund).

Third, the DHS is seeking an increase of $481,000 (total funds) to hire 4 new positions—Nurse Evaluators- to implement changes to the ADHC model.

<u>Background on ADHCs.</u> Adult Day Health Care 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 averages 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. Further, there are about 300 ADHC facilities in the state that are certified in the Medi-Cal Program.

<u>Background on Rates.</u> Currently, Medi-Cal reimburses an ADHC at a "bundled rate"—a single rate which is paid per recipient, per day (minimum of a four-hour stay required). This rate includes payment for all required ADHC services as specified in Title 22, California Code of Regulations. This rate is set at 90 percent of the state's reimbursement rate for Nursing Facility—Level A. This rate structure was the outcome of a legal settlement agreement. The list of required services includes, among others, physical therapy, occupational therapy, speech therapy and recipient transportation to and from the ADHC facility.

Legislative Analyst's Office Recommendation. The LAO recommends rejecting the Administration's unbundling proposal because they believe the savings level identified by the Administration is overstated. **Therefore, they recommend an increase of $16.2 million ($8.1 million General Fund) to backfill for this amount.** Specifically, they note that SB 1755 (Chesbro), the measure that has been identified for modification to the ADHC model does not yet contain any proposals for unbundling

Subcommittee Staff Recommendation. It is recommended to (1) continue the existing moratorium and to make a minor technical change to existing statute to clarify the moratorium, and **(2)** reject the proposals to obtain the $19 million ($9.5 million General Fund), including the requested DHS positions. As noted by the LAO, a policy bill is moving on these issues and it is going to take several months before all of the complexities of the issues can be resolved. It should be noted that both the DHS as well as ADHC provider organizations are working collaboratively to modify the existing model. **Therefore it is recommended to (1)** increase by $19 million ($9.5 million General Fund) the local assistance item to restore the proposed reduction, **(2)** decrease by $481,000 (total funds) to reject the four positions, and **(3)** adopt trailer bill language to reflect a minor technical change in the moratorium language.

Questions.

1. DHS, Please provide a summary of the proposal.

13. Administration's "Right-Sizing" Licensing & Certification Fee Changes (issue 103) *(See Hand Outs)*

Governor's May Revision (See Hand Outs). The May **Revision proposes substantial changes to the rates paid by all providers**—hospitals, nursing facilities, primary care clinics, Intermediate Care Facilities for the Developmentally Disabled-Nursing and Habilitative, psychology clinics, hospice, Adult Day Health, Specialty Care clinics, and others—for licensing and certification purposes. **The proposal, referred to as "right-sizing" of rates encompasses *several changes* as they pertain to the rates paid by these providers. The *key* changes are outlined below.**

- *Licensing and Certification Workload Needs ($18 million).* The "right-sizing" proposal adjusts fees for the additional 141 positions identified to address deficiencies in the level of staff needed to conduct licensing and certification surveys and inspections. As adopted in a prior Subcommittee hearing, and for which the Assembly has conformed, the cost for these new positions, along with $3.9 million in various contracts and $1.2 million for data operations, is $18 million in the budget year. The need for these adjustments in order to ensure the health and safety of patients has not been in debate. This proposal was contained in the January budget.
- *Shifts the Payment of Fingerprint Clearances ($2 million).* The May Revision proposes to correct for a federal **Office of Inspector General audit whereby California was found to be in conflict with federal law regarding the payment of fees to be placed onto nurse's aide registries for fingerprinting clearances.** (Specifically we cannot impose any charges, including fees paid by "certified hemodialysis technicians" and "certified nursing assistants" (CNAs))**.** Since these individuals cannot pay the fees due to federal law, the Administration proposes to include this cost into the "right-sizing" fee adjustments.
- *Changes in the Calculation of the Fees.* The proposal makes several adjustments to how the fees are calculated. Specifically, it (1) eliminates "fixed fees" that are contained in statute, (2) shifts some facilities from a "per facility" amount to a "per bed fee", and (3) requires public facilities, except for State-Operated to now pay fees. **These changes are intended to mitigate the subsidizing of some facilities (such as nursing homes and some hospitals) for other facilities (such as primary care clinics, psychology clinics and others) who have had their licensing fees set in statute and therefore, have not been appropriately paying their share of the cost for licensing surveys.** Further, some facilities that are charged licensing fees on a per facility basis are being shifted to a "per bed" basis (such as Intermediate Care Facilities for Developmentally Disabled-Nursing).
- *Increases by $4.6 million (General Fund) to Cover State Facilities and "Certified-Only" Facilities.* The May Revision proposes to increase by $4.6 million (General Fund) to **(1)** continue funding licensing activities associated with State-Operated facilities, such as State Hospitals and Developmental Centers, and **(2)** continue to provide the state match for federally certified-only facilities which are exempt from state licensure (This is $849,000 of the total amount.). This adjustment needs to be done but was not accounted for in the January budget because the "right-sizing" proposal had not been fully developed to know the amounts. (It should be noted that State-Operated facilities account for a total of $4.4 million (General Fund), including the $652,000 that was provided in the January budget.)

- *<u>Trailer Bill Legislation (See Hand Out).</u>* The Administration is proposing completely revised trailer bill language to implement their "right-sizing" proposal. **Key aspects of this language are: (1)** Requires the Legislature to set annual licensing and certification fees; **(2)** Eliminates all fees statutorily fixed in statute for licensing and certification activities since the Legislature will establish the fees; **(3)** Deletes the current exemption for certain public facilities to pay licensing fees, including the U.C. Hospitals; **(4)** Provides the DHS authority to raise fees outside of the Legislature (page 7 of language, Section 12666(b)(3)); **(5)** Provides authority to charge facilities late renewal fees and to make penalty payments if their license expires; **(6)** Eliminates fees for CNAs as noted; **(7)** Establishes a fee structure which would require the payment of fees based upon the Budget Act appropriation, and many others.

<u>Proposed Fees From "Right-Sizing" Are not Workable (See Handouts)</u>. Due to all of the various adjustments as noted above, the "right-sized" fees increase substantially for many facilities. **A *few* of these are noted below**:

Table: *Examples* of Fees to Be Paid Under "Right-Sizing"

Type of Facility	Current Fee (Rounded) for 2005-06	New Fee (Rounded) for 2006-07	Difference
Psychology Clinics	$30 (set in statute)	$3,077	$3,047 per facility
Primary Care Clinics	$30 (set in statute)	$1,025 3-year phase-in becomes $3,077	$995 per facility then $3,047
Hospice Fee	$622	$3,075	$2,453 per facility
Home Health Agency	$677	$4,717	$4,040 per facility
ICF-DD H and N (6 Bed Facilities)	$380 per facility	$3,732 $622 per bed	$3,352 total difference
Dialysis Clinic	$300	$3,077	$3,047 per facility

<u>Subcommittee Staff Recommendation.</u> ***First***, it is important to note in discussing this newly proposed fee structure, that $20 million in new expenditures, as noted above, have been added into the equation for 2006-07, as compared to 2005-06. **These new expenditures have merit or are required by federal law. But should they all be *"fee"* supported, along with making several other "right-sizing" changes, all in one year? Too many adjustments and changes are being attempted in too short of a timeframe. A transition period is needed to work out additional details including more accurate time-keeping on the part of the DHS L&C to know more definitively how many hours are spent at certain types of facilities.**

Second*, the amount of General Fund presently used to subsidize the DHS L&C activities has actually never been fully clear since under the existing fee structure all collected fees are placed into the General Fund and then appropriated for DHS L&C purposes.** In fact, this is why the DHS often took vacant positions from this Division and used them to meet "unallocated" General Fund reduction drills as discussed in the May 8th Subcommittee hearing. **At this point in time it is estimated that about $7.1 million (General Fund) is being used to support the DHS L&C functions** along with $37.5 million in fee revenue (plus federal funds and a few small special funds). **Of this amount, about $2.7 million in General Fund support is serving as an "offset" to the fees that would otherwise have to be paid by facilities now, under the *existing

fee structure. The remaining portion of this General Fund support is presently used to pay for State-Operated facilities such as State Hospitals (licensed) and Developmental Centers (licensed and certified) as proposed to be continued under the Administration's "right-sizing" proposal. **Therefore, this previous "offset" amount (about $2.7 million) is now being proposed to be paid for in new fees, along with the additional $20 million in new costs.** Absorbing these many fiscal adjustments and policy changes to the fee structure is simply too much in one year.

Third, in order to provide for *a transition period*, it is **recommended to shift $9.975 million from the Licensing and Certification Fund (to be established) to General Fund support by assuming the following criteria as noted below. By providing this adjustment, it means that about 56 percent of the new adjustments (i.e., $20 million increase and recognizing the $2.7 million previous offset for a total of $22.7 million) would still be supported by fees**.

- Leave ICF-DD/H and ICF-DD/N facilities (6-beds only) at a per facility level, not a per bed level, and assume a 2006-07 rate of $1,000 (a revised fixed rate). The Administration's level would have been $3,732 per facility.
- Establish a fixed facility amount for Home Health Agencies and set it at $2,700. The Administration's would have been $4,717.
- Establish a fixed facility amount for psychology clinics of $600. The Administration's would have been $3,077.
- Establish a fixed facility amount for primary care clinics of $600. The Administration's would have phased the rate in over a three-year period from $1,025 (for 2006-07) up to $3,077 (for 2008-09).
- Establish a fixed facility amount for specialty clinics (non-profit rehabilitation) at $500. The Administration's would have been $3,077.
- Establish a fixed facility amount for hospice facilities at $1,000. The Administration's would have been $3,075.
- Due to the nature of the existing model whereby certain facilities subsidize others, by shifting some of the cost of these proposals from fees to General Fund support, their proposed new level of fee is reduced as well, as compared to the Administration's. This includes most notably skilled nursing homes ($213 per bed compared to the Administration's $224 per bed).

Fourth, various clinic providers are concerned that the DHS still has not meet requirements contained in AB 951 (Florez), Statutes of 2001, particularly those that pertain to streamlining various aspects of licensure application processing. Therefore, it is also recommended to adopt the following uncodified trailer bill language to at least improve the accountability of the DHS in this area: "The Department of Health Services shall report to the Legislature by no later than February 1, 2007 on its progress in meeting the requirements contained in AB 951, Statutes of 2001.

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

1. **DHS,** Please step through the details of the "right-sizing" proposal, including **key changes** as compared to the existing methodology used now.
2. **DHS** Please clarify what core activities still need to be accomplished in order to comply with AB 951 (Florez) and when will they be completed?

PUBLIC HEALTH ISSUES (*Discussion Items*)

1. AIDS Drug Assistance Program (issue 369)

Governor's May Revision. The May Revision proposes two adjustments—one for the current year and one for the budget year.

First, a reduction of $8 million (General Fund) is proposed for 2005-06 as a result of efforts to reduce costs by incorporating a new reimbursement structure into the Pharmacy Benefits Manager contract and revising the guidelines regarding Medi-Cal screening of potential ADAP clients. The Administration states that these current year savings will not affect California's ability to achieve its federal maintenance of effort requirement.

Second, for the budget year the May Revision proposes a need of $23.9 million (total funds); however, a *net* increase of only $3 million (ADAP Drug Rebate Fund) is being requested due to anticipated savings in the program of about $20.9 million.

The proposed increase is requested in order to add a new anti-retroviral to the ADAP formulary. This new anti-retroviral (a protease inhibiter now known as TMC-114) will likely be priced above other similar drugs, necessitating this adjustment. It should be noted that costs for this new drug are partially offset by additional program savings expected to total $20.9 million.

The proposed savings will be a result of three main factors: (1) the implementation of the Medicare Part D Drug Program; **(2)** the new reimbursement structure in the updated Pharmacy Benefits Manager contract; and **(3)** the revision of the guidelines regarding Medi-Cal screening for potential ADAP clients. According to the DHS, this estimate of savings is based on actual expenditures through February 2006 and gives only two months worth of Medicare Part D Drug Program data. As such, the savings estimate will likely need to be updated when more information is available.

The rebate funds are based on collection history and the DHS is confident it will successfully collect the projected rebate amount. However, rebate revenue is projected to decrease slightly, as compared to other years.

Subcommittee Staff Recommendation. It is **recommended to adopt** the May Revision proposal.

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

2. The Indian Health Program *(See Hand Out)*

Issue. The budget proposes total expenditures of about $6.5 million (General Fund) to fund 31 health entities (29 primary care clinics and two health care organizations that provide regional health education program services). (See hand out for current allocations of these funds.) Funding for the program is contingent upon appropriation in the annual Budget Act. This program has not been increased for several years.

The Subcommittee is in receipt of information requesting an increase of $1.9 million (General Fund) for the program. The purpose of these funds would be to add 9 new clinics to the program, for about a 30 percent increase in the number of clinics funded. These clinics will be able to apply for funding in 2006-07; however, existing clinics also need to maintain their level of funding.

Indian health clinics are selected for program participation through a Request for Application process which is released on a three-year cycle. During this time, new clinics are eligible to apply for participation in the program. Funding for continuing and new clinics is determined by an allocation formula. Funding for new clinic awards is dependent on the total program funds available and has ranged from $40,000 to $80,000 per clinic for their first year. Funding for new clinics in subsequent years is determined by the program's clinic allocation formula.

Background—the State's Indian Health Program. The purpose of this program is to improve the health status of American Indians and Alaskan Natives living in urban, rural, and reservation or rancheria communities throughout California. Health services for American Indians are based on a special historical legal responsibility identified in treaties with the U.S. government.

Existing state statute provides for the Indian Health Program administered by the DHS. The program provides various services and conducts various activities including the following:

- Provides $6.4 million in funds to 29 primary care clinics for health care services, including dental services;
- Provides assistance in how to maximize third-party payment systems
- Manages 7 HIV testing and counseling grants;
- Provides technical assistance including quality of care reviews, program planning and evaluation assistance; and
- Provides assistance with federal studies, including the examination of options for the development of health care services to AI/AN individuals residing in Los Angeles County.

Background—Population Characteristics. The DHS states that California has about 627,500 American Indians and Alaskan Natives (AI/AN) living in California (as of 2000). This includes 333,000 people who classify themselves as AI/AN, and an additional 294,200 people who classify themselves as AI/AN, and one or more other races. The AI/AN population in California is comprised of members of indigenous California tribes as well as members of tribes from throughout the United States. There are more than 107 indigenous California tribes, representing about 20 percent of the nation's approximately 500 tribal groups.

<u>Subcommittee Staff Recommendation.</u> It is **recommended to increase by $1 million** (General Fund) for this important program.

<u>Questions.</u> The Subcommittee has requested the DHS to provide technical assistance by responding to the following questions.

1. **DHS**, Please briefly describe the existing program and clinic services provided.
2. **DHS**, Based upon the existing population and need for health care services, is there likely a need for increased funding?

<u>3. Joint Proposal from the EMSA and DHS—Health Care Surge Capacity</u>
(See Hand Out) (issues 100 and 360)

<u>Governor's May Revision.</u> The May Revision **proposes total increased expenditures of $400.4 million ($400 million General Fund, and $424,000 Licensing and Certification Funds). Of this amount, $32 million ($31.6 million General Fund and $424,000 Licensing and Certification Funds) is proposed to be ongoing expenditures (for 2007-08).** In addition, trailer bill language is proposed to require general acute care hospitals, as a condition of state licensure, to participate in emergency preparedness planning with the local health department.

This $400.4 million proposal consists of $12.3 million for the Emergency Medical Services Authority (EMSA) and $388.1 million for the Department of Health Services (DHS).

<u>EMSA Mobile Field Hospitals--$12.3 million.</u> ***First,*** **$12.3 million would be expended by the EMSA to purchase two Mobile Field Hospitals and related equipment, and to support three new positions--**two Health Program Specialist I's and a Health Program Manager I. The positions are requested to support the Mobile Field Hospitals and provide for training, emergency exercises and drills regarding their deployment.

The EMSA expenditure for equipment of $11.1 million, including the two Mobile Field Hospitals is as follows:

- $6.670 million for two Mobile Field Hospitals;
- $3.3 million for ventilators for use in the Mobile Field Hospitals;
- $700,000 for Hepa air filters for use in the Mobile Field Hospitals;
- $400,000 for a flat bed truck; and
- $40,000 for a forklift.

The Mobile Field Hospitals would be used to supplement the capacity of damaged or overburdened hospital facilities. These hospitals are self-contained with heating/ventilating and cooling systems, medical gases, and full genitor power rendering the units operable in all climactic conditions. **They would be supplied with all requisite medical equipment and supplies. One of the hospitals would be positioned in Northern California and the other in Southern California. The EMSA states that these hospitals can be deployed within the first few days of an event, long before military hospitals or other major federal resources would be available.**

Each hospital has a capacity of 200 beds and modules for:

- Advanced trauma life support, surgical operating rooms, intensive care and isolation;
- Patient holding areas, wards, nursing stations, central medical service areas, and administration;
- Ancillary medical services including laboratory, X-ray and pharmacy services.

During an event, the EMSA would set up and operate the hospitals using a combination of state personnel, contracted logistic support staff, and organized disaster medical volunteers. The EMSA states that they would fully coordinate this program with the Office of Emergency Services (OES), CA National Guard, and the DHS.

The three requested EMSA staff would, among other things, perform the following key functions:

- Research and develop policies and procedures with the DHS, OSHPD, OES, the Joint Commission on Accreditation of Healthcare Organizations, local emergency medical services agencies and various constituency groups, regarding the use of the Mobile Hospitals;
- Research and purchase medical equipment, consumable medical supplies, and related materials;
- Participate in the administrative management of the Mobile Field Hospitals;
- Oversee development of state plans and local guidance (such as threat assessment and operational protocols for local emergency medical systems and mutual aid regions);
- Participate in meetings and conferences relating to chemical, biological, radiological, nuclear or explosive threats at local, state and national levels; and
- Manage a variety of administrative tasks necessary to develop and manage the program, such as managing consultants, volunteers and the program budget.

DHS—Proposed Expenditure of $388.1 million. The DHS proposes expenditure of funds in several components. Each of these components is discussed below. It should be noted that the DHS is seeking exemption from public contract code requirements under this entire program.

- *Rapidly Develop State Guidance and Standards--$5.2 million.* Under this component, the DHS proposes the use of **(1)** $5 million for consultant contracts to develop statewide guidance and standards as discussed below, and **(2)** $224,000 to support two state staff—an Associate Governmental Program Analyst and a Staff Services Manager III for this project. Of the proposed amount, $218,000 (General Fund) would be ongoing to support the DHS staff.

  Presently, the DHS has the authority to grant hospitals flexibility in meeting licensing requirements during an emergency. For example, under Patient Accommodation regulations, the DHS may grant temporary permission to house patients in space that has been previously approved for patient care. In a declared emergency, many statutory or regulatory requirements can be suspended altogether. However, the DHS believes that specific work ends to be done to provide a better framework for emergencies.

  The DHS states that medical, hospital and local health department leaders have indicated that state guidance on the specific licensing flexibility, liability protection, and reimbursement that will be provided to health facilities, professionals and volunteers during an emergency response effort is needed. The DHS contends that without information on what standards might be changed and under what conditions these changes would occur, local governments and health care leaders are unable to plan effectively for the specifics of their community's response. Hospitals have express a desire for surge planning templates and standardized training curricula and exercises.

The DHS states that, among other things, the standards and guidelines would address areas of concern such as (1) identification of regional boundaries for hospital surge planning; (2) ways to increase staffing in emergencies; (3) standards for pre-hospital and hospital austere care; (4) guidelines and templates for hospital surge capacity plans; and (5) reimbursement issues for care givers.

- *Develop and Maintain Hospital Surge Plans--$14.5 million.* Under this component, **the DHS proposes to fund hospitals (public and private), via local health jurisdictions, to develop and maintain hospital surge plans, including plans for surge staffing, infection control, equipment needs, systems for managing volunteers, training and exercises.** The DHS would require hospitals to have documented operational plans. In addition, the DHS is proposing trailer bill language to require, as a condition of licensure, for hospitals to participate in emergency preparedness planning with local health jurisdictions.

  The ongoing expenditures of this proposal are $29 million (General Fund) in 2007-08 and annually thereafter.

Table—DHS Proposed Funding of Hospital Staff

Hospital Size	Number of Hospitals	Funded Positions ($100,000 each)	Total Annual Funding for Staff (Ongoing)
200 plus beds	162	162 positions (1 each)	$16.2 million
50 to 199 beds	216	108 positions (0.5 each)	$10.8 million
Less than 50 beds and sole hospital in area	20	5 positions (.25 each)	$500,000
County groups of hospitals with less than 50 beds	15	15 (1 each)	$1.5 million
Total Annual Costs	**413**	**290 staff**	**$29 million**

The funds for the hospital positions would be provided to the local health jurisdictions who would then allocate it to the appropriate hospitals. The DHS states that hospitals would be responsible for developing and maintaining documented hospital surge plans including:

- Planning for a large influx of patients in a short timeframe;
- Specifying triggers for actions such as canceling elective surgeries, early discharges, and redirection of patients;
- Developing procedures for managing volunteer medical and non-medical staff;
- Ensuring ample supplies of equipment and processes for purchasing additional supplies during emergency situations;
- Developing procedures for recalling staff and analysis of other staffing options; and
- Developing training plans and schedules to ensure staff are ready to respond during a public emergency.

- *Update Hospital Licensing Regulations--$424,000 (L & C Fund).* Under this component the DHS would use 3.5 positions (two-year limited-term)—a Staff Counsel, 1.5 Nurse Consultant III's, and a Health Facilities Evaluator Nurse- to update hospital licensing and infection control regulations to address preparedness for major emergencies or disasters. **In addition, the DHS is proposing Budget Bill Language to enable them to promulgate these regulations on an emergency basis.**

- *Purchase Courses of Anti-Viral Drugs for Pandemic Influenza--$53.3 million (General Fund).* Under this component, a total of 3,723,339 courses of antivirals would be purchased. General Fund support is proposed for this since federal bioterrorism funds cannot be used for this purpose. However, California's federal bioterrorism funds would be used to rent warehouse space in a single location to store the antivirals. The DHS states that the federal CDC recommends for California to purchase this level of treatment courses.

  The DHS states that about 90 percent of the funds would be used to purchase Tamiflu (3,351,005 courses at $14.11 per dose) and 10 percent to purchase Relenza (372,334 courses at $16.29 per dose). The antivirals would be purchased using a 25 percent federal discount.

  It should be noted that other purchases of antivirals have also been authorized, including the following:

  - $1.3 million (General Fund) as contained in the January budget and as adopted by the Subcommittee (68,062 courses);
  - $460,000 (General Fund) as contained in SB 409 (Kehoe) as enrolled (24,455 courses); and
  - $37,748 as previously purchased by the DHS (616 courses).

- *Purchase Ventilators-- $99.8 million (General Fund).* Under this component the DHS would purchase 7,183 ventilators at a cost of $10,000 per ventilator, plus tax, freight and a five-year maintenance agreement (at $2,800 per ventilator). Storage with a vendor manager, who would maintain ventilators in one Northern California location and one Southern California location, are also included. The storage expenditures of $300,000 would be ongoing. Specifically, the proposed expenditures are as follows:

  - $79.4 million for the 7,183 ventilators, including tax and freight;
  - $20.1 million for; and
  - $300,000 annually for vendor management of the ventilators.

  The DHS states that "under pandemic conditions" the number of patients needing ventilator support will far outstrip capacity. Specifically they contend that 34,028 ventilators would be needed under these conditions. Presently there are 7,183 surge ventilators available. The May Revision proposal would double the capacity to a total of 14,366 being available.

- *Purchase Medical Supplies for Alternate Care Sites-- $164.4 million (General Fund).* The DHS would purchase supplies and equipment for "alternate care sites". These funds would be used to help local health jurisdictions develop communitywide and regional pandemic-level surge capacity. The DHS states that supplies needed to operate alternate care sites depend on the types of beds to be set up at each site. For medical-surgical beds, a cache of supplies averages about $400 per patient. For intensive care beds, the cost of supplies rises to $4,000 per patient.

Table—DHS "Alternate Care Sites" Proposed Expenditures

Supplies	Quantity	Total Cost (purchase, tax & freight)
ICU Beds	36,423 beds	$161.4 million
Medical-Surgical Beds	4,969 beds	$2.2 million
Warehouse Storage (3,000 sq feet @$1.00 per region per mth)	6 regions	$216,000
Local staff to maintain local caches.	6 half-time staff ($50,000 each)	$275,000
DHS staff to manage project	3 staff (Staff Manager II, two AGPAs)	$321,000
TOTALS		**$164.367 million**

- *Purchase Masks for Healthcare Workers--$50.5 million (General Fund).* According to the DHS, assuming that 37.5 percent of the reported 500,000 healthcare workers have direct patient contact, and assuming that 3 mask changes per day would be needed, a total of 562,500 masks would be required on a daily basis. **Assuming that a stockpile would be needed for the first 180 days, the DHS states that 101,250,000 masks would be needed. Therefore, $50.5 million is proposed to purchase these masks, including the cost of the mask (45 cents per mask), tax and shipping.**

- ***Budget Bill Language for EMSA and DHS Exemption from Contract Code.*** The May Revision also proposes Budget Bill Language that would exempt both departments from public contract code requirements due to "the need to rapidly acquire, store and manage the medical supplies and equipment to respond in times of emergency or in the event of outbreaks of highly communicable disease such as pandemic influenza."

Background—Use of DHS Federal HRSA Grant Funds. The DHS has been receiving federal HRSA grant funds for four years (federal funding cycle with the fourth year ending August 2006) and as presently crafted by Congress, these grants are scheduled to continue. It should be noted that the HRSA grant funds have designated "priority areas" for which each state is required to expend the funds. Each priority area then has more detailed "benchmarks" within them. Based on information provided by the DHS, the state has expended or encumbered these federal funds as shown in the bullets below.

- Priority Area 1—Financial Administration of Grants $2.3 million
- **Priority Area 2--Surge Capacity $90.5 million**
- Priority Area 3—Deployment of emergency medical services $10.5 million

- Priority Area 4—Linkages to Public Health $3.9 million
- Priority Area 5—Education & Preparedness Training $9.7 million
- Priority Area 6—Preparedness Exercises $2.8 million

TOTAL Amount To-Date (9/02 through 8/2006) $126.9 million (federal funds)

The DHS states that funds have been used to provide 340 of California's 442 general acute care hospitals with surge supplies and equipment including cots, personal protective equipment such as powered air purifying respirators and N-95 masks, generators, medical supplies, pharmaceutical caches, communications equipment, and isolation capacity systems.

Subcommittee Staff Recommendation. Clearly California needs to be prepared. However, as noted by the Legislative Analyst's Office, the level of resources proposed in this May Revision request go far beyond those needed to respond to the types of emergencies that Californians have become accustomed to—wildfires, floods and earthquakes—as well as for some threats that are novel, such as terrorist attacks.

It should also be noted that the Subcommittee has already approved $45.8 million (General Fund) in new resources to address various aspects of preparedness, and the state has been receiving and expending tens of millions annually from the federal CDC grant funds and federal HRSA grant funds to add supplemental funds to California's existing public health system. SB 409 (Kehoe) also provides additional funds of $5.4 million (General Fund) for various current-year pandemic activities including the purchase of some course of antivirals. (This legislature is pending the Governor's signature.)

The Subcommittee staff recommendation assumes that a more gradual phase-in would occur and it seeks to emphasize *containment*. Purchasing a significant volume of antivirals would on the natural, provide considerable assistance as far as establishing a "ring of containment". The table below *(next page)* displays the Administration's proposal, Subcommittee staff recommendation, and the LAO's recommendation for comparison purposes.

With respect to the Administration's proposed trailer bill legislation to require hospitals as a condition of licensure to participate with local health jurisdictions in emergency planning**, it is recommended to deny this language.** The DHS notes that of California's 442 general acute care hospitals, 340 of these hospitals, or 77 percent, already participate with local health jurisdictions in this type of planning. Further, local health jurisdictions are poised to receive an infusion of $16 million (total funds) for various public health functions at the local level. Therefore where needed, they could engage non-participating hospitals through various local means *if* desired.

The DHS and EMSA are also seeking waiver of public contract code requirements via Budget Bill Language for all of the various purchases that are proposed. Since BBL is applicable in one-year increments, it is recommended to provide this authority.

Table Displaying Recommendations on Surge Proposal

Component	Administration	Subcommittee Staff	LAO
Develop state guidance & standards	$5.224 million ($5 m consultant)	Approve	Approve
Hire hospital staff and adopt trailer bill to develop and maintain hospital surge plans.	$14.5 million GF ($29 million GF ongoing)	Deny, including trailer bill	Approve, but use L&C Fund
Update Hospital licensing regulations	$424,000 GF (DHS staff)	Approve, but use HRSA funds	Approve
Purchase Mobile Field Hospitals	$12.3 million GF **2** mobile hospitals	$18.3 million GF **3** mobile hospitals	$6.2 million **1** mobile hospitals
Purchase antiviral drugs	$53.3 million GF	Approve	Approve
Purchase ventilators	$99.8 million GF	$33 million (purchase one-third now)	$81.5 million Used $14 million federal funds-HRSA
Purchase medical supplies for Alternate Care Sites	$164.4 million	LAO	$78.2 million (purchase half)
Purchase masks for health care workers	$50.5 million	LAO	$28.5 million (purchase half)
Total Recommended	**$400.4 million**	**$216.9 million**	**$267.9 million**
General Fund	$400 million	$182.9 million	
Licensing & Certification Fund	$424,000	0 (not available)	$14.9 million
Additional Federal Funds from HRSA	0	Up to $34 million	Up to $34 million

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

1. **EMSA**, Please provide a brief summary of your request to purchase and deploy two Mobile Field Hospitals.

2. **DHS,** Please provide a brief summary of each of your components in this proposal.

D. Item 4300 Department of Developmental Services (*Discussion Items*)

COMMUNITY BASED SERVICES ISSUES

1. Regional Centers Baseline Estimate (issue 220)—*For Technical Adjustment Purposes*

***Governor's May Revision*. The May Revision proposes total expenditures of $3.187 billion ($2.1 billion General Fund), a *net* increase of $88.4 million ($56.7 million General Fund) over the January budget, for community-based services provided through the Regional Centers (RCs) to serve a total of 212,225 consumers living in the community.** This funding level includes $487.5 million for RC operations and $2.7 billion for the Purchase Of Services.

Most of the May Revision increase is attributable to (1) an increase in the base utilization of services by consumers, and **(2)** updated expenditure data**.** Of the $88.4 million net increase, $69 million is needed to account for these two factors.

Other key technical adjustments include the following:

- *Three Percent Rate Adjustment (issue #224).* An increase of $582,000 ($436,000 General Fund) to reflect updated costs to provide a 3 percent rate increase to certain service providers, including inclusion of Adult Family Home Agencies and specified Out-Of-Home Respite Services that should have been included in the January budget adjustment. Therefore a total of $68.4 million ($46.6 million General Fund) is provided for the rate adjustment.

- *Self Directed Services (issue #226).* Implementation of this model has been delayed due to its linkage with the roll out of the CA Developmental Disabilities Information System (CADDIS) (Discussed later in this agenda.). Therefore, a reduction of $3.1 million (General Fund) is proposed in RC Operations since staff will not be needed for this activity in the budget year, and a *net* increase of $205,000 (total funds) is needed in RC Purchase of Services since savings in this area had been assumed from the implementation.

- *Adjustment to Autistic Spectrum Disorders Initiative.* The January budget included $2.6 million (General Fund) to provide assistance to consumers with Autism. The May Revision reduces this proposal by $6,000 (General Fund) to reflect a decrease in projected rent costs.

Subcommittee Staff Recommendation. It is **recommended to adopt** the baseline budget for the RCs to account for updated utilization in services and costs, and to account for certain technical adjustments.

(Further adjustments may be taken by the Subcommittee as noted in the agenda below on an issue-by-issue basis.)

Questions. The Subcommittee has requested the DDS to respond to the following questions.

1. **DDS,** Please briefly describe the *baseline adjustments* to the RC estimate.

2. Proposed Increase for Supported Employment

Issue. In the **April 3rd Subcommittee hearing**, constituency concerns were expressed regarding the need to increase the number of individuals in Supported Employment Programs, including both individual placement and group placement.

Though the budget provides an increase of 3 percent for these programs, this modicum of increase is not sufficient to sustain or expand the number of consumers who want to participate in these employment programs.

Additional Background—Supported Employment Program (SEP). Supported employment provides opportunities for persons with developmental disabilities to work in the community, in integrated settings, with support services provided by community rehabilitation programs. These services enable consumers to learn necessary job skills and maintain employment. SEP provides services for individually employed consumers (individual placements), as well as consumers employed in group settings (group employment).

The caseload is affected by RCs referring consumers for supported employment from "Work Activity" Programs (WAPs), day programs, schools or other programs. Caseload is also impacted by employment opportunities within the community and the ability of consumers to obtain and maintain employment. These factors are critical because these services are only purchased when the consumer is employed.

Subcommittee Staff Recommendation. Based on technical assistance obtained from the DDS**, an *additional* rate increase of 10 percent, for a total increase of 13percent for 2006-07, would require an increase of $6.120 million ($4.266 million General Fund) above the May Revision.**

It is recommended to provide this augmentation and to modify the Administration's trailer bill language on rate adjustments to account for this action.

3. Community Start-Up Funding—"Open" Issue

Prior Subcommittee Action (April 3rd). In a prior hearing, the Subcommittee adopted certain continuing cost containment measures as proposed by the Governor in his January budget and as continued in his May Revision base estimate for the Regional Centers.

An issue that was left "open" by the Subcommittee pertains to the development or "start-up" of any new program unless the expenditure is necessary to protect a consumer's health or safety or because of other extraordinary circumstances, and the DDS has granted authorization for the expenditure. This "freeze" on start-up funding has been in existence for 4 years.

The Governor's May Revision continues to freeze these start-up funds for savings of $6 million (General Fund).

<u>Subcommittee Staff Recommendation (See Hand Outs).</u> It is **recommended to (1)** restore $3 million (General Fund) of the May Revision's reduction of $6 million (General Fund) to provide for focused/targeted start-up, ***and*** **(2)** adopt trailer bill legislation (hand out). As noted in the language, these funds would be provided in a focused manner for one-year. The DDS would discern where the funds would be most needed**. The development of new programs is necessary in order to maintain access to a wide variety of community-based options.**

<u>Questions.</u> The Subcommittee has requested the DDS to provide technical assistance by responding to the following questions.

1. **DDS,** from a technical assistance standpoint, would expenditure of these funds in a focused manner be constructive for facilitating the development of community resources?

<u>4. Federal CMS Waiver Update—Need to Provide Additional Case Managers</u>

<u>Issue.</u> In a letter dated **April 21, 2006**, the federal CMS informed the state that their evaluation of the DDS' Home and Community-Based Waiver found the waiver to be in substantial compliance with federal statutory assurances. **However, the letter noted that the state must review and revise as needed, its policies to assure that the case manager to *waiver participant* ratio of 1 to 62 is *consistently* met.**

Based on recent survey data collected in February by the DDS from the RCs, additional staff resources are necessary in order to comply with the federal CMS letter. **However, no additional funding was provided in the May Revision to make adjustments for this letter.** The federal CMS report also recommended the following:

- For the DHS and DDS to jointly evaluate whether RC case managers could benefit from remedial training in essential case management skills; and
- For the DDS to revise the manner in which the case managers to waiver participant ratio is calculated so as to more accurately reflect the actual availability of case managers and to take proactive measures to achieve the mandated ratio of 1 to 62 on a real time basis.

<u>Subcommittee Staff Recommendation.</u> Based upon technical assistance obtained from the DDS, it is recommended to provide an increase of $3.2 million ($1.7 million General Fund) to RC Operations to address the federal CMS concerns with providing appropriate case management. This increase will provide for an additional 43 case manager staff, as well as the appropriate compliment of supervising counselors (4 staff) and clerical support (8 staff). Further, it is recommended to adopt Budget Bill Language to require the DDS to further analyze the needs of the RCs case manager operations to ensure that appropriate staffing is being provided as noted in the federal CMS report. **This proposed language is as follows:**

> Item 4300-001-0001
> Provision x.
> The department shall actively engage the Regional Centers to assess and determine methods for **(1)** improving the training of case managers, **(2)** recruiting and retaining case managers throughout the state, and **(3)** addressing other needs as identified in the federal

Centers for Medicare and Medicaid (CMS) letter (dated April 2006) regarding the state's compliance with the Home and Community-Based Waiver

Questions. The Subcommittee has requested the DDS to respond to the following questions.

1. **DDS,** Please respond to comments contained within the federal CMS report and address the identified need for increased case manager resources.

5. Impact of Medicare Part D Drug Program on Regional Centers (issue 227)

Governor's May Revision. The May Revision **proposes a total increase of $7.650 million (General Fund) to the RCs for two specified purposes, and Budget Bill Language to facilitate the enrollment of RC consumers into Medicare Part D "prescription drug plans" (PDPs).**

First**, an increase of $4.8 million (General Fund) is requested to pay insurance premiums or buy prescription medications not covered by Part D (whichever is most cost effective) for RC consumers (aged 18 and older) who are dual eligible (Medicare and Medi-Cal).** The DDS states that without these funds, some RC consumers may be unable to access medically necessary prescription drugs, this placing their health and safety at risk. The fiscal estimate assumes that RCs will need to provide up to 15 percent of the cost of medications because these medications would no longer be covered under Medicare or Medi-Cal.

It should be noted that some RC medication expenditures were offset in the current-year because the Medi-Cal Program provided up to a 100-day supply of drugs for dual eligibles who requested this prior to December 31, 2005 (since the new program went into affect on January 1, 2006).

Second, **an increase of about $2.9 million (General Fund) is requested to (1) continue support for existing Medicare Part D Drug program enrollees to access medications and change plans as needed, (2) assist new RC consumers who will be auto-enrolled and will need assistance, and (3) address overall forthcoming Medicare Part D changes.** Resources were provided in 2005-06 to the RCs as a one-time need; however, the DDS states that continued support for consumers is necessary. It is assumed that the RCs will use these funds for contracts with enrollment brokers and necessary clinical staff in order to ensure consumer health and safety.

Third, in order to assist in ensuring the appropriate expenditure of the $2.9 million, the DDS is proposing Budget Bill Language that ties the appropriation with its use. **The language is as follows: "Funds appropriated in this item may only be expended to facilitate the enrollment of Regional Center consumers into Medicare Part D prescription drug plans."**

Additional Background—Medicare Part D Drug Program and RC Consumers. On January 1, 2006, about 36,465 RC consumers were auto-enrolled in Medicare prescription drug plans (PDPs). In preparation for the January 1, 2006 transition, RCs utilized enrollment brokers to assist consumers, families and providers to better understand the new program and facilitate their enrollment in a PDP that best meets their needs.

PDPs are not mandated to offer the same range of medications previously covered under the Medi-Cal Program. Some, but possibly not all, medications are covered under any one plan. Thus, there is no guarantee that necessary medications are available under the Medicare PDP. Consistent with usual cost containment measures, PDP formularies generally are more restrictive than Medi-Cal prescription coverage.

Currently, some classes of drugs are excluded under the Medicare Part D Drug Program which were covered under Medi-Cal previously. For example, Medi-Cal currently covers over-the-counter cough and cold medicines. These products will not be covered by the new Medicare PDPs. On average, 85 percent of the drugs covered by Medi-Cal prior to implementation of the Medicare Part D Drug Program continue to be covered by the Medicare PDPs and Medi-Cal. Therefore, about 15 percent are not covered.

Legislative Analyst's Office Recommendation. The LAO concurs with the need for the proposal. However, they are also recommending adoption of the following reporting Budget Bill Language for reporting purposes.

> Item 4300-001-0001 (state support)
> *Provision x.* The Department of Developmental Services shall provide to the Legislature by April 1, 2007, expenditure data for the costs of drugs purchased by Regional Centers and for the costs of Medicare Part D insurance premiums between July 1, 2006 and January 1, 2007, for Regional Center consumers eligible for the Medicare Part D drug benefit and projections for the rest of the calendar year.

Subcommittee Staff Recommendation. It is recommended to approve the May Revision in order to maintain consumer health and safety, and to adopt the LAO's recommended Budget Bill Language.

Questions. The Subcommittee has requested the DDS to respond to the following questions.

1. **DDS**, Please provide a brief summary of the request.

6. RC Resources to Increase Federal Funds & Offset General Fund (issues 231 & 250)

Governor's May Revision. The May Revision proposes several adjustments in order to capture increased federal reimbursement which is available under the Home and Community-Based Waiver to offset General Fund support. **In order to collect about $21.4 million annually in federal reimbursement, the state must provide the federal CMS with detailed billing data on each individual RC consumer who is eligible to access services under the Waiver.** This would not be problematic if the CA Developmental Disabilities System (CADDIS) was operational. (The CADDIS issue is next on the agenda.)

However until it is operational, the DDS states that adjustments are necessary in order to capture federal reimbursement and offset General Fund support. **Specifically, the following adjustments**

are proposed (assumes an implementation date of October 1, 2006) that will result in a *net* savings of about $13.5 million General Fund for 2006-07:

- *RC Operations—Increase of $2.1 million ($1.4 million General Fund).* **This adjustment would provide two staff—an Account Clerk II and a Community Program Specialist I—at each of the RCs (42 staff total) to:** (1) re-negotiate contracts with vendors; (2) support, promote and train vendors and RC personnel involved in the billing process; (3) work with DDS on changes required to expand and enhance existing billing options that will provide required data; (4) key enter necessary attendance data and other required billing data from paper invoices from vendors; and (5) review and correct attendance data after data is uploaded to existing information system to assure proper payment to vendors.

- *Vendor/Provider Resources for Administrative Activity—Increase of $1.3 million ($1 million General Fund).* The DDS has identified a set-aside of $1.3 million ($1 million General Fund) to provide up to a 1 percent increase in the re-negotiated contracts with vendors/providers to cover the increased workload they will incur for capturing and reporting the data required to support Waiver billing to obtain the federal reimbursements for the state. The DDS proposes allocating these funds to the RCs for the vendors only after receiving information from the RCs verifying that required contract re-negotiations and/or alteration in the vendor's billing practices have occurred.

- *DDS Headquarters—Increase by $193,000 ($126,000 General Fund).* This increase would be used to support two limited-term Associate Governmental Program Analyst positions to manage the additional Home and Community-Based Waiver related reimbursements for contracted services and to oversee the operation at the RC level. These positions would be used until CADDIS is in place, which would then replace this manual system. The workload includes various activities such as: (1) analyzing contracted services to ensure collection levels that maximize the capture of federal funds; (2) reconciling projected billable amounts; (3) overseeing the operation at the RC level; (4) supporting and training vendors and RC staff in the use of "e-attendance" and "e-billing"; and (5) coordinating with the federal CMS and the DHS staffs as necessary.

- *Fund Shift (Decrease of $16.1 million General Fund and Increase of $16.1 million Federal).* The DDS assumes that 9 months of billing data can be obtained during 2006-07 (October 1, 2006 effective date) and that about 32 percent of the RC caseload is eligible to be billed under the Home and Community-Based Waiver. Based on these assumptions, a savings of $16.1 million General Fund is assumed with a corresponding increase in federal reimbursements.

- *Trailer Bill Language.* The Administration is proposing trailer bill language to ensure that the proposed 1 percent funding for vendors/providers is used appropriately to obtain the detailed billing information in order for the state to receive the federal reimbursements. **The proposed trailer bill language is as follows:**

  Add Section 4694 to Welfare and Institutions Code.

  "Effective July 1, 2006, all regional center vendors who are qualified providers under Title XIX of the Social Security Act and are serving individuals enrolled under the Home and Community-based

Services waiver program for persons with developmental disabilities, shall ensure that billing information provided to regional centers identifies the individual consumer(s) and, for each consumer, the specific dates of service, location of service, service unit, unit costs and other information necessary to support billing under the Home and Community-based Services waiver. Regional centers must also ensure that their contractual and other billing and payment arrangements with providers require the provision of such information to support billing under the Home and Community-based Services waiver program. Resources provided to regional centers, pursuant to the Budget Act of 2006 and following, to implement this provision shall be allocated to the regional centers only until implementation of a statewide electronic data system that collects the billing information necessary to support billing under the Home and Community-based Services waiver program."

- *Budget Bill Language—Two Provisions.* The DDS is also proposing to add two provisions of Budget Bill Language to the RC appropriation (Item 4300-101-0001). One provision pertains to the RC Operations appropriation for staff and the second provision pertains to the $1.3 million in set-aside funds to be used to augment service vendor/provider rates as previously discussed above. **The two pieces of language are as follows:**

  Add to Item 4300-101-0001.
  Provision 6. $2,148,000 of the funds appropriated in this item shall be used by RCs to begin collecting the information required for reimbursement by the Home and Community-Based Waiver from those service providers who are qualified providers under Title XIX of the Social Security Act, who are not currently providing the required information, and who are serving individuals enrolled under the Home and Community-Based Waiver program. RCs shall give the highest priorities for utilizing these funds to obtain this information from transportation vendors and other vendors with the highest annual costs.

  Provision 7. $1,317,000 of the funds appropriated in this item may be used to augment service provider rates for workload necessary to obtain information to secure federal participation under the Home and Community-Based Waiver. Eligible providers are those service providers who are qualified providers under Title XIX of the Social Security Act who are not currently providing the required information and who are serving individuals enrolled under the Home and Community-Based Waiver program.

Additional Background—Availability of Federal Reimbursement. Presently, the state is *not* collecting about $21.4 million annually in federal funds for certain transportation costs that could be obtained under the Home and Community-Based Waiver. This is because these transportation services are billed as a contract service and not individually, as required by the federal CMS in order to obtain the federal reimbursement for these services.

The DDS operates the Home and Community-Based Waiver which enables the state to provide a broad array of home and community-based services to eligible individuals who, without these services, would require a level of care provided in Intermediate Care Facilities (ICFs). Under this Waiver, the state can obtain a 50 percent federal reimbursement rate for consumer services. The Waiver has been in existence since 1995 and has grown substantially to now include up to 75,000 consumers (cap as of October 1, 2006) and expenditures of about $1.453 billion ($726.9 million General Fund).

Subcommittee Staff Recommendation. It is recommended to **adopt the May Revision.**

Questions. The Subcommittee has requested the DDS to respond to the following question.

1. **DDS**, Please provide a brief summary of the request.

7. CA Developmental Disabilities Information System—Administration's Adjustments

Prior Subcommittee Hearings (April 3rd and April 24th). In two prior hearings, the Subcommittee has discussed the CA Developmental Disabilities Information System (CADDIS) and the significant issues which have plagued this project, including the loss of over $50 million in federal reimbursements over a two-year period.

Two key outcomes from these hearings were the recommendations of the Subcommittee for the DDS to: (1) Craft a proposal to draw down additional federal reimbursement for services under the Home and Community-Based Waiver that can be done without CADDIS implementation; and **(2)** Provide the Subcommittee with a plan as to how the Administration wants to proceed after evaluating all of the various options and detail on the project, as provided by consultants and other Administration staff (various information technology specialists from the DOF, CHHS Agency and other areas of state government). The DDS has responded to the first issue with a May Revision proposal to capture a net savings of $13.5 million General Fund, as discussed under Agenda item #6, above.

The following May Revision proposal is in response to the second issue raised—how does the Administration want to proceed regarding this project? The May Revision proposal is based upon a revised "project plan" provided to legislative staff and others on May 5, 2006.

Governor's May Revision. The **Administration is proposing to (1)** re-appropriate $2 million (General Fund) from the existing project funds for activities to complete a Special Project Report or for activities necessary to proceed with CADDIS, **(2)** Budget Bill Language which defines the parameters on how the funds in 2006-07 can be spent, and **(3)** Budget Bill Language that provides for the ability of the DDS to contract with the CHHS Agency's Office of System Integration (OSI). All of these proposed actions are within the Department of Developmental Services budget item.

In addition, there is a conforming action for OSI that would provide an increase of $1.1 million (Reimbursements from the DDS from the reappropriation) for two limited-term positions ($194,000), $863,000 for contracted consulting, and $28,000 for operating expenses and equipment. The purpose of these funds is to conduct an in-depth assessment to determine the technical viability of the system, and estimated costs and time needed to complete the project. The positions are a Career Executive Assignment III and a Staff Information Systems Analyst. The $863,000 in contracts would be allocated as follows: (1) $213,000 for a technical engineer, (2) $400,000 for a technical assessment, and (3) $250,000 for a Special Project Report consultant.

The proposed DDS May Revision changes—all proposed through three pieces of Budget Bill Language—are as follows. These pieces include (1) reappropriation language, (2)

notification to the JLBC if additional funds are needed in the budget year, and (3) language to contract with the CHHS Agency OSI.

The DDS, LAO and DOF have been working to craft a compromise to these pieces of language. These are contained in the *Hand Out.*

Subcommittee Staff Recommendation. It is **recommended to adopt the three pieces of Budget Bill Language as modified by discussions .** The package of BBL enables the DDS to have the technical analysis done and if it is positive, proceed with making changes to "go forward" with the project. Without this language, further delays would occur that would not be beneficial to the state.

Questions. The Subcommittee has requested the DDS to respond to the following questions.

1. **DDS**, Please provide **a brief update regarding the key aspects of the "go forward" proposal, including the importance of resolving the source code issue.**

<u>State Developmental Centers—Discussion Issues</u>

<u>1. Developmental Centers—*May Revision Adjustments*</u>

<u>Governor's May Revision</u> The budget proposes total expenditures of $702.7 million ($385 million General Fund) to serve 2,828 residents who reside in the DC system. This reflects a caseload increase of 31 residents and a *net decrease* of $3.9 million (an increase of $1.6 million General Fund) as compared to the January budget. The increase in caseload reflects the delayed closure of Agnews Developmental Center, from June 30, 2007 to June 30, 2008, as previously discussed.

The *key* adjustments are as follows:

- A net decrease of $496,000 (total funds) is reflected due to standard staffing adjustments that account for population and resident needs for clinical assistance.
- An adjustment of Medi-Cal eligibility rate from 86.23 percent of residents to 85.68 percent of residents results in a decrease of $1.4 million General Fund and a decrease of $1.4 million in reimbursements (federal funds received from the DHS for Medi-Cal).
- An increase of $1.1 million ($642,000 General Fund) which is a one-time only adjustment provided in 2006-07 to aggressively pursue settlement of existing worker's compensation claims through the compromise and release process thereby reducing the DDS' long-term liability.

<u>Subcommittee Staff Recommendation.</u> It is recommended to adopt the May Revision. No issues have been raised.

<u>Questions.</u> The Subcommittee has requested the DDS to respond to the following question.

1. **DDS,** Please provide a brief summary of the May Revision for the Developmental Centers.

E. Item 4400 Department of Mental Health (*Discussion Items*)

1. AB 3632 Mental Health Services to Special Education Students *(See Hand Out)*

Governor's May Revision. The May Revision **proposes substantial changes** to the structure of mental health services provided under the AB 3632 program. **Specifically, the Administration is proposing the following changes:**

- **Suspends the two mandates for two years, beginning as of July 2006.**
- **Establishes a new categorical program within the DMH as of July 1, 2006** which would use General Fund support to match existing federal special education funds within the Department of Education's budget.
- **Increases by $69 million (General Fund) within the DMH appropriation which is to be allocated to County Mental Health agencies and utilized as a match by them to then draw down the available federal Individual with Disabilities Education Act (IDEA) federal funds to provide AB 3632 services.**
- Continues to designate $69 million of federal IDEA funds within the CA Department of Education item, as well as continues the $31 million (General Fund) in "pre-referral" funds (i.e., to be used by schools prior to the AB 3632 program process.).
- **Proposes extensive trailer bill language to, among other things, (1)** establish an allocation method for the $69 million, **(2)** require County Mental Health agencies and the County Office of Education to enter into contracts for the provision of AB 3632 services, **(3)** caps the costs claimed by County Mental Health agencies for service provided under the AB 3632 program at the Medi-Cal Program rate (i.e., "statewide maximum allowance), **(4)** establishes a "risk pool" to address high cost incidents, **(5)** requires the CA Department of Education to audit County Offices of Education to ensure that mental health services provided to special education students are necessary, (6) requires County Mental Health agencies to provide specified information to County Offices of Education and the DMH in order to be reimbursed for the AB 3632 services provided, and **(7)** requires that, in the aggregate level, expenditures of federal IDEA funds by each County Office of Education shall be equivalent to the expenditures of General Fund appropriated in the Budget Act.
- **Provides $275,000 (General Fund) to the DMH to support three new positions to do oversight, training, data collection and other functions as they pertain to this proposal.**

Constituency Concerns. The Subcommittee **is in receipt of several letters expressing considerable concerns with the Administration's proposal from both a funding perspective (under budgeted) as well as a policy perspective. First**, a program restructuring as significant as this would take significantly more than a few weeks to implement (Administration assumes a July 1, 2006 date). **Second**, it does not provide funding for the full costs of the program (also noted by the LAO). **Third**, it is unclear as to what is meant by "using the $69 million (General Fund) as match for the $69 million in federal IDEA which schools receive. **Fourth,** without the mandate on counties, there would no longer be a legal obligation for counties to provide the services, and they would no longer be able to submit SB 90 mandate claims for reimbursement for unreimbursed costs. **Fifth**, there is insufficient time for County Mental Health agencies to enter into memorandum of understanding with relevant Local Education Agencies.

They also note that the Administration has proposed significant changes without discussions or meetings convened with various stakeholder groups.

Recent History of AB 3632 Funding. Funding for this program has been cobbled together from state mandate claims, General Fund support budgeted within the DMH, and federal Individuals with Disabilities Education Act (IDEA) funds allocated to County Offices of Education. **The table below displays the recent history regarding state mandate claims.**

Fiscal Year	State Mandate Claims Budgeted	State Mandates Claims Filed by the Counties
2001-02	$85 million	$105.7 million
2002-03	$0	$125 million
2003-04	$0	$67 million
2004-05	$0	$82.5 million
2005-06	$120 million	$84.5 million

The DMH was also provided categorical funding which was first included in the DMH budget in 1986-87 and allocated out to County Mental Health agencies. A static funding level was set at $12.3 million in 1992-93 until 2002-03 when this amount was eliminated. In addition, if an AB 3632 child and any associated services are Medi-Cal eligible, County Mental Health agencies will access state and federal Medi-Cal funds *before* utilizing AB 3632 funds. (The DMH states that in 2003-04, $86 million in Medi-Cal funding was accessed.)

With respect to education funding, beginning in 2003-04, $69 million in federal IDEA funds were required to be provided on an annual basis to be used exclusively for the AB 3632 program. For 2004-05 and 2005-06, the Budget Acts also each appropriated $31 million (General Fund) to Local Education Agencies (LEAs) to perform short-term, school-based services before referring a child to their local County Mental Health agencies for AB 3632 services ("pre-referral" services).

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.

Legislative Analyst's Office Comments. First, the LAO believes that the establishment of a categorical program has merit but that the July 1, 2006 date is unrealistic. Second, they also believe that the suspension of the mandate for two years is not workable since it would not provide enough time to conduct a meaningful evaluation of the proposed changes. They contend that schools and mental health agencies may not be willing to make the full commitment needed if the suspension is only for two years.

The LAO also raises numerous issues regarding the Administration's trailer bill language, including issues which they believe are not fully addressed in the Administration's language. **These include the following:**

- How funding for the categorical grant program would change over time, if at all, for caseload and cost factors;
- What would the size of the proposed "risk pool" be when costs of care exceed available funding;
- What are the minimum allocations of categorical program funding to be provided to each county;
- What are the scope of services the state would support with categorical funds;
- How would the new program be evaluated; and
- How would funding responsibilities shift to schools once the DMH categorical funding was exhausted.

The LAO also notes that the program is *under budgeted* for 2006-07. As noted earlier, the Administration proposes a total of $138 million for AB 3632 ($69 million General Fund support and $69 million federal IDEA funds). The LAO believes annual costs to be about $172 million. They note that the Administration's intention is that any cost in excess of the $138 million, after efficiencies have been achieved, would be borne by school agencies.

Subcommittee Staff Recommendation. It is **recommended to (1) approve** the augmentation of $69 million (General Fund) for local assistance, **(2) reject** the DMH positions, and **(3) reject** all of the proposed trailer bill language. Though the Administration has proposed some interesting concepts, discussions need to continue with all involved constituency groups. As such, rejection of the trailer bill language will require all parties to participate in the crafting of language to restructure the program. The assumed establishment of a categorical program by July 1, 2006 is not viable, nor is the suspension of the mandate for two years until a more comprehensive approach is crafted and has time to be implemented.

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

1. DMH, Please provide a brief summary of the proposal.

2. Early, Periodic Screening, Diagnosis & Treatment—*Baseline & Audit Concerns*

May Revision The May Revision proposes **(1)** a *decrease* of $27 million ($12.1 million General Fund) in the current year, and **(2)** a *decrease* of $12.9 million ($5.9 million General Fund) for 2006-07 for the Early, Periodic Screening, Diagnostic & Treatment (EPSDT) Program.

The May Revision adjustments are technical in nature, *except* for the continued use of the extrapolation process for conducting EPSDT audits. This issue was discussed at length in a prior Subcommittee hearing (March 6th).

Prior Subcommittee Hearing—Concerns with Extrapolation. In the Subcommittee's March 6th hearing, considerable discussion occurred regarding the DMH's revised audit process and their use of "extrapolation" of audit data. Numerous constituency groups testified regarding the lack of clarity on how the extrapolation process is to be applied, the lack of credible sampling strategies and many other issues as noted below in the background section.

The result of the hearing was that the DMH was to work with constituency groups to recraft and retool their process and *report back* to the Subcommittee.

Status of Recrafting is Still a Work Process. It is the understanding of Subcommittee staff that no resolution has been reached, nor has the DMH as yet decided on how it may choose to proceed. **The DMH is still reviewing options and needs to further engage the constituency committee on a number of issues.**

Background--Constituency Concerns with Use of Extrapolation of Audit Data. As part of a series of cost containment actions over several years, effective January 2005, the DMH hired a consultant to commence chart audits of EPSDT services using a revised audit methodology.

Though EPSDT audits have been conducted previously, these newer audits use an *"extrapolation" method* which is then applied across those services provided by the audited "legal entity". It is the application of this "extrapolation" method that has raised the most concerns of many constituency groups.

Under the DMH extrapolation method, the audit contractor selects a statistically valid sample of case files from a particular provider to review. *Any* audit disallowances resulting from this sample of this one provider are then extrapolated to *all* of the said agency's (i.e., legal entity) other mental health treatment clinics/service providers. As such, a small number of cases are then applied to the *entire* agency (all of the providers affiliated with the agency). Therefore, a few hundred dollars of audit disallowances from one provider can then become thousands of dollars of disallowances to the agency (legal entity) under this extrapolation method.

According to the DMH, with the use of extrapolation for each $100 in claims that are disallowed, DMH has recouped $5,000 (on average). Therefore a legal entity could estimate its total dollars to be recouped by multiplying the dollar amount of the claims disallowed by 50. Further, if the DMH did *not* do extrapolation, only about 2 percent would be recouped. It should be noted that there are 40 pending audit appeals currently being tracked by the DMH since inception of this revised audit method.

A core concern of the extrapolation method is its validity. An agency (legal entity) can have different facilities which provide different services and serve different populations. As such, auditing one facility and extrapolating to others can give misleading results. Further, extrapolation is done by service function (such as therapy service, medication management, case management) but there is not a statistically valid sample for each service function at the level of the legal entity. For example, 50 charts are audited from one provider and the results could represent less than 1 percent of the claims for a particular service (i.e., for the agency/legal entity as a whole).

Through a series of meetings and letters, many organizations, including the CA Council of Community Mental Health Agencies, California Alliance of Child and Family Services, and County Mental Health Directors Association, have expressed their concerns to the DMH about the extrapolation method of auditing.

Numerous issues have been raised regarding the use of the extrapolation method, as discussed above, as well as several other issues including the following:

- **Lack of guidance** from the state to the counties and to the providers regarding the use of certain reimbursement codes under the program, particularly case management services.
- Use of the **"Disallowance Claims System" needs to be revamped.** Under this system a provider can request a County Mental Health Plan to remove a request for reimbursement (claim for services) from the billing system prior to any formal audit disallowance. Since the request for billing has been removed, the claim is not reviewed as part of the audit process.
- Concern that these revised audits are causing an administrative burden while not addressing any issues related to concerns of inadequate service capacity as raised through litigation in prior years (See Additional Background Section, below).

Additional Background Information on How the EPSDT Program Operates. 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. Examples of services include family therapy, crisis intervention, medication monitoring, and behavioral management modeling.

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.

County Mental Health Plans must use a portion of their County Realignment Funds to support the EPSDT Program. Specifically, a "baseline" amount was established as part of an interagency agreement in 1995, and an additional 10 percent requirement was placed on the counties through an administrative action in 2002. **As such counties must provide about $77.3 million in County Realignment Funds to support the EPSDT Program in 2006-07.**

Subcommittee Staff Recommendation. Significant issues continue to swirl regarding the use of extrapolation, its statistical validity and various other issues. (Subcommittee staff has a 25 page document on issues.) It has been difficult to engage the Administration on these issues and as such, it is recommended to adopt the following uncodified trailer bill language to provide a process for resolving them in a timely manner.

Uncodified trailer bill:

> It is the intent of the Legislature that the Department of Mental Health (DMH) shall revise, or in the alternative, discontinue its current method for extrapolating from the results of audits of legal entities of specialty mental health services expenditures to determine audit disallowances under the Early and Periodic Screening, Diagnosis and Treatment (EPSDT) Program. As part of this process, the DMH shall regularly meet with involved constituency providers to clarify billing rules, statistical validity and related concerns with the extrapolation process and/or to discuss an alternative process to replace it.
>
> Effective August 1, 2006, if the Director of the Department of Finance (DOF) has not provided written notification to the Chair of the Joint Legislative Budget Committee (JLBC) that the DMH has revised its current method for determining EPSDT audit disallowances, the Director of the DMH shall cease using the extrapolation method for determining audit disallowances. Further use by the DMH of the current extrapolation method for determining audit disallowances shall not occur any sooner than 30 days, or any lesser time as determined by the Chair of the JLBC, after the Director of the DOF has provided written notification in advance to the Chair of the JLBC as specified in this section that DMH has revised its current extrapolation method for determining audit disallowances. Nothing in this section shall prevent the DMH from conducting standard audits of the EPSDT Program as done prior to changes made in 2004.

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

1. **DMH,** Please provide the Subcommittee with an update on this issue .

3. Licensing and Certification of Mental Health Facilities *(See Hand Out)*

Issue. The budget **proposes an increase of $420,000** (reduction of $401,000 General Fund and an increase of $349,000 Licensing and Certification Funds in the DMH item, and an increase of $71,000 federal funds) **to fund 5 new positions to conduct increased monitoring of 165 mental health facilities (i.e., 24-hour psychiatric and rehabilitation care facilities).** It is the Administration's intent to fund these positions with fees deposited into a special fund as created by trailer bill legislation. The table below shows the fee structure.

It should be noted that though the DMH had statutory authority to begin charging fees to Mental Health Rehabilitation Centers (MHRCs) beginning as of January 1, 2005, no fee structure has been proposed until now. As such, MHRCs would be paying licensing and certification fees for the first time. **Second, for unknown reasons the DMH stopped collecting licensing and certification fees from Psychiatric Health Facilities (PHFs) beginning in 2000. The DMH finally identified this problem and will commence collecting fees again in the budget year.**

The DMH states that the fees, as shown below, were set by taking the total staff costs involved in completing MHRC and PHF licensing surveys and dividing the number of beds into that total to determine the per bed fees of $197 and $170 respectively.

Table: DMH Fee Structure for 2006-07

Type of Facility	# of Facilities	Total Beds	Fee per Bed	Revenue
Mental Health Rehabilitation Center	23	1,700 beds	$197	$335,000
Psychiatric Health Facility	18	389 beds (119 private) (270 public)	$170	$66,000 ($20,000 private) ($46,000 public)
Total				$401,000

The five positions and their key functions are as follows:

Facility License and Program Certification (Two Positions). These two positions-- a Staff Mental Health Specialist and Associate Mental Health Specialist—would be used to conduct additional facility license and program certification functions.

Program Investigations (Three Positions). These three positions—a Consulting Psychologist, Associate Mental Health Specialist, and Office Technician—would be used to respond to requests for investigations of violations and to investigate serious incidents reported by facilities.

Background—DMH L & C Responsibilities. The DMH has **lead** responsibilities for the licensing and certifying of 24-hour Psychiatric Health Facilities (PHFs), and Mental Health Rehabilitation Centers (MHRCs). In addition, the DMH is responsible for criminal background checks of staff employed or contracted by 42 facilities licensed by the department.

Subcommittee Staff Recommendation. It is **recommended to approve the requested five positions but to reject the proposed trailer bill legislation and instead, adopt placeholder trailer bill legislation that would establish a special fund and provide for fee adjustments as necessary to fund the request, *except* for public facilities (keep them exempt). It is also recommended to provide an increase of $46,000 General Fund to appropriate fund the proposal (needed if exemption is given for the public facilities).** The workload for the positions is justified and there is a definitive need for them in order to assure patient care and protection.

The DMH however has not proactively contacted constituency groups regarding their January budget proposal but will now be convening a stakeholders meeting on May 26th. As such***, placeholder language*** is appropriate in order to maintain flexibility to make changes through Conference Committee.

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

1. **DMH,** Please provide a brief summary of the request.

STATE HOSPITAL ISSUES

Overall Background—Summary of State Hospital Patients & Funding: The department directly administers the operation of five State Hospitals—Atascadero, Metropolitan, Napa, Patton, and Coalinga (to be activated). In addition, the DMH administers acute psychiatric programs at the California Medical Facility in Vacaville, and the Salinas Valley State Prison.

Patients admitted to the State Hospitals are generally either (1) civilly committed, or (2) judicially committed. As structured through the State-Local Realignment statutes of 1991/92, County Mental Health Plans (County MHPs) contract with the state to purchase beds. County MHPs reimburse the state for these beds using County Realignment Funds (Mental Health Subaccount). **Judicially committed patients are treated solely using state General Fund support.**

Governor's May Revision The May Revision proposes numerous adjustments for the State Hospitals for a *net* increase of $135,000 (an increase of $7.380 million General Fund). Total expenditures for the State Hospitals are now estimated to be $884.9 million ($771.8 million General Fund) for 2006-07. **This represents a series of adjustments related to court rulings, caseload changes and related items.**

The May Revision caseload assumes a budget-year population of **5,805 patients for 2006-07** (as of June 30, 2006). Of this total caseload, only 520 patients are committed by County Mental Health Plans. The remaining 5,285 patients are penal-code related patients (618 are SVP patients).

Each of the May Revision issues is discussed below.

- *Current Year Judicially Committee/Penal Code Population Adjustment (issue 101)*. A **reduction of $16.3 million** (General Fund) and 178.5 positions is requested for the current-year to reflect a reduction in the Judicially Committed/Penal Code population of 195 patients, including a decrease of 46 Incompetent to Stand Trial (IST), 11 Not-Guilty by Reason of Insanity (NGI), 67 Mentally Disordered Offenders (MDOs), and 71 Sexually Violent Predators (SVPs). **No issues have been raised regarding this adjustment.**

- *Budget Year Judicially Committed/Penal Code Population Adjustment (issue 100).* An increase of $4.232 million and 42.5 positions to reflect a net increase in the Judicially Committed/Penal Code population of 158 patients, including 9 IST patients, 65 MDO patients, and 75 SVP patients. This adjustment reflects the use of the new Civil Rights for Institutionalized Persons Act staffing standards/ratios. **No issues have been raised regarding this adjustment.**

- *Additional Staff for Residential Housing Units at Coalinga State Hospital (issue 105).* An increase of $1.776 million and 24.5 positions is requested for a change in the staffing needs identified in the Sexually Violent Predator Treatment Restructure savings proposal included in the Budget Act of 2005. This request is based on the DMH's experience in activating residential housing units at Coalinga State Hospital and the need for Level-Of-Care staffing. **The LAO recommends reducing this request by $888,000 (General Fund), or half-year funding since the DMH has had recruiting difficulties at Coalinga. Therefore the LAO believes this reduced level of funding is more realistic. Subcommittee staff has raised no issues with this request.**

- *Coleman Court-Order: Activation of 36 Intermediate Care Facility (ICF) Beds at Salinas Valley State Prison (issue 102).* An increase of $5.650 million (General Fund) and 68.2 positions is requested to reflect the December 2006 activation of an additional 36 temporary ICF beds at Salinas Valley State Prison. This adjustment is needed to address the Coleman case (pertains to the CA Department of Corrections and Rehabilitation (CDCR) providing appropriate mental health treatment to individuals). **No issues have been raised regarding this adjustment.**

- *Coleman Court-Order: Conversion of 60 Day Treatment Bed to 36 Intermediate Care Facility (ICF) Beds (issue 103).* An increase of $1.8 million (General Fund) and 19.3 positions is requested to reflect the full-year impact of the current-year reduction in the CDCR population of 24 patients. This reflects the impact of the Coleman court order to convert 60 Day Treatment beds to 36 ICF beds at Vacaville Psychiatric Program. Additional staff resources are necessary because the staff-to-patient ratios for an intensive inpatient 24-hour ICF program are significantly higher than an outpatient day treatment program. **No issues have been raised regarding this adjustment.**

- *Coleman Court-Order: Establish a New Psychiatrist Series at Vacaville Psychiatric Program and Salinas Valley Psychiatric Program (issue 104).* An increase of $432,000 (General Fund) is requested to reflect the establishment of a new psychiatrist series classification at Vacaville and Salinas Valley Psychiatric Programs. This funding will be used to provide a ten percent base salary increase and a one-time bonus of $5,000 after the first six-months to new employees hired from outside state service. This adjustment is requested to address a court order in the Coleman case. **No issues have been raised regarding this adjustment.**

- *Permanent General Fund Shift from the Department of Health Services (issue 106).* An increase of $9.745 million (General Fund) and a decrease of $7.245 million (Reimbursements) is requested to reflect the permanent shift of General Fund support from the DHS to the DMH for patient generated revenue and eligibility unit contracts at Metropolitan State Hospital and Napa State Hospital. This adjustment conforms to other adjustments from the January budget that had previously been approved by the Subcommittee. **No issues have been raised regarding this adjustment.**

- *Technical Adjustment to Correct Scheduling Error (issue 111).* The Department of Finance is requesting an adjustment to correct a technical scheduling error which will shift $6.688 million within the State Hospital Item to fund an increase of 125 CDCR patients. There is no impact to the budget authority for this Item. **No issues have been raised regarding this adjustment.**

2. Office of Patient Rights to Monitor and Assist Patients at the State Hospitals

Issue: The Subcommittee is in receipt of a request **to provide $341,288 (General Fund)** to the Office of Patient Rights within the DMH for the contract services that provide patient's rights advocacy services so they may provide.

Constituency concerns have been raised regarding this issue because of the ever increasing caseload at the State Hospitals, as noted above, and the complexity of the patient population (about 90 percent penal code, many with violent behaviors).

In addition, California must now implement the many requirements of the Civil Rights of Institutionalized Persons Act (CRIPA).

Under state and federal law, State Hospitals are required to have a compliant process which allows patients to file complaints that their rights have been violated, including conditions of their care. State law requires that the Patient Right's Contractor take action within two days to investigate each complaint.

The lack of having an adequate number of advocates at each State Hospital make it difficult to comply with these requirements and pose a risk that residents could challenge the DMH's failure to provide advocacy services which are compliant with state and federal law.

The Patient Right's Contractor assists in the licensing reviews and advises the DMH on the plans of corrections required by the Department of Health Services (DHS). The DHS has the authority to impose financial fines for patients' rights violations. Therefore, it is in the best interest of the DMH to want to have a fully operational Patient Right's contract.

Several of the issues identified in the CRIPA report had previously been raised by the independent Patient's Rights contractor. Proactive involvement by the contractor, as well as responding to specific patient complaints, assists the DMH in developing policies and procedures which address deficiencies identified in the DOJ reports.

Subcommittee Staff Recommendation: It is recommended to increase by $341,288 (General Fund) to provide for three additional Supervising Advocate Specialist I' and one additional Patient's Rights Specialists. This is a modest increase that can go along way and quite frankly is overdue and should have been addressed by the Administration.

Questions: The Subcommittee has requested the DMH to provide technical assistance regarding this issue by responding to the following questions.

1. DMH, Please provide a brief summary of the functions of the Patient's Rights Contractor. Are these services effective?

SUBCOMMITTEE NO. 3 Agenda

Senator Denise Moreno Ducheny, Chair
Senator Dave Cox
Senator Wesley Chesbro

Friday, May 19, 2006
11:00 a.m.
Room 4203

Consultant: Dave O'Toole

DEPARTMENT OF VETERANS AFFAIRS

8950 Department of Veterans Affairs

The Department of Veterans Affairs (DVA) has three primary objectives: (1) provide comprehensive assistance to veterans and dependents of veterans in obtaining benefits and rights to which they may be entitled under state and federal laws; (2) afford California veterans the opportunity to become homeowners through loans available to them under the Cal-Vet farm and home loan program; and (3) provide support for California veterans' homes where eligible veterans may live in a retirement community and where nursing care and hospitalization are provided.

The department operates veterans' homes in Yountville (Napa County), Barstow (San Bernardino County), and Chula Vista (San Diego County). The homes provide medical care, rehabilitation, and residential home services. With $50 million in general obligation bonds available through Proposition 16 (2000), $162 million in lease-revenue bonds (most recently amended by AB 1077 [Chapter 824, Statutes of 2004]), and federal funds, new homes will be constructed in West Los Angeles, Lancaster, Saticoy, Fresno, and Redding.

The Governor's budget funds 1,608.6 positions (including 139.1 new positions) and budget expenditures of $314.7 million for the department, including the veterans' homes.

1. BCP: Barstow Veterans Home—Intermediate Care Facility to Full Capacity
The Department of Veterans Affairs requests to expand available beds from 40 to 60 at the intermediate care facility at the Barstow Veterans Home. The department will add 10.6 positions and augment by $1.334 million ($906,000 General Fund). The 20 beds were voluntarily shut down in 2003 after a series of incidents involving mistreatment of residents at the Barstow facility. The Department of Health services restored the Barstow Veterans Home authority to begin reopening a nursing facility in April 2005.

Staff Comment: The position request does not include a reduction for salary savings. Consistent with the discussion in issue #5, salary savings should be budgeted at five percent and any funding shortfalls addressed with a specific proposal. Furthermore, since these positions will not be filled at the start of the budget year, recognition of a five percent salary savings is especially appropriate in the first year.

A 2003-04 negative BCP, which recognized the closure of the specialized nursing facility at the Barstow Veterans Home, shows a minimal loss of non-consultant, non-equipment, operating expense (OE) related to the 174 positions lost. Specifically, only $47,000 was reduced along with those positions. At an absolute minimum, each position reduction should have been accompanied by an OE reduction of $3000 per position, or $522,000.

The DVA has disclosed that since the closure of the Barstow skilled nursing facility in October 2003, the Home has redirected approximately $311,000 in operating expense to temporary help. On an annualized basis, the department has redirected approximately $120,000/year from available OE to temp help.

Based on this information, the OE funding requested with the ten new positions, $405,000, should be reduced by $355,000 ($522,000 - $120,000 - $47,000) to reflect already available OE funds.

At the May 18 hearing, the department raised a new issue regarding an OE shortfall in the budget request. Specifically, funding for per patient variable costs was not included. Based on a calculation of $44 daily allotment for patient "OE" (costs such as food, laundry, outside medical services, pharmacy, eyeglasses, and other related support services), the 20 new beds require $321,000.

Staff Recommendation: REDUCE the BCP by $53,000 to recognize:
a. Reduction of $355,000 in operating expense complement for the new positions
b. Five percent salary savings (reduction of $19,000)
c. Increased costs of $321,000 for per patient OE costs.

VOTE: