Senate Budget and Fiscal Review

Subcommittee No. 3 2008 Agendas

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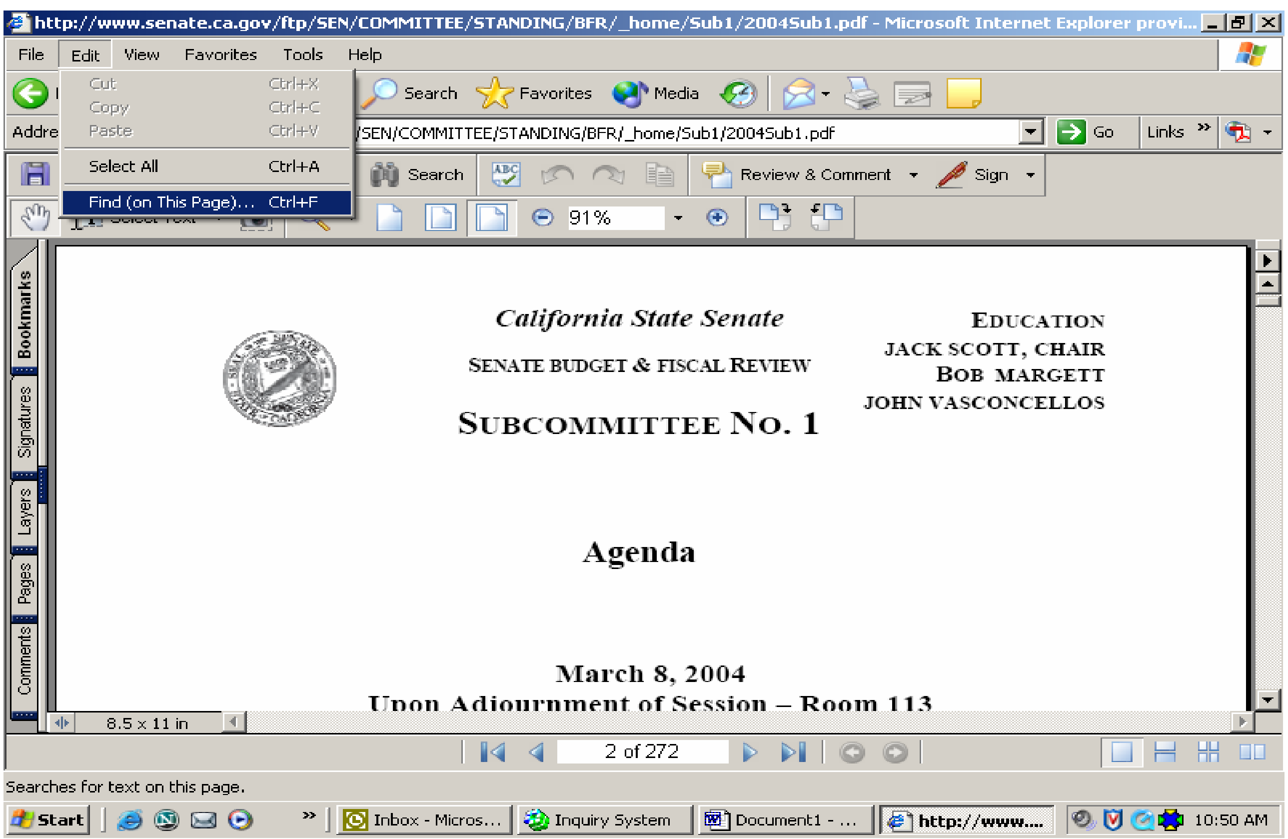

SUBCOMMITTEE NO. 3 Agenda
Health, Human Services, Labor & Veteran's Affairs

Chair, Senator Elaine K. Alquist

Senator Alex Padilla
Senator Mark Wyland

March 10, 2008

2:00 PM

Room 4203
(John L. Burton Hearing Room)

Agenda "A"

(Diane Van Maren)

I. Senator Alquist, Subcommittee Chair statement

2. Consent Calendar: Selected Governor's Reductions for Department of Public Health

3. Discussion Items: Item 4120 Emergency Medical Services Authority

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.

ISSUES RECOMMENDED FOR CONSENT—Public Health (DPH)

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

According to the DPH, their goals include the following:

- ✓ Promote healthy lifestyles and appropriate use of health services
- ✓ Prevent disease, disability and premature death
- ✓ Protect the public from unhealthy and unsafe environments
- ✓ Provide and ensure access to critical public health services
- ✓ Enhance public health emergency preparedness and response

Summary of Funding. The Governor's budget proposes about $2.6 billion (total funds) for state operations and local assistance for the DPH for 2008-09. This represents a decrease of about $208 million, or 7.3 percent, from the revised 2007-08 (current-year budget).

Total proposed expenditures for local assistance are $2.4 billion ($257.9 million General Fund). The General Fund amount is 7.3 percent less, or about $20.1 million, than the revised current-year level of spending. This decrease is due to the Governor's proposed "budget balancing reductions".

Summary of Governor's Proposed Reductions for the DPH—Total of $31.7 million. The Governor has proposed an across-the-board reduction of 10 percent against the base workload budget for each program area funded by the General Fund, except for some programs related to food-borne illness and lease-revenue bond payments for the Richmond Laboratory.

The Governor's budget plan includes a reduction of $31.7 million General Fund and 51.2 state positions in 2008-09. Of the 51.2 positions proposed to be eliminated, 19 were vacant as of January 10, 2008.

Subcommittee Staff Comment Regarding the Consent List. In reviewing the Governors reduction proposals, Subcommittee staff and the Legislative Analyst's Office (LAO) have concluded that the following Governor's reductions will have fewer consequences to the public than other reduction proposals recommended by the Governor which provide direct services to Californians. **Therefore, the following selected Governor's reductions for the DPH are recommended for adoption and are noted below in the Consent List.**

Other reduction proposals as identified by the Governor will be discussed in future hearings as noted in the Senate File. (All hearings must have a 4-day notice)**.**

(Consent List--Governor's Reductions to Department of Public Health starts on the next page.)

CONSENT LIST—Governor's Reductions to Department of Public Health

The following Consent List of Governor's reductions would reduce the budget by a total of $25.793 million (General Fund). This list includes $5.593 million in reductions from the Governor's "Budget Balancing Reductions" list, as well as the Governor's proposed trailer bill language to permanently eliminate General Fund support for the County Medical Services Program (i.e., $20.2 million in General Fund savings). The General Fund reductions in this Consent Calendar will result in *minimal* loss of federal matching funds.

1. Governor's 10 Percent Reduction: $125,000 to Occupational Health. The Governor proposes to reduce this program by $125,000 (General Fund). The DPH states that this reduction will be taken by reducing minor equipment, facility operations, some contract funds for special project activities focusing on preventing chemical emergencies, and some contract funds for laboratory verification of chemical ingredients in cosmetic products.

The Occupational Health Branch within the DPH identifies and evaluates workplace hazards and provides early warning to employers, workers, and health care professionals about how to prevent disease by eliminating or controlling exposure. In addition, they provide information, training, and technical assistance on preventing workplace injury and illness to employers, workers, unions, industry groups, health professionals, and the general public. While most of the program is supported by other funds, the newly formed CA Safe Cosmetics Program, emergency response preparedness and toxicology support, and occupational disease outbreak investigations are supported with General Fund.

Subcommittee Staff Recommendation--Adopt. No issues have been raised by Subcommittee staff or the LAO.

2. Governor's 10 Percent Reduction: $116,000 to Lead Related Construction. The Governor proposes to reduce this program by $116,000 (General Fund). The DPH states they will reduce external contract funds aimed at accrediting training programs for lead-related construction activities and certifying lead professionals in doing lead-safe work by $108,000 and by reducing facility operations costs by $8,000. This program regulates activities related to lead hazard evaluations and construction or residential and public buildings that contain or are presumed to contain lead based paint.

Subcommittee Staff Recommendation--Adopt. No issues have been raised by Subcommittee staff or the LAO.

3. Governor's 10 Percent Reduction: $330,000 to Environmental Health. The Governor proposes to reduce this program by $330,000 (General Fund). The DPH states they will eliminate two vacant positions—an Associate Information Systems Analyst and a Research Scientist II—out of 22 positions within the branch. In addition, they will reduce facility operation costs by $63,000. These adjustments should have minimal impact.

Subcommittee Staff Recommendation--Adopt. No issues have been raised by Subcommittee staff or the LAO.

4. Governor's 10 Percent Reduction: $140,000 Chronic Disease Prevention. The Governor proposes to reduce this program by $140,000 (General Fund). The DPH states they will eliminate two vacant positions—a Health Program Manager II and a Public Health Medical Officer III. The Health Program Manager II is responsible for overseeing the food stamp education program and the Public Health Medical Officer III is responsible for administrative oversight over the Every Woman Counts and Prostate Cancer programs. According to the DPH, this reduction will have minimal impact.

Subcommittee Staff Recommendation--Adopt. No issues have been raised by Subcommittee staff or the LAO.

5. Governor's 10 Percent Reduction: $94,000 Injury Prevention. The Governor proposes to reduce this program by $94,000 (General Fund). The DPH states they will reduce operating expenses, such as postage, travel and minor equipment) by ten percent and local assistance contracts by ten percent. This $94,000 reduction represents one percent of the program's total budget.

The DPH's Epidemiology and Prevention for Injury Control Branch conducts various prevention and surveillance efforts. Prevention efforts include planning and consensus building, interventions, policy development, professional education and training, and public information. Surveillance efforts include alcohol and drug surveillance of consumption and health effects, the CA violent death reporting system, a child abuse and neglect surveillance program, surveillance of disability and sexual violence, and a web-based system providing data on all injury deaths and hospital treatments in California.

Subcommittee Staff Recommendation--Adopt. No issues have been raised by Subcommittee staff or the LAO.

6. Governor's 10 Percent Reduction: $98,000 Chronic Disease Control. The Governor proposes to reduce this program by $98,000 (General Fund). The DPH states they will use federal fund support in lieu of General Fund to support a Public Health Administrator I position who is responsible for administrative oversight of various programs, including community water fluoridation, children's dental disease prevention, and the preventive health care for adults program.

Subcommittee Staff Recommendation--Adopt. No issues have been raised by Subcommittee staff or the LAO.

7. Governor's 10 Percent Reduction: Cancer Surveillance. The Governor proposes to reduce this program by $440,000 (General Fund). The DPH states they will reduce the Ca Cancer Surveillance Program/CA Cancer Registry by reducing the support contract with the Public Health Institute. The total contract is for $11.5 million (various fund sources). There would be no loss of federal funds from this General Fund reduction.

According to the DPH, the proposed reduction will result in reduced information technology support, operating costs and some surveillance capacity.

Subcommittee Staff Recommendation--Adopt. No issues have been raised by Subcommittee staff or the LAO.

8. Governor's 10 Percent Reduction: Environmental Health Laboratory & Chemical Response Air Program. The Governor proposes to reduce this program by $300,000 (General Fund). The DPH states they will eliminate two staff—one technical and one administrative support--, and equipment used for chemical emergency response and air quality testing. The program has a total of 22 staff positions.

The DPH states that this reduction will have minor impact to evaluating samples submitted to the department for testing.

Subcommittee Staff Recommendation--Adopt. No issues have been raised by Subcommittee staff or the LAO.

9. Governor's 10 Percent Reduction: Emergency Preparedness and Response. The Governor proposes to reduce this program by $44,000 (General Fund). The DPH states they will reduce the number of "table-top" exercises conducted by the program from four to two. The table-top exercises are designed to test the actual field response and coordination between all agencies responsible for emergency response to nuclear incidents.

Subcommittee Staff Recommendation--Adopt. No issues have been raised by Subcommittee staff or the LAO.

10. Governor's 10 Percent Reduction: Administrative Support of Food & Drug Branch. The Governor proposes to reduce this area by $195,000 (General Fund). The DPH states they will eliminate two positions—Office Technician and a Management Services Technician—and reduce a contract for student assistants. Presently there are a total of 23 staff positions within the Branch. The DPH states that with reduced clerical support it may take longer to complete routine administrative tasks.

Subcommittee Staff Recommendation--Adopt. No issues have been raised by Subcommittee staff or the LAO.

CONSENT LIST—Governor's Reductions to Department of Public Health--*continued*

<u>11. Governor's 10 Percent Reduction: Travel Support of Food & Drug Safety.</u> The Governor proposes to reduce this area by $80,000 (General Fund). The DPH will reduce its in-state travel budget and associated expenses. This reduction represents two percent of the branch's budget. According to the DPH, this *may* result in delays in food and drug inspections of low-risk processing plants.

This section of the DPH is responsible for ensuring that the food supply is safe and free of adulterated, misbranded and falsely advertised foods.

<u>Subcommittee Staff Recommendation--Adopt.</u> No issues have been raised by Subcommittee staff or the LAO.

<u>12. Governor's 10 Percent Reduction: Food & Drug Laboratory Reduction.</u> The Governor proposes to reduce this area by $64,000 (General Fund). The DPH will reduce its staff training and travel, as well as extend its equipment replacement timelines.

This section of the DPH conducts chemical and microbiological tests of food, consumer products, and environmental samples. Typical chemical tests are for heavy metals, toxic chemicals, carcinogens, chemical additives and preservatives.

<u>Subcommittee Staff Recommendation--Adopt.</u> No issues have been raised by Subcommittee staff or the LAO.

<u>13. Governor's 10 Percent Reduction: Export Document Program.</u> The Governor proposes to reduce this area by $109,000 (General Fund). The DPH will eliminate a Research Scientist III that is responsible for technical medical device, drug, and cosmetic label reviews. Of the twelve positions in the program, this is the only position supported with General Fund.

The Export Document Program issues export documents to CA processors of food, drugs, medical services and cosmetics. Foreign countries require export certification documents before products can be imported from California.

<u>Subcommittee Staff Recommendation--Adopt.</u> No issues have been raised by Subcommittee staff or the LAO.

<u>14. Governor's 10 Percent Reduction: Travel Expenses in Cosmetic Safety Program within the Drug and Consumer Product Safety Unit.</u> The Governor proposes to reduce this area by $16,000 (General Fund). The DPH will reduce its travel budget in this program. This reduction may result in less cosmetic registrants being inspected on an annually basis, which may delay issuance of required export documents

In 1993, legislation was passed allowing any person engaged in the manufacturing, packing, labeling, or holding of cosmetics in the state to voluntarily register annually with the Drug and Consumer Product Safety Program. The registration fees pay for inspections of cosmetic facilities and examination of the firms' complete production and quality assurance systems. The majority of the branch is supported with special funds except for the Drug and Consumer Product Safety Program which uses General Fund support.

<u>Subcommittee Staff Recommendation--Adopt.</u> No issues have been raised by Subcommittee staff or the LAO.

<u>15. Governor's 10 Percent Reduction: Beach Safety Program.</u> The Governor proposes to reduce this program by $109,000 (General Fund). The DPH will reduce the beach water quality monitoring contracts with local health jurisdictions. This will result in reduced monitoring for compliance with minimum standards of sanitation in coastal areas. The DPH notes that the impact to the public will be relatively minor as the total reduction will be spread proportionately among the participating counties.

This program is responsible for developing and implementing initiatives that prevent disease and hazardous conditions in California's coastal waters by distributing and monitoring funding contracts to counties to implement a beach safety program.

<u>Subcommittee Staff Recommendation--Adopt.</u> No issues have been raised by Subcommittee staff or the LAO.

<u>16. Governor's 10 Percent Reduction: Sanitation and Radiation Laboratory Branch.</u> The Governor proposes to reduce this program by $476,000 (General Fund). The DPH will make reductions to equipment purchases of $228,000, reduce technical and scientific materials purchases by $70,000, and reduce facility operations, training and general operating expenses by the remaining amount. The DPH notes that laboratory samples will take longer to analyze and requests for new laboratory methodologies will be delayed.

The primary mission of this laboratory is to provide analytical services, reference measurements, and technical support pertaining to the State's Drinking Water Program and the Radiologic Health Branch Program. Specifically, it provides a supporting role in assuring that drinking water is free of contaminants and is suitable for human consumption, and identifies naturally occurring and man-made radioactive contaminants.

<u>Subcommittee Staff Recommendation--Adopt.</u> No issues have been raised by Subcommittee staff or the LAO.

<u>17. Governor's 10 Percent Reduction: Redirect Funding in Drinking Water Program.</u> The Governor proposes to reduce this program by $422,000 (General Fund). The DPH is redirecting funding from other sources to backfill for this loss of General Fund support. Specifically, the redirected funds will provide funding for three positions which presently receive General Fund support. This program is responsible for regulating and monitoring public water systems.

<u>Subcommittee Staff Recommendation--Adopt.</u> No issues have been raised by Subcommittee staff or the LAO.

<u>18. Governor's 10 Percent Reduction: Laboratory Animal Services.</u> The Governor proposes to reduce this program by $346,000 (General Fund). The DPH will eliminate two staff—an Animal Technician III and an Animal Technician IV—, reduce facility operations, and reduce technical supplies.

The DPH states that while the program will be able to maintain animal care services, it will not maintain its animal breeding and production program. The breeding and production program breeds mice for diagnostic testing for various tests including detecting botulism and paralytic shellfish poisoning. Therefore, DPH programs that need mice for diagnostic testing will need to purchase animals from outside sources.

<u>Subcommittee Staff Recommendation--Adopt.</u> No issues have been raised by Subcommittee staff or the LAO.

<u>19. Governor's 10 Percent Reduction: Health Information Strategic Planning & County Health Staff.</u> The Governor proposes to reduce this area by $268,000 (General Fund). The DPH will make several adjustments, including the following: **(1)** Eliminate an Associate Governmental Program Analyst in the County Health Section which is used to review county financial reports for compliance with certain state requirements for savings of $183,000; **(2)** Reduce state travel expenditures by $5,000; and **(3)** Reduce by $80,000 state support for the CA Health Interview Survey. These collective adjustments will have a minimal impact to the public.

<u>Subcommittee Staff Recommendation--Adopt.</u> No issues have been raised by Subcommittee staff or the LAO.

<u>20. Governor's 10 Percent Reduction: Training Contract with CSUS.</u> The Governor proposes to reduce by $23,000 (General Fund) a contract with California State University, Sacramento for training services related to the Comprehensive Perinatal Services Program. Therefore, training will need to be more consolidated.

<u>Subcommittee Staff Recommendation--Adopt.</u> No issues have been raised by Subcommittee staff or the LAO.

<u>21. Governor's 10 Percent Reduction: State Operations of Maternal, Child & Adolescent Health.</u> The Governor proposes to reduce by $263,000 (General Fund). The DPH will eliminate one of 85 state staff positions and will reduce associated operating expenses and travel. The DPH states that any impact will be minimal to the public.

<u>Subcommittee Staff Recommendation--Adopt.</u> No issues have been raised by Subcommittee staff or the LAO.

<u>22. Governor's 10 Percent Reduction: Viral & Rickettsial Disease Laboratory.</u> The Governor proposes to reduce by $982,000 (General Fund). The DPH will eliminate five of the 20 Public Health Microbiologist staff positions in this laboratory and will reduce facility operations activities by $340,000, or six percent of the laboratory's facilities operating budget.

The DPH states that day-to-day requests for influenza, West Nile Virus, HIV/AIDS, Hepatitis C, rabies testing, and gastrointestinal outbreaks will be reduced.

<u>Subcommittee Staff Recommendation--Adopt.</u> No issues have been raised by Subcommittee staff or the LAO. The LAO notes that the five positions being eliminated are vacant and the DPH has had considerable difficulty in hiring for this classification.

<u>23. Governor's 10 Percent Reduction: West Nile Virus.</u> The Governor proposes to reduce by $106,000 (General Fund). The DPH will reduce contract funding for human case surveillance activities. Specifically, the DPH states that the program's ability to provide ongoing dead bird surveillance and to utilize surveillance activities such as collection and testing of mosquitoes and use of sentinel chickens. Further, diagnostic testing to confirm West Nile Virus in these situations will be reduced.

<u>Subcommittee Staff Recommendation--Adopt.</u> No issues have been raised by Subcommittee staff or the LAO.

<u>24. Governor's 10 Percent Reduction: State Staff in TB Control Branch.</u> The Governor proposes to reduce by $205,000 (General Fund). The DPH will eliminate two of eleven state positions that perform tests to detect Tuberculosis (TB) strains that are resistant to drugs used in the treatment of TB and analyze and disseminate TB surveillance data. Facility operations will also be reduced.

<u>Subcommittee Staff Recommendation--Adopt.</u> No issues have been raised by Subcommittee staff or the LAO.

<u>25. Governor's 10 Percent Reduction: Communicable Disease Surveillance.</u> The Governor proposes to reduce by $231,000 (General Fund). The DPH will eliminate an Office Technician position and reduce contract funds by $169,000 or 18 percent. The reduction in contract funds pertains to training and quality control activities related to statewide surveillance operations.

This division of the DPH is responsible for the surveillance, investigation, control and prevention of communicable disease in California. Surveillance utilizes various sources of information, data and knowledge to assess the health of the population, to direct control and prevention efforts, and to support policy development for communicable diseases.

<u>Subcommittee Staff Recommendation--Adopt.</u> No issues have been raised by Subcommittee staff or the LAO.

<u>26. Governor's 10 Percent Reduction: Administrative Services.</u> The Governor proposes to reduce by $21,000 (General Fund). The DPH will eliminate 2.5 state positions—an Office Technician, an Auditor III, and a half-time Administrative Law Judge. The savings from eliminating these positions are spread across several program areas which have already been accounted for in other reduction proposals. The $21,000 here is savings from the Office of Legal Services.

<u>Subcommittee Staff Recommendation--Adopt.</u> No issues have been raised by Subcommittee staff or the LAO.

<u>27. Governor's 10 Percent Reduction: Disease Investigations and Reporting.</u> The Governor proposes to reduce by $190,000 (General Fund). The DPH will eliminate one of four epidemiologist positions and a Research Scientist II position (one of six) related to disease investigations and reporting.

<u>Subcommittee Staff Recommendation--Adopt.</u> No issues have been raised by Subcommittee staff or the LAO.

28. Governor's Proposed Trailer Bill Language—County Medical Services Program

Issue. The Department of Public Health (DPH) is proposing trailer bill language to: **(1)** permanently eliminate the state's statutory obligation to provide up to $20.2 million (General Fund) annually for the County Medical Services Program (CMSP); and **(2)** technical changes regarding the administration of the fund.

Since enactment of Realignment in 1991, the state has been statutorily required to provide up to $20.2 million General Fund to meet some of the expenditures of the program. However commencing in 1999, yearly trailer bill language has been enacted to exempt the state from this General Fund appropriation. The DPH trailer bill language would permanently eliminate this statutory requirement.

In addition, the proposed language would make a technical conforming action by having the State Controller's Office deposit all funds (County Realignment-related funds) into the CMSP Subaccount of the Sales Tax Growth Account in lieu of the CMSP Account. The State Controller's Office would then periodically move the funds to the CMSP Board for purpose of expenditure on CMSP expenditures.

Program Description. Created in 1983, the CMSP is a county-operated provider reimbursed program serving medically indigent adults who are not eligible for Medi-Cal and reside in one of California's 34 small counties. CMSP is funded using monies derived primarily from County Realignment Funds and county general purpose revenues. It is administered by a CMSP Governing Board and appointed staff.

In October 2005, the CMSP Board hired Blue Cross to administer the program, in lieu of using Department of Health Services (DPH now) staff. Despite this administrative change, management of the CMSP Account remained with the state because statute located the Account within a fund that the DPH administers on behalf of a variety of programs. The proposed trailer bill language would change this arrangement as noted.

Subcommittee Staff Recommendation. It is recommended to adopt the proposed trailer bill language to permanently eliminate the $20.2 million (General Fund) from the CMSP, and to have the State Controller's Office deposit all funds into the County Medical Services Program Subaccount of the Sales Tax Growth Account so that the CMSP Board can directly manage these funds in lieu of utilizing the DPH for this purpose.

The state has not provided any General Fund assistance to the CMSP since 1998 and trailer bill legislation has been done on an annual basis

DISCUSSION ITEMS

A. Item 4120 Emergency Medical Services Authority (EMSA)

Overall *Background & Summary of General Fund Expenditures*. The overall responsibilities and goals of the 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; **(8)** Develop standards for emergency medical dispatcher training for the "911" emergency telephone system; and **(9)** Establish standards for the development of trauma systems and approve trauma plans to submitted by local EMSA agencies.

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.

The Governor's budget proposes total expenditures of $26 million ($13.1 million General Fund) for the EMS Authority. Of this total amount, $13.8 million ($9.8 million General Fund) is for local assistance. As noted in the table below, the EMS Authority is also seeking a total increase of $552,000 General Fund in 2008-09 through two budget change proposal requests.

Summary Chart on EMSA Authority's General Fund for 2008-09
(Prior to Governor's Budget Balancing Reductions)

Local Assistance	**General Fund**	**Description**
CA Poison Control System	$6,900,000	Contract with UC San Francisco
Multi-County EMS Agencies	$2,424,000	Contracts with certain local agencies
Regional Disaster Medical Health Specialists	$360,000	Contract
CA Medical Assistance Teams	$102,000	Contract
TOTAL	**$9,786,000**	
State Support (14.5 positions total)		
Mobile Field Hospital (3.75 positions)	$1,749,000	State staff, facility operations, & contracts
Mobile Medical Assets (7.75 positions)	$994,000	State staff and facility operations
Medical Calibration of Equipment (new)	$242,000	*New budget change proposal*
Emergency Services Coordinators (new)	$310,000	*New budget change proposal*
Technical baseline adjustment	$57,000	Personnel cost adjustment
TOTAL	**$3,352,000**	
GRAND TOTAL (GENERAL FUND)	**$13,138,000**	

Summary of Governor's Proposed Reductions for the EMS Authority. The Governor has proposed an across-the-board ten percent reduction to the EMS Authority's General Fund appropriation except where noted, for a total reduction of $1 million (General Fund). The 10 percent was derived from the EMS Authority's "workload" budget which does not include their requested budget change proposals (as referenced in the table above). Each of these reduction proposals is shown below.

Governor's Proposed Reductions

Program	**Reduction Amount**	**Remaining General Fund**
1. Poison Control	$690,000	$6.2 million
2. EMS Multi-County Agencies	$242,000	$2.178 million
3. Regional Disaster Medical Health Specialist	$36,000	$324,000
4. Mobile Medical Assets	$35,000	$315,000
TOTAL (rounded)	**$1 million**	N/A

(See next page for Action Items)

1. State Supplemental Funding—Multi-County Emergency Medical Services

Issue. The Multi-County Emergency Medical Services Agencies presently receive $2.4 million in supplemental state General Fund assistance. The Governor proposes to reduce the state's support of the multi-county Emergency Services Agencies (EMS Agencies) by $242,000 General Fund, or by 10 percent, for a total funding level of about $2.2 million.

The EMS Authority will reduce each of the seven EMS Agencies by 10 percent which means a reduction in funding of from $22,000 to $52,000 depending upon the agency.

Program Description. The EMSA Authority provides supplemental state General Fund assistance to *seven* Multi-County Emergency Medical Services Agencies (EMS Agencies) in large rural areas and those with smaller populations and limited financial and health care resources. This supplemental state funding is to be used to provide only essential minimum services necessary to operate the local emergency medical system as defined by the EMSA.

In order to receive the supplemental state funding, each EMS Agency must provide matching funds of at least $1 for each dollar of state funds received. EMS Agencies with a population of 300,000 or less shall receive the full amount for which they are eligible if they provide a cash match of $0.41 per capital or more.

These multi-county EMS Agencies were developed to improve the existing level of emergency medical services and to establish coordinated emergency medical service delivery mechanisms. According to the EMS Authority, each EMS Agency's current supplemental General Fund allotment is as follows:

• Central California EMS Agency	$378,338
• Coastal Valley EMS Agency	$299,275
• Inland Counties EMS Agency	$282,361
• Mountain-Valley EMS Agency	$347,031
• Northern California EMS Agency	$524,107
• North Coast EMS Agency	$228,748
• Sierra-Sacramento EMS Agency	$364,260
• **TOTAL**	**$2,424,120**

According to the EMSA, these seven multi-county EMS Agencies cover over two-thirds of the state's geography and provide services to a total resident population of 6.5 million. Further, it is estimated that at least 30 percent of ambulance response in these areas is for non-residents as a result of seasonal visitors to the regions.

Subcommittee Staff Recommendation—Approve Governor's Reduction. Due to fiscal constraints, it is recommended to approve the reduction in funding.

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

1. EMS Authority, Please provide a brief summary of the proposal.

2. CA Poison Control System—State Supplemental Funding

Issue: The CA Poison Control System presently receives $9 million in public funding. Of this amount, $6.9 million is in state General Fund assistance, and $2.1 million is in federal Health Resources Services Administration (HRSA) which does not flow through the state budget. In addition to this funding, the system also receives funds from other sources that do not flow through the state budget, including industry contracts, private donations, and in-kind assistance.

The Governor proposes to reduce the state's support of the California Poison Control System by 10 percent or by $690,000 General Fund, for a total proposed appropriation of $6.2 million General Fund for 2008-09.

Description of Program: The state presently provides supplemental funding to the CA Poison Control System as administered by the University of California, San Francisco, School of Pharmacy. The system is a statewide network of experts that provide free treatment advice and assistance to people over the telephone in case of exposure to poisonous or hazardous substances. It provides poison help and information to both the public and health professionals and is accessible, toll-free, 24-hours a day, 7 days a week 365 days a year.

The system has four divisions located at UC Davis Medical Center in Sacramento, San Francisco General Hospital in San Francisco, Children's Hospital Central California in Fresno and the UC San Diego Medical Center in San Diego.

It should be noted that the calls received by the system not only pertain to the ingestion of potentially toxic household products, but also allergic reactions to products such as hair products, over-the-counter medications, the use of home cleaners, and even the potential poisoning of pets/animals.

Additional Background on Funding Sources. In 1990, a total of $6 million ($4.3 million local funding and $1.7 million state General Fund) was provided to fund the Poison Control agencies (seven centers at the time). During the early 1990's, local funding was eliminated and a patchwork of funding was intermittently provided, including foundation grants (such as $5 million from Blue Cross), some third party fee-for-service contracts, hospital donations, private donations, and federal funds.

In 1997, a complete restructuring of the Poison Control system occurred. The seven separate poison centers were consolidated into one statewide system in an effort to reduce costs and maximize resources. The University of California, San Francisco, School of Pharmacy was awarded a contract to operate the poison control system. This new system began operations on January 1, 1997.

During the mid-1990's, the CA Poison Control System was able to obtain federal matching funds via the Medi-Cal Supplemental Program administered by the CA Medical Assistance Commission. This federal supplemental funding was provided for several years; however, it was temporary due to various reasons but primarily from changes at the federal level regarding hospital financing and limitations in federal funding.

In the Budget Act of 2001, an increase of $3 million General Fund (for a total of $4 million in General Fund support) was provided by the state and this supplemental funding was increased again by about $3.3 million in the Budget Act of 2003. The increase provided in the Budget Act of 2003 was intended to provide assistance due to the loss in federal supplemental funding that had been provided through the CA Medical Assistance Commission (CMAC). This is illustrated in the table below:

CA Poison Control Funding ***(Public Funding assistance)***

Fiscal Year	CA Medical Assistance Commission (Federal Funding)	General Fund Amount	Increase/Decrease in General Fund	Federal Grants
1998	$5.5 million	$1.750 million		
1999	$4.5 million	$2.5 million	$750,000	
2000	$5.8 million	$1 million	-$1.5 million	
2001	$3.675 million	$4 million	$3 million	$1.6 million
2002	$3.314 million	$3.6 million	-$400,000	$1.8 million
2003	no longer possible	$6.9 million	$3.3 million	$1.9 million
2004		$6.9 million		$2.1 million
2005		$6.9 million		$2.1 million
2006		$6.9 million		$2.1 million
2007		$6.9 million		$2.1 million
2008		$6.9 million		$2.1 million

Since 2003-04, the CA Poison Control System has received $6.9 million in state General Fund support. The system also receives funding from other sources, including federal funds from the Health Resources and Services Administration (HRSA) (which they receive directly via a grant), private donations, in-kind support from UCSF, and other private grants.

Subcommittee Staff Recommendation: It is well recognized that the CA Poison Control System provides valuable assistance and information to both the public and health professionals regarding potentially toxic substances. **However, the system is not a core state responsibility and other funding sources are available for its support.** State funding has been provided when local funds diminished or federal funds subsided; however, state General Fund revenues can no longer sustain this assistance, particularly when other funding options are available.

Through language annually contained within the Budget Act (page 266 of SB 1067 as introduced), *it is noted that state support is supplemental*. Specifically it is stated as follows:

> Item 4120-101-0001 Provision 1
> "The General Fund support for poison control centers shall augment, but not replace, local expenditures for existing poison control center services. These funds shall be used primarily to increase services to underserved counties and populations and for poison prevention and information services. The Director of the EMS Authority may contract with eligible poison control centers for the distribution of these funds."

Other funding sources are available for its support. For example, local government at one time provided assistance for this purpose, as has health-related foundations, industry established foundations or donations, hospital donations, special contracts and other entities. Other endowments or grant opportunities may be available as well, including support from the CA Children and Families Commission, particularly since a majority of the calls to the Ca Poison Control System pertain to children five years of age and under.

Therefore, due to the severe fiscal situation, it is recommended to reduce the CA Poison Control System by $1 million (General Fund) and to adopt the following Budget Bill Language:

> Item 4120-101-0001 Provision 5
> It is the intent of the Legislature for the Director of the Emergency Medical Services Authority where feasible, to provide assistance to the poison control system in seeking other sources of funding than state General Fund support, including grants from health-related foundations, federal grants, and assistance from the CA Children and Families Commission or other relevant entities. It is also the intent of the Legislature for the poison control system to assertively seek and obtain funding from foundations, private sector entities, the federal government and other non state General Fund sources.

Questions: The Subcommittee has a response regarding the following questions:

1. EMSA: Please summarize the Governor's reduction proposal.

2. LAO: Please comment on the Subcommittee staff recommendation.

3. Regional Disaster Medical Health Specialist

Issue. The EMS Authority presently provides a total of $315,000 (General Fund) to five Local Emergency Medical Services Agencies (Local EMS Agencies) in support of Regional Medical Health Specialists. This state General Fund support is in addition to $315,000 in federal grant funds provided by the Department of Public Health to these same Local EMS Agencies.

The Governor proposes to reduce the state's support of the Regional Disaster Medical Health Specialist (Specialists) funding by $36,000, or about 10 percent. The reduction is to be taken across-the-board. The EMS Authority states that this reduction will result in decreased hours for these Specialists dedicated to program activities including the management of regional medical and health mutual aid and emergency response system for Office of Emergency Services Mutual Aid Regions.

It should be noted that federal Prevention Block Grant funds were previously used by the EMS Authority for this purpose; however, in 1999/2000 when state General Fund revenues were robust, the Administration shifted funding to General Fund support and utilized federal grant funds in other ways.

Program Description. Each Regional Medical Health Specialists (Specialists) is located within one of six Office of Emergency Services (OES) Mutual Aid Regions throughout California. These Specialists manage the regional medical and health mutual aid and emergency response system for that particular OES Mutual Aid Region.

These Specialists are responsible for: (1) managing and improving the regional medical and health mutual aid and mutual cooperation systems; (2) coordinating medical and health resources; (3) supporting development of the Operational Area Medical and Health Disaster Response System; and (4) supporting the state medical and health response system through the development of information and emergency management systems.

According to the EMS Authority, funds are presently allocated as follows:

✓ Contra Costa	$142,000
✓ Inland Counties	$107,000
✓ Kern County	$125,000
✓ Los Angeles	$119,000
✓ San Joaquin	$135,000
TOTAL	$628,000 ($315,000 General Fund)

Subcommittee Staff Recommendation—Adopt Governor's Reduction. It is recommended to adopt the Governor's reduction of 10 percent, or $36,000 (General Fund). Subcommittee staff will also research options for backfilling the remaining General Fund support with federal funds.

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

1. EMS Authority, Please provide a brief summary of the program and the Governor's reduction.

4. Mobile Medical Assets Program—Two Issues

Issue. ***First***, the EMS Authority is seeking an increase of $310,000 (General Fund) to support three new state positions--Senior Emergency Coordinators. The EMS Authority states these positions would be used to support the Mobile Medical Assets Program.

The purpose of these positions, to be stationed in Sacramento, would be to serve as the EMS Authority's designated field liaison during a state disaster medical response. These positions would be responsible for the readiness of field assets (such as equipment, vehicles, and supplies), training of staff and volunteers, and the interface with all 58 counties prior to an event. During a disaster they would be on-site coordinators with local EMS Agencies or the field level Incident Command managing the medical disaster.

Second, the Governor is proposing a reduction of $35,000 General Fund to the Mobile Medical Assets Program. The EMS Authority states that this reduction would be taken by reducing general operating costs, including asset oversight and training activities.

Program Description. The Mobile Medical Assets Program is a rapid field medical response program to provide patient care in a disaster. This rapid capability consists of the following: (1) twenty-six Disaster Medical Support Units; (2) three CA Medical Assistance Teams (CAL-MATs); (3) four Mission Support Teams; (4) CA Medical Volunteers Program; and (5) the Mobile Field Hospital Program.

The Mobile Medical Assets Program is presently staffed with *five* positions.

Subcommittee Staff Recommendation—Deny Augmentation and Adopt Governor's Reduction. Due to the fiscal emergency, it is recommended to **(1)** deny the $310,000 (General Fund) augmentation request for three new state positions, and **(2)** adopt the Governor's proposed reduction of $35,000 (General Fund). These two actions save a total of $345,000 (General Fund).

The EMSA presently has five positions (three funded with state General Fund and two funded by federal funds) to staff the Medical Assets Program. These positions can be re-prioritized as needed to address the readiness of field assets and to interface with counties.

In addition, there are several other state departments which provide field assistance, including pre-planning and management of disaster response. These other state departments include the Department of Public Health, the Office of Emergency Services, the CA National Guard and the CA Office of Homeland Security. In addition, there are various local entities with designated responsibilities which are mutually coordinated with these various state departments.

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

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

5. Mobile Medical Assets--Increase for Maintenance & Calibration of Biomedical

Issue. The EMS Authority is seeking an increase of $242,000 General Fund for the costs associated with the on-going maintenance and calibration of all biomedical equipment contained in all three Mobile Field Hospitals.

The EMS Authority states that this level of funding is necessary after they evaluated potential contractors based on a “request for proposal” process. The EMS Authority contends that the contractor— Blu-Med – offered the “best value” for the state. Further they state that this level of funding provides all manufacturers required equipment calibration and service intervals. They note that this maintenance is essential to maintaining the integrity of existing manufacturer’s equipment warranties. This proposed increase of $242,000 covers all three hospitals.

Program Description. The three Mobile Field Hospitals were purchased by the state through funds appropriated in the Budget Act of 2006. The Mobile Field Hospitals are to be used to supplement the capacity of damaged or overburdened hospital facilities. These Mobile Field Hospitals are self-contained with medical gases, and requisite medical equipment and supplies. Each hospital has a capacity of 200 beds and modules for the following:

- 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 EMS Authority would set up and operate the hospitals using a combination of state personnel, contracted logistic support staff, and organized disaster medical volunteers. This is to be fully coordinated with the Office of Emergency Services, Ca National Guard, Department of Public Health, and Office of Homeland Security.

Subcommittee Staff Recommendation—Approve the Proposal. Though state General Fund is extremely limited, it is recommended to adopt the proposed increase of $242,000 (General Fund) to provide for on-going maintenance of biomedical equipment. On-going maintenance of the biomedical equipment is necessary to fully develop, maintain and ensure the readiness of these Mobile Field Hospitals.

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

1. EMS Authority, Please provide a brief summary of the proposal and why the maintenance funds are necessary.
2. EMS Authority, Please clarify why state General Fund needs to be used for this purpose and why federal funds are not otherwise available (from any source, including from the Office of Homeland Security, OES, Department of Public Health, or others).

(Last Page of this Agenda. Proceed to next Agenda.)

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

Senate Subcommittee No. 3: Monday, March 10th, 2008
(Please use the Subcommittee Agenda for this day as a guide to this document please.)

ISSUES FOR CONSENT—Department of Public Health (Pages 3 through 11)

- **Action:** Approved the "**Vote Only" Calendar to reduce various programs as proposed by the Governor.** *(DOF—Please show these as the house of "F" in the Change Book system.)*
- **Vote: 3-0.**

DISCUSSION ITEMS—Emergency Medical Services Authority (Page 14)

1. State Supplemental Funding—Multi-County Emergency Medical Services

- **Action:** Adopted the Governor's proposal to reduce as noted.
- **Vote: 3-0.**

2. CA Poison Control System—State Funding (Pages 15 to 17)

- **Action:** Adopted the staff recommendation to **(1)** reduce by $1 million General Fund, and **(2)** approve Budget Bill Language for the EMS Authority to provide assistance to seek other funding sources. *(**DOF**—Please show this action as two pinks in the Change Book system. One as adopting the Governor's BBR, and the other as a Senate action to reduce by the additional amount and to adopt the BBL.)*
- **Vote: 3-0.**

3. Regional Disaster Medical Health Specialist (Pages 18)

- **Action:** Adopted the Governor's proposal to reduce as noted.
- **Vote: 3-0.**

4. Mobile Medical Assets Program—Two Issues (Pages 19)

- **Action:** **(1)** Rejected the requested augmentation; and **(2)** Adopted the Governor's proposal to reduce as noted. (*DOF—Please show this action as two pinks in the Change Book system.)*
- **Vote: 3-0.**

5. Mobile Medical Assets--Increase for Calibration of Biomedical (Page 20)

- Action: Approved the requested augmentation.
- **Vote: 3-0.**

SUBCOMMITTEE NO. 3 Agenda

Health, Human Services, Labor & Veteran's Affairs

Chair, Senator Elaine K. Alquist
Senator Alex Padilla
Senator Mark Wyland

Agenda – Part B

Monday, March 10, 2008
2:00 pm
Room 4203
(Consultant: Bryan Ehlers)

Discussion Agenda

Vote-Only Agenda

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 California Department of Veterans Affairs (CDVA) has three primary objectives: (1) to 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) to afford California veterans the opportunity to become homeowners through loans available to them under the Cal-Vet farm and home loan program; and (3) to 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 (Ventura County), Fresno, and Redding.

The Governor's 2008-09 Proposals
The Governor's Budget begins by funding 1,896.5 positions (including 238.6 new positions) and budget expenditures of $381 million for the department, but then includes a 10 percent, across-the-board General Fund (GF) reduction (Budget-Balancing Reduction–BBR) of $19.4 million and 118.5 positions. The individual BBRs are as follows:

Program	General Fund*	Personnel Years (PYs)
Care of Sick and Disabled Veterans	-$18,687	-115.0
Veteran Claims	-$263	-1.0
Veteran Memorials	-$32	--
Veterans Claims and Rights (Local Assistance to Veterans Service Offices)	-$260	--
General Administration (Administrative Support)	-$149	-2.5
TOTALS	-$19,391	-118.5

(*dollars in thousands)

Staff notes that because the Administration changed the way it accounts for federal funds and reimbursements for the CDVA, the GF numbers above are "inflated" by approximately $5 million. Put another way, $5 million of the GF reduction scored by the Administration actually comes to the state as reimbursements or federal funds from non-state sources. The implications of this accounting change are discussed in more detail below (see CDVA Issue 1), but in order to provide a clearer comparison between the adjusted Fiscal Year (FY) 2007-08 totals and the 2008-09 Governor's Budget, the following table uses the traditional accounting method in which federal funds and reimbursements are kept separate from General Fund:

	Total Funds*	General Fund*	Positions
Adjusted 2007-08 Budget	$366,238	($125,919)	1,652.5
2008-09 Base Budget	$381,226	($138,307)	1,896.5
Proposed Budget-Balancing Reductions	-$19,391	(-$14,246)	-118.5
GOVERNOR'S REVISED 2008-09 TOTALS	$361,835	($124,061)	1,778.0
Change—Year Over Year	-1.2%	-1.5%	+7.6%

(*dollars in thousands)

As illustrated in the table above, the net effect of the Governor's proposals would be a 1.2 percent decrease in total funds from adjusted Fiscal Year 2007-08, including approximately $1.9 million less in GF.

Staff notes that although the above table displays the 2008-09 CDVA proposed budget using the conventional accounting methodology, unless otherwise noted the remainder of this agenda references numbers provided in the 2008-09 Governor's Budget using the Administration's alternative accounting method. Although confusing for the purposes of comparing budget year proposals to current or past years, the time constraints inherent to the budget process simply do not permit all of the numbers to be "translated" at this point in time.

DISCUSSION AGENDA:

Informational Issue – Consolidation of the Veteran Homes Organization Codes

During the 2007-08 budget process, the Administration put forth a proposal to consolidate the CDVA budget. For years, each veterans home received a separate appropriation under a distinct organization code—a practice that had developed quite organically as each new home was added onto the original, single-home structure (Yountville). While this provided budget transparency and allowed each home considerable discretion over its spending, the practice had significant downsides, including lack of flexibility in moving resources to meet emerging needs.

Although the CDVA was not prepared to implement the consolidation in FY 2007-08, the Budget Act of 2007 included language directing the CDVA to implement the change in 2008-09 and requiring the department to provide the Legislature with quarterly progress reports on the transition. In requesting these reports, the Legislature was particularly interested in monitoring the steps the CDVA took to ensure that the adequate policies, procedures, and organizational structures were in place to implement the consolidation effectively.

The issues written-up below contain multiple proposals aimed at strengthening the CDVA's central management capacity at HQ—including oversight of fiscal operations and facilities and capital asset management. The subcommittee may wish the CDVA to provide a brief overview of the department's consolidation activities to lend context to the discussion of the budget requests below.

Questions:

1. What are the major challenges facing the department in implementing the consolidation "on the ground" (as opposed to merely on paper)?
2. Generally speaking, what steps has the CDVA taken to address these challenges?

Informational Issue – Shower Repairs at Chula Vista

Multiple shower benches at Chula Vista have failed over the past several years and the Administration recently provided the Legislature with preliminary notice that deficiency funding would be requested to make the necessary repairs.

Staff Comments: On September 12, 2007, the Department of Finance (DOF) submitted to the Legislature a "Notification of Receipt of Deficiency Funding Requests from the Department of Veterans Affairs" (also referenced below in Issue 2) that included $1 million to remediate "issues resulting from improperly constructed showers" at Chula Vista. Although the notification did not provide many additional details on the nature of the problem, the Legislature learned from CDVA and DOF staff that in June 2007 a shower bench had failed (come out of the wall) while in use by a resident. As the Assembly Committee on Veterans Affairs held a November hearing on the matter and more information continued to emerge throughout the fall and winter, the Legislature learned that this was not the first shower bench failure at Chula Vista. In fact, the Department of General Services (DGS—who oversaw construction at the home) had returned to Chula Vista in 2002, shortly after the home opened, to repair shower benches in the Skilled Nursing Facility (SNF) unit, only for a shower bench to come loose from the wall in SNF Unit 300 in December 2005. In this latter instance, the CDVA identified the problem as an "integral defect"—no moisture barrier and improper tile substrate (allowing water to infiltrate the tile and reach the wooden substructure)—and the department subsequently began repairs to all showers in the unit. However, the CDVA did not test shower walls in other units and therefore did not detect a larger problem until another shower bench (in a different building) failed in 2007.

The CDVA and the DGS have assured the Legislature that adequate steps are being taken to fix the showers at Chula Vista and protect the health and safety of the residents, yet staff notes that, as recently as January 2008, the DGS had not yet positively identified the underlying reason for the shower failures. DGS staff indicated that previous repairs made by the CDVA had wiped out any forensic evidence that the DGS might otherwise have used to diagnose the problem. Instead, the DGS planned to undertake destruction of multiple showers to ascertain the root cause of the failures and to determine whether the CDVA's previous fixes had actually addressed the true problem.

Staff notes that while the DGS and the CDVA endeavor to develop the full scope, schedule and costs to complete the repairs, the estimates run from approximately $1 million to $3.3 million. Given the price tag and the concern for resident health and safety, the subcommittee may wish the CDVA to provide an update on shower repairs at Chula Vista.

Questions:

1. Have the CDVA and the DGS identified the root cause of the shower bench failures?
2. What is the current status of the showers at Chula Vista? How many are under repair or in various states of destruction?
3. What steps has the CDVA taken to provide adequate shower access to residents while fully protecting their health and safety?
4. When can the Legislature expect to learn more about the repair costs?
5. How, if at all, do the lessons learned from the Chula Vista shower problems inform the proposals before the subcommittee today?

Informational Issue – Restraint Free Policy Report

Last year, the CDVA submitted a BCP for additional staff resources to support implementation of "restraint free" care at Yountville. In approving the $352,000 GF and 5.0 positions requested, the Legislature added Budget Bill Language requiring the CDVA to submit a report by January 1, 2008, on the Homes-wide restraint reduction policy, including a demonstration of how the practice is measured, evaluated, reviewed, and reported. Subsequently, the Governor vetoed the language, but committed the Administration to responding to the Legislature's intent as if the request were in the form of Supplemental Report Language.

Staff Comments: The report has not yet been received by the Legislature. The Subcommittee may wish to ask the CDVA for an estimated time of arrival.

CDVA Issue 1: Treatment of Federal Funds and Reimbursements as General Fund Revenue in the Governor's Budget

In contrast to past years, the 2008-09 Governor's Budget and the accompanying Budget Bill (SB 1067) do not contain separate appropriations for the reimbursements and federal funds the state receives for the provision of medical care at veterans homes. Instead, the Administration opted to count these moneys as revenue to the General Fund and to include them under the CDVA's General Fund appropriation.

Staff Comments: According to the Administration, the accounting method adopted in the proposed budget is consistent with the State Criminal Alien Assistance Program operated under the Department of Corrections; however, staff notes that this new approach is inconsistent with the method used for long-term care programs elsewhere in the state budget. Furthermore, this alternative accounting method undermines Legislative authority over the CDVA budget and decreases budget transparency. An example from the recent past helps to illustrate this point.

In a December 2001 report, the Bureau of State Audits found that the CDVA had not taken full advantage of all cash sources available to it, and had been slow to bill a substantial number of Medicare claims. Under the current accounting method, if the CDVA experienced a similar falloff in federal funds and/or reimbursements the department would need to request additional GF appropriation authority from the Legislature to cover its unfunded costs. The Legislature would then have the opportunity to investigate whether the CDVA was again failing to take advantage of all available non-state dollars, or whether the need was created by some other factor (for example, an adjustment in the federal per diem rate).

Under the Administration's proposed accounting method, if non-state dollars came in under anticipated levels, the CDVA would simply continue to spend from its General Fund appropriation, essentially dipping into the statewide General Fund "bucket" of revenue to make up for the "lost" federal funds and/or reimbursements—no notification to the Legislature would be required. In fact, legislative staff would have to make a special request to the Administration simply to view the level of non-state funds received by each of the veterans homes.

The new accounting method contained in the CDVA budget significantly curtails Legislative authority over GF appropriations and reduces transparency, unnecessarily obscuring the true source of revenues to the department by burying them in special budget "schedules" not readily accessible or understood by the public.

Questions:

1. What are the disadvantages, if any, of the existing accounting method?
2. Why did the Administration choose to employ a different accounting method this year?
3. How does the proposed accounting method further the Administration's stated goal of making the Governor's Budget more accessible and readable for the public?

Staff Recommendation: Instruct the Administration to AMEND the relevant CDVA items of appropriation in the Budget Bill to reflect consistency with past accounting of federal funds and reimbursements in the CDVA budget. (Any issues regarding the display can be worked out amongst staff.)

VOTE:

CDVA Issue 2: BCP-25 – Alzheimer's Unit & Ward 1A/1B Operating Expense Increase

The CDVA requests $992,000 GF for Operating Expenses & Equipment (OE&E) costs associated with the Alzheimer's Dementia Unit and Wards 1A & 1B at Yountville.

Staff Comments: The CDVA requested this funding in a May Revise letter in FY 2007-08, but the proposal was denied without prejudice because legislative staff did not have ample time to review the cost calculator (formulae) used to develop the funding estimates. The CDVA vetted the cost calculator with legislative staff during the fall budget-building process, but, due to poor communication and staff assignment changes, legislative staff concerns went unaddressed.

Those staff concerns have been revisited this spring, and the CDVA has indicated it will make a reduction to the training costs allocated to certain classifications. Staff notes that this calculator was used in building many if not most of the position requests in the CDVA budget. Therefore, if approved, the staff recommendation for this issue would require minor/technical adjustments to approved funding amounts in other issues.

Staff Recommendation: APPROVE the request, but adjust funding downward to reflect a slight revision to the OE&E cost calculator. (Legislative staff will work out the final numbers with the CDVA and the DOF.) Request the CDVA to continue to refine its costing methodology in order to provide a more solid analytical basis to future funding requests.

VOTE:

CDVA Issue 3: BCP-4 – Chula Vista Budget Correction

The CDVA requests an ongoing GF augmentation of $2.9 million to correct a funding deficit within the Chula Vista OE&E budget. (Staff notes that, under the current accounting method, this proposal actually reflects a request for only $680,000 GF, with $2.2 million in reimbursements.)

Staff Comments: On September 12, 2007, the Department of Finance (DOF) submitted to the Legislature a "Notification of Receipt of Deficiency Funding Requests from the Department of Veteran Affairs," that included $3.98 million for "ongoing operations at the Chula Vista Veterans Home." The notification indicated that the DOF's initial review found a need for funding the operating shortfall, but noted that the Office of State Audits and Evaluations (OSAE) would conduct an audit to determine the cause and to validate the true need for additional expenditure authority.

Subsequently, the DOF submitted to the Legislature on December 11, 2007, an "Approval of Deficiency Funding Request from the Department of Veteran Affairs," based on the completed OSAE audit which found the CDVA's original funding request overstated and recommended it be reduced (by $1.1 million) to $2.88 million. The OSAE report also found that, "Due to inexperienced budgeting staff and escalating program expenditures, Chula Vista's budgeting process has been insufficient in meeting its overall needs, resulting in budget deficiencies over the past several years." According to the OSAE, among the strategies Chula Vista pursued (instead of seeking increased appropriations) were the following:

- Redirection of funds allotted for other uses such as maintenance, repairs, and training.
- Payment of prior year expenditures with current year appropriations.
- Seeking donations to cover expenditures normally funded through program appropriations.

Staff notes no concern with the requested amount, but the subcommittee may wish the CDVA to briefly outline steps taken to ensure that the "bad budgeting" practices enumerated in the audit do not take place again in the future.

Questions:

1. How did the operating deficit develop at Chula Vista? (Was this primarily caused by staff error, or by a larger, more systemic problem?)
2. What steps have been or are being taken to prevent a repeat of this problem?

Staff Recommendation: APPROVE the request, but with funding adjustments per the staff recommendation in Issue 2. (Legislative staff will work with CDVA and DOF to arrive at final numbers.)

VOTE:

CDVA Issue 4: BCP-2 – GLAVC Veterans Homes Start Up Staffing, Phase II

The CDVA requests $9.4 million GF and 100.7 positions to complete construction, pre-activation, and begin business operations of the Greater Los Angeles/Ventura Counties (GLAVC) Veterans Homes.

Staff Comments: The GLAVC veterans homes were envisioned and enabled (along with the Redding and Fresno homes discussed below) by the Veterans Home Bond Act of 2000, AB 2559 (Wesson) of 2002, and AB 1077 (Wesson) of 2004, which made funds available to meet the matching requirement to receive a grant from the USDVA State Home Grant Program—which funds the majority of the project costs (the split is approximately 60 percent federal funds with the remainder consisting of General Obligation and Lease-Revenue Bonds).

The Legislature approved pre-activation and construction funding for Phase I of GLAVC last year, and ground-breaking for the three new homes took place on schedule in June and July of 2007. Construction at Ventura and Lancaster is scheduled for completion in December 2008, with the first residents to arrive in April. Under this proposal, Ventura and Lancaster would serve 18 veterans in the Adult Day Health Care (ADHC) program and house 30 Residential Care Facility for the Elderly residents by the close of FY 2008-09. With West Los Angeles to be completed in December 2009, the new homes, when fully operational, would add approximately 616 total beds to the veterans' home system. According to the CDVA, 250 letters of intent to apply to GLAVC have been received to date. (Staff notes that the letters of intent have arrived largely unsolicited. The CDVA provides information about the new homes and invites letters of intent on its website, but has not engaged in any formal advertising.)

As discussed below (in Issue 5), the Governor's proposed BBR would delay opening of the ADHC units at Ventura and Lancaster until FY 2009-10, but all other aspects of the homes would become operational according to the schedule laid out in this proposal.

Staff notes that approximately 20 percent of CDVA home residents are currently MediCal participants, yet the ADHC portion of this proposal is fully funded by the GF and does not reflect a plan to accept MediCal participants (which would bring in non-state funds to supplant GF). Although there is currently a statewide moratorium on establishing new MediCal supported ADHC programs, because the CDVA is sponsoring its own program, it may very well be able to accept and access MediCal support patients. Staff are working with the CDVA to make this determination.

Questions:

1. Please clarify the requirements of the federal grant used to fund GLAVC?
2. Does the state have any options in terms of delaying the opening of the homes in the face of the current fiscal crisis? Notwithstanding the clear legislative intent in enabling and funding the homes, could the state pursue a waiver from the federal government in order to avoid having to immediately repay the grant funds?
3. What was the basis for the CDVA's determination to seek only GF for the ADHC program, instead of counting on at least some increment of MediCal reimbursements?

Staff Recommendation: HOLD OPEN this request pending resolution of whether or not MediCal patients can be accepted to the ADHC program.

VOTE:

CDVA Issue 5: BCP-3 – Redding and Fresno Veterans Homes Pre-Activation

The CDVA requests $580,000 GF and 8.0 positions (4.3 PYs in 2008-09) for the pre-activation phases of the Redding and Fresno Veterans Homes projects to ensure that all aspects of the construction and business operations of the homes are compliant with federal, state, and local laws and regulations.

Staff Comments: The Redding and Fresno veterans homes were envisioned and enabled by the same legislation that produced GLAVC, and were provided authority to pursue a design-build project procurement process under AB 1725 (LaMalfa) of 2005. Construction of the Redding and Fresno homes, which are to be modeled after the GLAVC satellite facilities in Lancaster and Ventura County, is scheduled to begin in November 2008, with Redding to be completed in October 2010, and Fresno in February 2011.

As discussed below (Issue 5), the Governor has proposed a BBR delaying the pre-activation phase for these new homes until FY 2009-10 (essentially placing this Budget Change Proposal on hold for a year). However, with or without the delay in pre-activation, the construction phase will go forward barring action by the Legislature to delay it. Notwithstanding the clear legislative intent embodied in the enabling legislation referenced above, the depth and breadth of the current fiscal crisis and the uncertain economic outlook warrant at least a discussion of the possibility of delaying construction of the Redding and Fresno homes (to "stop digging" the fiscal "hole" as it were).

Because the Redding and Fresno homes are to pursue an expedited design-build project procurement, the subcommittee may wish the CDVA to explain the timeframe in which a delay decision would have to be made.

Questions:

1. If groundbreaking is to begin in November 2009, how soon would the Legislature have to act to delay construction until FY 2009-10? When would it be too late to pursue this course of action?
2. What are the costs or considerations that might weigh against delaying the construction?
3. If the Legislature opted to delay, what GF savings would be generated in 2008-09 and 2009-10?

Staff Recommendation: HOLD OPEN, pending discussion of Issue 6. Then, if the subcommittee is prepared to approve the delayed pre-activation phase proposed in Issue 6, APPROVE this request with funding adjustments per the staff recommendation in Issue 2.

VOTE:

CDVA Issue 6: BBR – Ten Percent Cut to Care of Sick and Disabled Veterans Program

The Governor proposes to reduce veterans home budgets by a total of $18.7 million GF and 115.0 positions relative to the "workload" budget prepared by the Administration.

Staff Comments: As noted above, the Administration first approved a number of baseline and policy adjustments (a "workload" budget), before applying a ten percent GF reduction. For example, the Governor approved funding to finish construction and activate new veterans homes in Lancaster and Ventura County, and to begin pre-activation and construction on homes in Fresno and Redding, and then ordered certain delays in these activities (outlined below) to help achieve a 10 percent savings.

According to the Administration, the proposed reductions would be taken in the following manner:

- Limit expansion of the Memory Care Unit at Yountville to 40 beds [instead of 75, as approved in FY 2006-07], resulting in fewer veterans served.

- Reduce the Chula Vista Domiciliary/Residential Care Facility for the Elderly (DOM/RCFE) census by approximately 60 residents. Some former residents of Barstow have already expressed interest in returning to that home, while the rest of the reduction would be achieved through normal attrition as residents require higher levels of care or move to other placements.
- Postpone by three months, until Fiscal Year 2009-10, the opening of the Adult Day Health Care (ADHC) unit at the Lancaster and Ventura County homes.
- Delay establishing the pre-activation teams at both Redding and Fresno until July 2009.
- Eliminate the VistA component from the Enterprise-wide Veterans Home Information System project [approved in FY 2007-08].

Staff notes that the Legislature approved the current year component of this BBR proposal in special session, including a GF reduction of $1.7 million and 17.8 positions.

Questions:

1. Would it be accurate to say that, even with the proposed reductions, under the Governor's Budget the state would be serving more veterans home residents in FY 2008-09 than it did in FY 2006-07?

Staff Recommendation: HOLD OPEN, pending resolution of Issue 4.

VOTE:

CDVA Issue 7: BCP-5 – Fiscal Operations—Effective Fiscal Oversight (HQ)

The CDVA requests 14.0 positions and $1.3 million GF to address deficiencies in fiscal controls and provide effective fiscal oversight of budget development, capital outlay, accounting, and financial and fiscal operations for the department, particularly at the veterans homes.

Staff Comments: This request stems from a corrective action plan developed by the CDVA in response to Budget Bill Language instituted in response to errors and inconsistencies in budget documents produced by the department during the FY 2006-07 budget process. Over the past year, the CDVA has met frequently with the Department of Finance (DOF), the Legislative Analyst's Office (LAO), and Budget Committee consultants to provide updates on its review of internal fiscal processes and controls, and to discuss its plans to address the inadequacies and weaknesses of these processes in view of the increasing demands the department will encounter as new homes are brought on-line in the coming years. According to the CDVA, this proposal reflects the recognition that the department must grow out of a dependence on "personalities" and come to rely more heavily on organization, systems, and structures that can weather the coming and going of individual staff members.

Additionally, the Administration and legislative staff have spoken on a number of occasions over the past year about the need to overhaul the decentralized organizational structure that developed organically from just a single home (Yountville) into the "confederation" of three homes governed somewhat uneasily by HQ for the past seven years. Epitomized by a budget in which each home had its own item of appropriation, this system provided inadequate oversight of fiscal operations at the homes and enabled systematic errors in budgeting such as the operating shortfall described in Issue 3 above.

To address these shortcomings, the CDVA proposes the following:

- A budget/fiscal support staff person for each home who reports to HQ but who resides at the home and advises the home administrator.
- A fiscal operations manager to oversee the existing budget office, the new budget/fiscal support staff (above) and a new Cost Analysis/Forecasting Unit consisting of three research analysts.
- Five administrative, technical, and clerical staff to support the Administration executives and Fiscal Operations.

Although the CDVA makes a compelling case for the need for the five budget/fiscal support staff, the immediate need for the remainder of this proposal is less clear at the present time. For example, it is not apparent that the department currently has the need for an entire unit devoted to cost analysis and forecasting (though it might once all eight homes are on-line). Given the tight constraints on the GF in the current fiscal crisis a more measured approach to staffing these new functions might be warranted.

Questions:

1. Given a history of the homes acting semi-autonomously, how does the CDVA envision instituting the culture change necessary for the HQ budget staff to work collaboratively and constructively within the homes?
2. What currently unmet workload needs would the addition of clerical support allow executive staff to meet?
3. Which of the needs addressed by this staffing proposal are most closely associated with the five new homes and could be considered in a future budget? If the CDVA had to prioritize, which positions would be the most important and which the least?

Staff Recommendation: APPROVE the request IN-PART with funding adjustments per the staff recommendation in Issue 2. DENY five of the requested positions (two Research Analysts, the SSM III, an SSA, and a Mgmt Svcs Tech), but provide the incremental funding necessary for the CDVA to upgrade its existing SSM II (in the Budget Office) to an SSM III in recognition of the position's increased managerial responsibilities.

VOTE:

CDVA Issue 8: BCP-10 – Capital Assets, Facilities Management and Construction

The CDVA requests $3.2 million GF and 19.0 positions (including $1.1 million for deferred maintenance) to address increased workload in construction planning and implementation, capital outlay, and facilities management.

Staff Comments: Last year this subcommittee approved 8.0 one-year limited-term positions and $1.9 million GF to address deferred repair and maintenance at the homes (primarily Yountville). In doing so, staff noted that the CDVA had not provided an explicit maintenance schedule tied to the level of dollars requested.

This proposal reflects a request to make last year's limited-term positions permanent and to approve an additional 11.0 positions to create a new division of Capital Assets, Facilities Management, Maintenance and Construction. According to the CDVA, the new staffing would finally provide the resources to develop and implement not only a long-term deferred maintenance plan, but also a facilities master plan (neither of which currently exists). Additionally, the CDVA notes that the proposed positions and organizational structure would enable the department to oversee its major capital outlay projects (in order to help avoid any repeats of the problems experienced in Chula Vista) and take more control of smaller public works projects that may be appropriately delegated to the department. The CDVA believes the proposed organizational structure and supporting positions will be sufficient to meet the current and out-year needs for the eight existing and proposed CDVA facilities.

While the significant maintenance needs of the aging facility at Yountville and the imminent construction of several new veterans homes highlights the need for the CDVA to be proactive in managing its capital assets, like the Fiscal Operations proposal in Issue 5, some of the positions in this proposal appear to be unjustified at this time. In fact, the CDVA itself acknowledges that the staffing complement requested would be adequate to address the needs of the department after all eight homes are up and running. Therefore, the subcommittee may wish to reduce this proposal in a fashion similar to Issue 5.

Questions:

1. If these positions are approved, is the CDVA prepared to submit a deferred maintenance plan before any future funds are supplied for that purpose?
2. What high priority workload would the CDVA be unable to address in the immediate term under the staff recommendation?

Staff Recommendation: APPROVE the request IN-PART with funding adjustments per the staff recommendation in Issue 2. DENY four positions (the Direct Construction Supervisor II, the SSM II, the AGPA, and an OT). APPROVE the deferred maintenance funding for one-year (with the expectation that any future request for ongoing funding ought to be accompanied by a long-term deferred maintenance plan).

VOTE:

CDVA Issue 9: BCP-12 – Minimum Data Set and Standards Compliance Staffing (CV)

The CDVA requests $448,000 GF and 4.0 positions to meet Minimum Data Set (MDS) requirements at the Chula Vista Skilled Nursing Facility (SNF) and maintain the health community standard of one MDS employee per 60 residents.

Staff Comments: In 1990, the Resident Assessment Instrument (RAI) became a federally mandated document intended to monitor the quality of care in nursing homes throughout the country. The RAI consisted of an assessment of all medical, psychosocial, and emotional and nursing needs for the patient and was subsequently transcribed onto the MDS. Each resident admitted to the SNF receives this assessment upon admission, quarterly, annually, and if there is a significant change of medical condition.

The CDVA indicates that the annual California Department of Health Services (CDHS) surveys of 2003, 2004, 2005, and 2006, each found the home deficient in its assessment and correct completion of the MDS and the Care Plan generated by the MDS. Among the deficiencies cited, the facility failed to properly code patients readmitted from hospital stays, and, in at least one instance, wounds sustained by a resident while in the hospital were incorrectly reported as having been sustained while in the SNF. This caused the quality assurance profile of the SNF (which is posted publicly on the web) to drop below the state and national averages. While miscoding and late entries can result in reduction of Medicare reimbursements to the home, the department notes that the potential penalties and sanctions as a result of significant quality deficiencies and citations are an even greater risk to the CDVA.

Staff Recommendation: APPROVE the request with funding adjustments per the staff recommendation in Issue 2.

VOTE:

CDVA Issue 10: BCP-13 – AB 2609 Workload—Medication Management Program Oversight (CV)

The CDVA requests $164,000 GF and 2.0 positions to provide medication management program oversight within the Residential Care Facility for the Elderly (RCFE) unit at Chula Vista.

Staff Comments: AB 2609 (Evans) of 2006 requires licensed RCFEs to ensure that each employee who assists residents with the self-administration of medications meet certain training requirements. The CDVA requests two Licensed Vocational Nurses to provide nursing care, medication management training, oversight, and direction to meet the bill's requirements.

As discussed in full Budget Committee hearings during the special session, the current fiscal crisis requires that the Legislature consider many options that would not ordinarily be on the table in better budgetary times. This includes deferral or elimination of funding for recently enacted legislation.

Staff Recommendation: DENY this proposal without prejudice toward the justification supplied by the CDVA and notwithstanding the previous intent of the Legislature in passing AB 2609. Encourage the CDVA to address the requirements of AB 2609 as best as is possible within existing resources and offer reconsideration of this proposal next year.

VOTE:

CDVA Issue 11: BCP-14 – The Pathway Home Program (Y)

The CDVA requests $600,000 in reimbursement authority for three years to host a privately funded pilot program for returning disabled veterans at Yountville.

Staff Comments: The CDVA indicates that Yountville is currently negotiating an agreement with The Pathway Home Program (PHP), LLC to utilize private funding from the Iraq-Afghanistan Deployment Impact Fund to establish a specialized program in a currently unoccupied building to accommodate and rehabilitate physically and/or psychologically disabled veterans of service in Iraq and Afghanistan. These veterans are otherwise eligible for admission to the Home as “disabled veterans” and would be afforded the status of associate members under the agreement.

According to the CDVA, the program would serve approximately 25-30 members at a time for stays ranging from 90 to 120 days, with the intent of helping the veterans return to healthy and independent lives within their communities. Staffing for specialized services for the associate members in the program would be paid for by the Tides Foundation, while the operating agreement would provide a means for the Home to collect reimbursement from the program for meals consumed, laundry, and recreational services utilized. The program would otherwise operate independently, providing its own medical care and other specialized services through its own staff and outside providers.

Although this request is for three years, if the pilot program is successful, the CDVA hopes to identify a permanent funding source (perhaps federally) to continue it.

The CDVA anticipates preparing a Spring Finance Letter when the agreement has been finalized.

Staff Recommendation: HOLD OPEN, pending the Spring Finance Letter.

VOTE:

CDVA Issue 12: BCP-16 – Skilled Nursing Facility Staff-to-Patient Ratios (CV)

The CDVA requests $3.5 million GF and 38.0 positions to implement staffing ratios set forth in emergency draft regulations recently issued by the California Department of Public Health (CDPH).

Staff Comments: Staff-to-patient ratios were legislated in 2001 as part of AB 1075, but delay in implementing the statute led to a lawsuit against CDPH by a consumer-advocate organization. In settling the suit, the CDPH agreed to implement emergency regulations, with a formula for calculating appropriate ratios, contingent upon a budget allocation in the annual budget or other statute. The Legislature subsequently authorized the CDPH to adopt emergency regulations to implement the provisions of AB 1075, and the CDPH issued draft regulations on October 16, 2007.

Staff notes that the workload calculations supporting this request are insubstantial, and may be inaccurate. The Administration has indicated that it plans to submit a Spring Finance Letter to correct these errors. Therefore, the subcommittee may wish to deny this proposal and "start fresh" when the Administration submits a more justifiable proposal later in the spring.

Staff Recommendation: DENY the request.

VOTE:

CDVA Issue 13: Trailer Bill Language – Adult Day Health Care Fees

The Administration has submitted Trailer Bill Language (TBL) to authorize the CDVA to charge a fee for its new adult day health care program.

Staff Comments: The Administration indicates that there are revisions to the original TBL; however staff has not yet received the amendments.

Staff Recommendation: HOLD OPEN.

VOTE:

VOTE-ONLY AGENDA:

Vote-Only Issue 1: BBR – Veteran Claims Program

The Governor proposes to reduce veteran outreach efforts by $263,000 and 1.0 Personnel Year (PY) relative to the "workload" budget prepared by the Administration.

Staff Comments: According to the Administration, the proposed reduction would be taken in the CDVA headquarters office (HQ), and would result in less training for staff, veteran service organizations, and county veteran service offices. The CDVA's reduced capability to provide services to veterans could result in fewer federal dollars flowing into the state in the form of veteran's benefits.

Vote-Only Issue 2: BCP-11 – Northern California Veterans Cemetery—Shift to Civil Service

The CDVA proposes to transition the Northern California Veterans Cemetery (NCVC) from a service contract to civil service staffing. The request includes 4.0 new positions to be funded from within existing resources ($543,000, including $316,000 GF).

Staff Comments: The United States Department of Veterans Affairs (USDVA) funded 100 percent of the design, development, and constructions costs of the NCVC, which began operations as a new state function on December 21, 2005. Under the rationale that the state lacked experience operating a cemetery and that the private sector could do so more cost-effectively, the state has employed contracted services since the NCVC's inception. However, the cost of the contract has increased steadily and the contract terms have precluded the state from accessing volunteers, the USDVA Work Study Program, or CalWorks as alternative work options to address existing workload and special projects.

Given that state expertise in cemetery management has grown, the CDVA now believes that civil service staff would not only provide a solution that is at least as cost-effective as the current contract services, but would also provide greater flexibility in addressing the NCVC's emerging needs through auxiliary sources of labor. Staff notes that, since this BCP was developed, the current contractor has noticed the department that it would not renew the contract. The CDVA indicates that it has taken steps to administratively establish positions to provide continued operations.

Vote-Only Issue 3: BBR – Veteran Memorials Program (NCVC)

The Governor proposes to reduce by $32,000 GF the Operating Expenses and Equipment (OE&E) budget for the NCVC (see related issue above).

Staff Comments: The Administration indicates that this reduction would be made possible if the NCVC is transitioned to civil service staffing (as outlined above). The

CDVA anticipates accessing alternative work force options to mitigate the impacts of the reduction.

Vote-Only Issue 4: BBR – Local Assistance to Veteran Service Offices

The Governor proposes to reduce local assistance to County Veteran Services Offices (CVSOs) by $260,000 GF.

Staff Comments: The Administration indicates that the proposed reduction would decrease outreach and educational programs conducted by CVSOs, resulting in reduced access to benefits for veterans and fewer federal dollars entering the California economy. This proposal would affect all counties, but would have the greatest potential impact on small counties, where the loss of state funds could cause closure of entire programs.

Staff notes that the proposed reduction represents 10 percent of the base GF budget for this program, but that the program also receives approximately $1.4 million in other funds that would not be affected by this reduction.

Vote-Only Issue 5: BBR – Administrative Support

The Governor proposes to reduce administrative support in the CDVA by $149,000 GF and 2.5 PYs.

Staff Comments: The Administration indicates this reduction would be achieved by eliminating 1.0 position in the Human Resources (HR) Division and 1.5 positions within the Legal Office. According to the CDVA, loss of the HR position could impact the timely hiring of personnel for the new homes; however, the Legal Office reductions would have only a minor impact on the collection of un-reimbursed costs of care from deceased members' estates.

Staff notes that the Legislature approved the current year component of this proposal ($30,000 and 0.5 PYs) in special session. Staff additionally notes that the HR position reduction assumes approval of the position as part of BCP-2 ("GLAVC Veterans Home Start Up Staffing, Phase II"—see below).

Vote-Only Issue 6: BCP-7 – Computed Radiology Picture Archiving and Communication Systems (Y)

The CDVA requests $123,000 GF to replace the traditional x-ray film process at Yountville.

Staff Comments: Yountville currently chemically develops x-ray films and transports them off-site for a reading by a contract radiologist. Until May 2007, the average turnaround time for the exam draft report was 2.0 days and 4.4 days for a signed and finalized report. However, with the introduction of electronic signature, the turnaround time has been reduced to 1.7 days for a draft report and 2.8 days for a finalized report. This request would further reduce the turnaround time by allowing images to be transmitted electronically. Additionally, the proposed system would allow multiple individuals (doctors, nurses, and/or radiologists) to potentially view the same x-ray at the same time but in different locations.

Vote-Only Issue 7: BCP-17 – Pharmacy Workload (CV)

The CDVA requests $224,000 GF and 2.0 positions to address increased workload and regulatory requirements in the Chula Vista pharmacy.

Staff Comments: Originally, the Chula Vista pharmacy was to serve the prescriptions needs of the home's RCFE and DOM units—a total average daily census of approximately 165 residents requiring approximately 1,485 prescriptions per month. However, the home has grown and the pharmacy has been required to address not only the increasing number of Chula Vista residents, but the prescription needs of Barstow's residents as well. Today, the pharmacy fills an average of 5,100 prescriptions per month for 531 residents of the two homes. Over time, the original staff of 2.0 pharmacists and 2.0 pharmacy technicians was augmented to include an office technician, and in 2006 a pharmacist and pharmacy technician from Barstow along with an office technician and a half-time consultant (for a total of 7.5 positions); however, with the reopening of the Barstow SNF unit and the addition of its 40 new residents, the CDVA asserts that the pharmacy workload is no longer absorbable within existing resources.

Vote-Only Issue 8: COBCP – Yountville: Upgrade Fire Alarm System

The CDVA requests $339,000 GF to prepare preliminary plans and working drawings for the purchase and installation of a new addressable fire alarm system in seven veteran-occupied buildings and the acute care center at Yountville. Assuming the project was to go according to plan, the CDVA would request an additional $2.2 million ($680,000 GF and $1.53 million Federal Funds) for construction costs in FY 2009-10.

Staff Comments: An addressable fire alarm system transmits information that allows emergency response personnel to pinpoint the location (the building, and in some cases the floor) of a fire, thereby significantly reducing response times. Although many of the Yountville residential areas were remodeled in the late 1980s and early 1990s, addressable fire alarms were not available at the time. While some areas of the home have since been upgraded with addressable smoke detectors, these detectors are rendered less than fully effective by the aging computer that currently services the Central Fire Alarm System. In addition to placing addressable smoke detectors in seven veteran-occupied buildings, this project would also replace the existing computer (which has exceeded its "useful life" by 11 years and failed 10 times in a 12-month period), and bring the Yountville fire alarm system into compliance with both the National Fire Code and Title 19 of the California Code of Regulations.

Staff notes that both Barstow and Chula Vista have addressable fire alarm systems.

Vote-Only Issue 9: COBCP – Yountville: Wastewater System Study

The CDVA requests $199,000 GF to study apparent cracks in the 1920s era sewer system at Yountville. According to the CDVA, the study will allow a determination as to the most economical way to secure the sewer system.

Staff Comments: Data indicates that sewer flows into the Joint Treatment Plant track rainfall (i.e. flows increase with rainfall), suggesting that the sewer system at Yountville is subject to infiltration/inflow from rain runoff and/or ground water entering the system through cracks, breaks, root damage, and/or improper connections. Not only does this unnecessarily increase sewer treatment costs (because all of the water is processed as if it were raw sewage), but it raises concern that the sewer system may leak during the dry season.

STAFF RECOMMENDATION ON VOTE-ONLY ITEMS: APPROVE Vote-Only Issues 1 through 9 with funding adjustments per the staff recommendation in Issue 2 for all proposals containing position requests.

VOTE on Vote-Only Issues 1 through 9:

Senate Budget & Fiscal Review Committee
Bryan Ehlers 651-4103

Hearing Outcomes: Agenda Part B

Subcommittee No. 3
2:00 pm, Monday, March 10, 2008

Discussion Agenda

8950 Department of Veterans Affairs (CDVA)

- CDVA Issue 1: Treatment of Federal Funds and Reimbursements as General Fund Revenue in the Governor's Budget
  Action: Approved the staff recommendation.
  Vote: 3-0

- CDVA Issue 2: Alzheimer's Unit & Ward 1A/1B Operating Expense Increase
  Action: Approved the request with adjustments per staff recommendation. (Acknowledged that all other approved issues containing positions would be affected by the approved adjustment to the OE&E calculator. Staff to reach consensus on final numbers with LAO, DOF, and CDVA.)
  Vote: 3-0

- CDVA Issue 3: Chula Vista Budget Correction
  Action: Approved the request.
  Vote: 3-0

- CDVA Issue 4: GLAVC Veterans Homes Start Up Staffing, Phase II
  Action: Held Open.

- CDVA Issue 5: Redding and Fresno Veterans Homes Pre-Activation
  Action: Held Open.

- CDVA Issue 6: Ten Percent Cut to Care of Sick and Disabled Veterans Program
  Action: Held Open.

- CDVA Issue 7: Fiscal Operations—Effective Fiscal Oversight
  Action: Held Open.

- CDVA Issue 8: Capital Assets, Facilities Management and Construction
  Action: Held Open.

- CDVA Issue 9: Minimum Data Set and Standards Compliance Staffing
  Action: Approve the request with adjustments per staff recommendation.
  Vote: 2-1 (Wyland)

- CDVA Issue 10: AB 2609 Workload—Medication Management Program Oversight
  Action: Denied the proposal.
  Vote: 3-0

- CDVA Issue 11: The Pathway Home Program
  Action: Held Open (pending April FL).

- CDVA Issue 12: Skilled Nursing Facility Staff-to-Patient Ratios
  Action: Held Open (pending April FL).

- CDVA Issue 13: Trailer Bill Language—Adult Day Health Care Fees
  Action: Held Open (pending review of revised language).

Vote-Only Agenda

8950 Department of Veterans Affairs (CDVA)

- Vote-Only Issue 1: BBR – Veterans Claims Program
  Action: Approved the reduction.
  Vote: 3-0

- Vote-Only Issue 2: BCP-11 – Northern California Veterans Cemetery—Shift to Civil Service
  Action: Approved the request.
  Vote: 3-0

- Vote-Only Issue 3: BBR – Veteran Memorials Program
  Action: Approved the reduction.
  Vote: 3-0

- Vote-Only Issue 4: BBR – Local Assistance to Veteran Service Offices
  Action: Approved the reduction.
  Vote: 3-0

- Vote-Only Issue 5: BBR – Administrative Support
  Action: Approved the reduction.
  Vote: 3-0

- Vote-Only Issue 6: BCP-7 – Computed Radiology Picture Archiving and Communication Systems
  Action: Approved the request.
  Vote: 3-0

- Vote-Only Issue 7: BCP-17 – Pharmacy Workload

Action: Approved the request.
Vote: 3-0

- Vote-Only Issue 8: COBCP – Yountville: Upgrade Fire Alarm System
  Action: Approved the request.
  Vote: 3-0

- Vote-Only Issue 9: COBCP – Yountville: Wastewater System Study
  Action: Approved the request.
  Vote: 3-0

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

Chair, Senator Elaine K. Alquist
Senator Alex Padilla
Senator Mark Wyland

Agenda – Part A

Monday, March 24, 2008
10:30 a.m.
Room 4203 (John L. Burton Hearing Room)
(Eileen Cubanski, Consultant)

Vote-Only Agenda

Vote-Only Agenda (continued)

Discussion Agenda

Vote-Only Agenda

Vote-Only Issue 1: OSHPD – Reduction in Administrative Services Support Costs

Description: The Governor's Budget proposes a $7,000 General Fund reduction to administrative funding for the Office of Statewide Health Planning and Development (OSHPD), leaving $63,000 General Fund for this purpose. The OSHPD's Director and Legal Offices, Administrative Services Division, and Information Technology Systems Section (Administration) provide support services to all programs within the Department. Administration expenditures are distributed to all funds across OSHPD based on personnel years. The General Fund share of the total $11.5 million budgeted for Administration in 2008-09 equals $70,000. According to the Administration, the administration's reduction will be distributed to various operating expense line items.

Staff Recommendation: Approve the proposed reduction for 2008-09 and ongoing. No issues have been raised regarding this proposal. This cut is not to direct services as in other areas of the budget.

Vote-Only Issue 2: OSHPD – State Nursing Assumption of Loans for Education (SNAPLE) Program

Description: The Governor's Budget proposes a $9,000 General Fund reduction to marketing and outreach funding for the SNAPLE Program. The Health Professions Education Foundation receives General Fund in the amount of $95,000 to perform statewide marketing and outreach activities for the SNAPLE Program administered by the California Student Aid Commission. According to the Administration, the $9,000 funding reduction will reduce the annual number of outreach events from six to four and will reduce the availability of print materials available to publicize the program.

LAO Recommendation: The Legislative Analyst's Office (LAO) recommends using $90,000 from the California Health Data Planning Fund in lieu of the remaining General Fund for this program to achieve additional General Fund savings.

Staff Recommendation: Approve the proposed reduction for 2008-09 and ongoing. This cut is not to direct services as in other areas of the budget. Do not remove the remaining General Fund and replace it with CHDP funds at this time.

Vote-Only Issue 3: OSHPD – Increase Mental Health Practitioner Education Fund Expenditure Authority

Description: The Governor's Budget proposes an increase in expenditure authority in the Mental Health Practitioner Education Fund of $260,000 for the Licensed Mental

Health Service Provider Education Program to provide 17 additional loan repayment grants beginning July 1, 2008.

Background: Assembly Bill 938 (Chapter 427, Statutes of 2003) established the Licensed Mental Health Services Provider Education Program to provide loan repayment grants to licensed mental health service providers working in mental health professional shortage areas. There is currently $155,000 appropriated annually from the Mental Health Practitioner Education Fund for approximately ten loan repayment grants. Implementation of the program was significantly delayed due to regulatory and programmatic issues and allocation of the first grants was not made until this past November. As a result, the fund balance in Mental Health Practitioner Education Fund has increased. The additional expenditure authority requested will allow for 17 additional grants to be made through 2012-13 when the fund balance has been depleted. At that time, the Administration will submit a request to reduce expenditure authority from the fund and will reduce the number grants back to the original ten.

Staff Recommendation: Approve as budgeted. No issues have been raised regarding this request.

Vote-Only Issue 4: OSHPD – Training Physician Assistants for Public Mental Health

Description: The Governor's Budget proposes an increase in reimbursement authority of $500,000 in Mental Health Services Act funds from the Department of Mental Health to train physician assistants (PA) to provide mental health care services in public mental health settings and/or in areas of unmet priority need. The funds would be allocated through the Song-Brown Program, which already provides funds to PA programs. The California Mental Health Planning Council has identified the shortage of human resources at all levels as one of the most urgent issues facing the mental health system. This proposal is intended increase the number of providers who will practice in rural and urban underserved areas and by increasing the supply of providers who can deliver culturally sensitive and appropriate health care. The PA profession was selected for initial funding because their licenses allow them to prescribe and administer psychotropic medications.

Staff Recommendation: Approve as budgeted. No issues have been raised regarding this request.

Vote-Only Issue 5: OSHPD – Increasing Mental Health Professional Shortage Areas in California

Description: The Governor's Budget proposes an increase in reimbursement authority of $117,000 in Mental Health Services Act funds from the Department of Mental Health to establish a position at OSHPD to increase the number of counties or Medical Service Study Areas designated as mental health professional shortage areas (MHPSAs). The

Shortage Designation Program within OSHPD is the only entity in California that administers the program that processes MHPSA applications. The requested position would proactively work with local entities to develop and submit MHPSA applications. Increasing the number of MHPSA designations in California will increase our ability to access significant additional federal funding and provide enhanced ability for underserved areas to recruit, retain, and fund mental health professional staff.

Staff Recommendation: Approve as budgeted.

Vote-Only Issue 6: OSHPD – Health Care Workforce Clearinghouse Program

Description: The Governor's Budget proposes an increase in expenditure authority of $439,000 from the California Health Data and Planning Fund and four positions for 2008-09 to implement the Health Care Workforce Clearinghouse Program. OSHPD estimates that the ongoing costs of the program will be $1.3 million once the clearinghouse is fully implemented.

Background: Senate Bill (SB) 139 (Chapter 522, Statutes of 2007) requires OSHPD to establish a health care workforce clearinghouse to serve as the central source of health care workforce and educational data in the state. The clearinghouse is responsible for the collection, analysis, and distribution of information on the educational and employment trends for health care occupations in the state. SB 139 requires that funding from the California Health Data and Planning Fund be used to establish and administer the clearinghouse.

Staff Recommendation: Approve funding and 3.5 positions for 2008-09; reject the 0.5 personnel analyst position and associated funding. The personnel analyst is not related to implementing the clearinghouse. OSHPD will need to submit a new BCP for 2009-10 and subsequent fiscal years as costs for the program increase.

Vote-Only Issue 7: OSHPD – Pre-Approval Program and Contracts Management Functions

Description: The Governor's Budget proposes an increase in expenditure authority of $329,000 from the Hospital Building Fund and two positions for OSHPD's Pre-Approval Program and Contract Management Functions. In an effort to reduce plan review turnaround time for healthcare facility construction projects, OSHPD-FDD redirected two positions from its Program Support Unit in 2007-08 to assist with critical plan review workload in the Architectural/Engineering Plan Review Section's South Region. Meeting this immediate need drew resources away from the state that are now necessary to address the volume of plan review work statewide.

Staff Recommendation: Approve as budgeted. No issues have been raised regarding this request.

Vote-Only Issue 8: CSD – Naturalization Services Program

Description: The Governor's Budget proposes a reduction of $300,000 General Fund, which is a ten percent reduction, to the Naturalization Services Program (NSP). The NSP, through contracts with 32 community-based organizations throughout California, assists legal permanent residents in obtaining citizenship by providing services that include outreach, intake, assessment, collaboration with and referral to other organizations, citizenship application assistance, citizenship testing and interview preparation, and follow-up activities. The Department of Community Services and Development (CSD) estimates that proposed reduction will result in 1,130 legal residents not receiving assistance.

Staff Recommendation: Approve the proposed reduction for 2008-09 and ongoing.

Vote-Only Issue 9: DCSS – California Child Support Automation System (CCSAS)

Description: This annual budget proposal provides the Department of Child Support Services (DCSS) with the resources to implement various changes to the CCSAS project between 2007-08 and 2008-09. The Governor's Budget proposes a reduction of $43 million ($20.9 million General Fund) to the align the project budget with approved CCSAS planning documents.

Staff Recommendation: Approve as budgeted. There were no issues raised regarding this request.

Vote-Only Issue 10: DCSS – CCSAS Reference Data Analysis

Description: The Governor's Budget requests the transfer of $194,000 ($66,000 General Fund) from local assistance to state operations and two, two-year limited-term positions to maintain the CCSAS reference data and review it for duplicate, conflicting, or missing data elements. This data is included on forms and letters and used to communicate with clients to execute the day to day business of collecting and disbursing child support monies. Local child support agencies are no longer the primary points of contact for reference data analysis as the functions shift to the State under the statewide automated system.

Staff Recommendation: Approve as budgeted. There were no issues raised regarding this request.

Vote-Only Issue 11: DCSS – Child Support Performance Reports

Description: The Governor's Budget requests the transfer of 196,000 ($67,000 General Fund) from local assistance to state operations and two permanent positions to analyze changes to and ensure proper completion of the required federal Office of Child Support Enforcement reports and the state child support reports. With the shift to the statewide automated system, these responsibilities are shifting from local child support agencies to the State.

Staff Recommendation: Approve as budgeted. There were no issues raised regarding this request.

Vote-Only Issue 12: DCSS – Administrative Resources Branch

Description: The Governor's Budget requests two permanent positions for the Business Services Operations Unit to provide for critical mailroom and business services functions. The DCSS will redirect $83,000 ($28,000 General Fund) from their Operating Expense and Equipment budget to fund the positions. The DCSS has grown from approximately 244 positions in 2001-02 to 578 positions in 2007-08 without an increase in the existing 6.5 business services staff positions to meet the infrastructure needs of the department.

Staff Recommendation: Approve as budgeted. There were no issues raised regarding this request.

Vote-Only Issue 13: DCSS – Selected Budget Balancing Reduction (BBR) Proposals

Description: The Governor's Budget proposes to reduce the DCSS state operations budget by $6.0 million ($2.0 million General Fund) and eliminate 31 positions by making the following reductions:

- Public Inquiry and Response Team (PIRT) – Reduce by $193,000 ($66,000) General Fund and 2.5 positions. The PIRT unit is responsible for responding to child support customer complaints regarding highly sensitive program operation and child support payment issues. The PIRT unit receives approximately 20-50 issues per month and 80 constituent referrals each month. Eliminating 2.5 positions would reduce the PIRT unit by 36 percent. The impact of the reduction would be delayed response to customer complaints.

- Quality Assurance and Performance Improvement (QAPI) – Reduce by $530,000 ($180,000 General Fund) and 6.5 positions. The QAPI unit is dedicated to reviewing the local child support agencies (LCSAs) for compliance with federal child support program requirements and monitoring the performance of and providing technical assistance to the LCSAs on the federal child support program measures. Eliminating 6.5 positions would be a 54 percent reduction to the QAPI unit.

- Contract Performance Support – Reduce by $133,000 ($45,000 General Fund) and terminate two interjurisdictional exchange agreements between DCSS and two counties (Santa Cruz and Solano) for LSCA staff to provide county expertise to the State.

- Information Technology (IT) Support – Reduce by $307,000 ($104,000 General Fund) and three positions that provide internal DCSS IT support.

- Administration Overhead – Reduce by $4.844 million ($1.644 million General Fund) and 19 positions for various administrative functions and contracts including: technology infrastructure support; business process re-engineering; information security, accounting and financial planning; human resources; regulations coordination; policy coordination; office support; operating expense and equipment; and temporary help.

Staff Recommendation: Approve the proposed reductions for 2008-09 and ongoing. The DCSS indicates that their proposals are designed to minimize impact on performance as much as possible. In addition, these cuts are not to direct services as in other areas of the budget.

Vote-Only Issue 14: DCSS – Continue Suspension of Health Insurance Incentives and Improved Performance Incentives Programs

Description: The Governor's Budget proposes trailer bill language to continue the suspension of two programs, the Health Insurance Incentives and the Improved Performance Incentives programs, through 2008-09, resulting in an estimated General Fund savings of $4.3 million. 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 five 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.

Staff Recommendation: Approve the proposed trailer bill language.

Vote-Only Issue 15: DSS – Selected Administrative Support Budget Balancing Reductions (BBRs)

Description: The Governor's Budget proposes to reduce the Department of Social Services' (DSS') administrative budget by $564,000 ($493,000 General Fund) and one position for the following activities:

- California State Accounting and Reporting System (CalSTARS) Contract – Reduce the CalSTARS contract by $100,000 ($42,000 General Fund) by reducing the number of error reports run from nightly to weekly during eight months of the fiscal year (from September through April). These reductions would limit the ability obtain ad hoc accounting data and may delay some reports, but would not apply to the nightly run of error reports and correction batches during the year-end process.

- Payroll Support – Reduce the Human Resources Services Branch by $24,000 ($11,000 General Fund and one position effective January 1, 2009. The annualized savings from this proposal will be $47,000 ($21,000 General Fund). This proposal would reduce internal customer services to DSS programs and managers.

- Operating Expense and Equipment (OE&E) – Reduce OE&E by $440,000 General Fund. The DSS will target in-state travel, out-of-state travel, and contracts and will assess other OE&E costs to minimize the impact to DSS' mission. This reduction is consistent with the current year OE&E reduction enacted by the Legislature in the special session.

Staff Recommendation: Approve the proposed reductions for 2008-09 and ongoing. No issues have been raised regarding these reductions. These cuts are not to direct services as in other areas of the budget.

Vote-Only Issue 16: HHSA – Office of the Secretary

Description: As part of his 10 percent across-the-board reduction, the Governor is proposing a reduction of $209,000 (General Fund) for the CHHS Agency, Office of the Secretary. Under this reduction two Associate Governmental Program Analysts will be eliminated, along with $69,000 in operating expenses.

Background—Office of the Secretary: The CHHS Agency oversees 12 departments and one board. Its primary role is to provide policy leadership and direction to the departments, board and programs it oversees, to reduce duplication and fragmentation among health and human services departments in policy development and implementation, and to advance the Governor's priorities regarding these issues.

During budget deliberations for the Budget Act of 2003, the CHHS Agency was reduced by $807,000 (General Fund) due to the fiscal condition of the state. However under Governor Schwarzenegger, through the Budget Act of 2004, the Office of the Secretary was increased by $1.372 million (General Fund) to fund 13 existing unfunded positions and to add four newly requested positions.

For 2008-09, the budget proposes total expenditures of $4.3 million (total funds) for the Office of the Secretary (accounting for the proposed 10 percent reduction). This is an increase of over $1 million (total funds) since 2006-07.

The Office of Health Insurance Portability and Accountability Act and the Office of System Integration are also administratively located within the CHHS Agency. These two offices report to the Office of the Secretary and receive separate funding allocations which are distinguished from the Office of the Secretary.

Staff Recommendation—Adopt. It is recommended to adopt the Governor's 10 percent reduction as proposed.

Vote-Only Issue 17: HHSA – Office of Health Insurance Portability and Accountability Act (HIPAA)

Description: There are two proposals regarding the Office of HIPAA located within the CHHS Agency.

First, the Governor is proposing a reduction of $380,000 ($325,000 General Fund) as part of his 10 percent across-the-board reduction. The Office of HIPAA states they will reduce their operating and expense area to achieve this reduction. These funds had been used to provide assistance to departments regarding various HIPAA activities. However the Office of HIPPA notes that the effect from this reduction should be minimal.

Second, the budget proposes a redirection of $327,000 from operating expenses, primarily external contracts, to establish three new positions within the Office of HIPAA. The proposed positions—Staff Counsel III, Staff Services Manager II, and Office Technician—would be used to develop privacy and security policy framework and operational standards for the expansion of electronic health information exchange.

According to the Administration, these positions would be used to execute the Governor's health information exchange agenda as articulated under his health care reform proposal.

Background—Office of HIPAA: This office was originally established through SB 456 (Speier), Statutes of 2001, in response to the need for statewide coordination of federally required HIPAA efforts. Generally, the purpose of the Office is to: (1) standardize state HIPAA implementation efforts; (2) monitor HIPAA implementation activities of state entities; and (3) provide technical assistance to state departments. This enabling legislation had a January 1, 2008 sunset date for the Office of HIPAA.

According to the Office of HIPAA, California has successfully implemented five of the nine HIPAA rule areas. The four outstanding federal rules will require departments to modify their information systems to meet new national standards for coding and tracking medical information. As such there is pending legislation to continue the Office of HIPAA through to June 30, 2010.

Background—Federal Health Insurance Portability and Accountability Act (HIPAA) of 1996: Among other things, this federal Act proposed sweeping changes for the health care industry regarding the simplification of patient medical records and to enhance patient privacy. The actual rules that detail the requirements that must be implemented have been published incrementally by the federal government over the past several years.

The rules are part of the administrative simplification provisions which provide for the establishment of various standards, protections and requirements for the transmission, storage and handling of certain electronic health care data, and include standards for transaction, code sets, unique health identifiers, and security and privacy protections.

Staff Recommendation—Adopt the Governor's Reduction and Delete Proposed Redirection. *First*, it is recommended to adopt the Governor's 10 percent reduction of $380,000 ($325,000 General Fund) as proposed. Second, it is recommended to deny the requested three positions as proposed and to instead, delete the $327,000 in external contract expenditures for additional savings.

The Office of HIPAA has other resources available and should prioritize its efforts under this very difficult fiscal environment.

Vote-Only Issue 18: HHSA – Child Welfare Council

Description: The Governor's Budget proposes to make the following reduction to the state operations budget of the Office of the Secretary for the Health and Human Services Agency (HHSA):

Child Welfare Council – Reduce by $70,000 General Fund and eliminate one position for the Child Welfare Council. This position is currently vacant.

Staff Recommendation: Approve the proposed reductions for 2008-09 and ongoing. No issues have been raised regarding these proposals. These cuts are not to direct services as in other areas of the budget.

Discussion Agenda

4140 Office of Statewide Health Planning and Development (OSHPD)

OSHPD Issue 1: Seismic Safety Deadline Extension

Description: The Governor's Budget proposes one-time funding of $614,000 and one limited-term position to provide health impact assessments for hospitals requesting a seismic safety deadline extension pursuant to Senate Bill (SB) 306 (Chapter 642, Statutes of 2007).

Background: Current law requires that all general acute hospitals meet stringent seismic safety standards within specified timeframes. SB 306 permits hospital owners a delay in compliance with seismic safety deadline from 2013 to 2020 if the owner lacks the financial capacity to retrofit or replace their SPC-1 buildings by 2013 and meets specified conditions. SB 306 authorizes OSHPD to charge hospitals seeking the extension an additional fee to sufficient to cover the additional costs incurred by the Department for maintaining all reporting requirements, including review and verification of the financial data in accordance with SB 306. OSHPD estimates that 150 of the 1,100 hospitals rated SPC-1 will apply for the SB 306 extension. Of those 150, 100 are estimated to need the health impact assessments required by SB 306.

At the time this agenda was prepared, OSHPD was still refining their estimates of what the fees would be for certifying that the hospital meets the financial criteria to be eligible for the extension and for completing the health impact assessment. Charging additional fees for this new function is appropriate and not at issue. The subcommittee just needs to ensure that fee revenues will be sufficient to support this request and reflective of the actual costs of the services being provided.

Questions:

1. OSHPD, please describe the fee structure and when fees will be assessed.
2. OSHPD, how will fees be determined and when will they be assessed for the ongoing activities required by SB 306?

Staff Recommendation: Hold open pending finalization of the fee proposal from the Department and staff analysis of that proposal.

OSHPD Issue 2 – Song-Brown Program Reduction

Description: The budget proposes a $497,000 General Fund reduction to the Song-Brown Program. According to the Administration, the reduction will result in 24 fewer nurses, 2.5 fewer resident slots, and 44 fewer family nurse practitioner/physician assistants funded through the program to provide care in medically underserved areas.

There will also be a reduction in funding for state staff providing general administration of the program.

Background: The Song-Brown Program provides funds to Family Practice Residency Programs, Family Nurse Practitioner and Physician Assistant Training Programs and Registered Nurse Education Programs to increase the training and education of primary care providers that will increase access to health care in rural and urban inner city areas of unmet priority in the state. The purpose of the program is to improve healthcare workforce diversity and increase the number of health professionals available to provide care in medically underserved areas.

There is a total of $7.1 million for the Song-Brown Program. It is funded with a combination of General Fund ($5.0 million) and funds from the California Health Data Planning Fund (CHDPF) ($2.1 million). The CHDPF is projected to have healthy ending balances, as well as revenues that exceed expenditures, into the future.

LAO Recommendation: The LAO recommends using CHDP funds in lieu of all of the General Fund in the Song-Brown Program to achieve General Fund savings of $5.0 million, rather than just $497,000. In 2004-05, the Legislature removed all the General Fund from the program and replaced it with funds from the CHDPF. The General Fund was subsequently restored in the 2005-06 because of concerns that the CHDPF could not sustain that level of expenditures. Although the current fund balance in the CHDPF is large, it is not yet clear how long the fund could sustain full funding for the Song-Brown Program.

Questions:

1. OSHPD, describe the proposed reduction.
2. LAO, describe your recommendation. How long do you thing the CHDPF could sustain full funding for the Song-Brown Program?
3. OSHPD, do you agree with the LAO assessment?

Staff Recommendation: Approve the $497,000 General Fund reduction and backfill with $497,000 in funds from the California Health Data Planning Fund. The CHDPF can absorb the $497,000 and continue to maintain a healthy reserve. Do not remove the remaining General Fund and replace it with CHDP funds at this time.

5175 Department of Child Support Services (DCSS)

DCSS Issue 1: Retain Compromise of Arrears Program (COAP)

Description: The Governor's Budget proposes $700,000 ($230,000 General Fund) and 7.5 permanent positions to extend the Compromise of Arrears Program (COAP). The budget also proposed trailer bill language to extend the sunset for the COAP two years, from June 30, 2008 to June 30, 2010, as well as other changes intended to improve the program.

Background: 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.

Approximately $19 billion in child support arrears is currently owed to families in California. When COAP was enacted, the estimated collections were $63 million ($30 million General Fund) and $XX million in arrears compromised. In actuality, since COAP began, over 8,000 applications have been received resulting in more than $12 million ($5.7 million General Fund) in collections and $77 million in arrears compromised or scheduled for repayment. Notwithstanding the lower collections and compromised arrears, in 2006-07, COAP reached a rate of return to the General Fund of $2.18 for every dollar invested. This positive trend is expected to continue.

For 2008-09, the Governor's Budget assumes that 4,250 applications will be processed, resulting in $5.7 million ($2.7 million General Fund) in collections and $54 million in arrears compromised or scheduled for repayment.

Beginning in July 2005, the Department of Child Support Services (DCSS) worked with counties to simplify the program and reduce the amount of paperwork associated with its administration. The DCSS is monitoring the expansion and utilization of COAP and as part of that effort, prepared an evaluation of the program, which was recently provided to the Legislature. In addition, the Program Review Unit within the Department of Finance (DOF) has also recently released a review of COAP. However, the trailer bill language proposed by DCSS does not incorporate the outcomes of either their or the DOF evaluations. Instead, DCSS indicates that it will propose statutory program improvements by the revised sunset date of the program in 2010. In the meantime, COAP remains a temporary program, but DCSS has requested permanent positions.

Questions:

1. DCSS, please describe the findings from your evaluation.
2. DOF, please describe the findings from the PRU review.
3. DCSS, why didn't you propose program changes as part of the budget that incorporated program improvements suggested by the two evaluations and make the program permanent?

4. DCSS, why should the Legislature provide permanent positions for a program that you are not prepared to authorize on an ongoing basis?

Staff Recommendation: Approve the $700,000 ($230,000 General Fund) and 7.5 positions on a one-year limited-term basis. Extend the sunset date for COAP in the trailer bill language until 2009 (rather than 2010) and reject the additional proposed changes to the program in the trailer bill pending a comprehensive COAP proposal.

DCSS Issue 2: Child Support Federal Disregard

Description: The Governor's Budget proposes $5.6 million General Fund to increase the monthly child support pass-through from the current $50 to $100 for all welfare families beginning January 2009. The costs increase to $11.2 million General Fund annually beginning in 2009-10. There is associated trailer bill language proposed to make this change.

Background: Pursuant to the federal Deficit Reduction Act of 2005 (DRA), beginning in October 2008 the federal government will share the cost of the child support that is passed through to welfare families, or CalWORKs families in California, up to specified limits. Specifically, the federal government will participate in 50 percent of the pass-through of up to $100 for families with one child, and up to $200 for families with two or more children. Currently, California elects to pass through the first $50 per month collected from the noncustodial parent to welfare families at an annual cost of about $30 million General Fund. There are costs because child support not passed through would otherwise be retained by the state as General Fund revenue, partially offsetting the cost of the grant provided to welfare families.

There are benefits to families of increasing the child support disregard. An increased disregard helps to stabilize a family financially, particularly as CalWORKs families transition from welfare to work. Increasing the disregard increases cooperation of custodial parents in complying with the child support program in locating noncustodial parents and assets. In addition, there is evidence that when child support is passed through to parents, fathers are encouraged to work and pay child support and are less likely to work in the underground economy.

LAO Recommendation: Without prejudice to the proposed policy change, the LAO recommends postponing the increase in the pass–through from $50 to $100 until July 2010. This recommendation, if adopted, would retain the current pass–through of $50, and therefore, there would be no reduction in the income support for welfare families receiving child support. Adopting this proposal will result General Fund savings of $5.6 million in 2008–09 and $11.2 million in 2009–10.

Questions:

1. DCSS, please describe the budget proposal and the benefits to increasing the child support disregard.

2. LAO, explain your recommendation.

Staff Recommendation: Approve the proposed increase in the monthly child support disregard from $50 to $100 and the associated trailer bill language. An increase in the child support disregard will benefit CalWORKs families transitioning from welfare-to-work and increase child support payments overall.

DCSS Issue 3: Various Budget Balancing Reduction (BBR) Proposals

Description: The Governor's Budget proposes the following BBRs as part of the ten percent across-the-board reduction for DCSS:

- Judicial Council Contract – Reduce by $4.3 million ($1.5 million General Fund) the contract with the Judicial Council that provides for court commissioner, family law facilitator, support staff salaries, and court expenses necessary to establish and adjust child support orders for all child support cases. As originally proposed on January 10, this proposal would have actually resulted in greater General Fund revenue losses than the savings from the contract reduction due to reductions in the establishment of child support orders. To address this problem, DCSS indicates that the courts will redirect trial court funding to backfill the General Fund reduction to ensure that there is no loss in General Fund revenue. In addition, DCSS proposes to provide additional federal funds to the courts to provide a federal match to child support hearing costs that the courts currently absorb with trial court funds.

  According to the LAO and as the courts testified in the Assembly budget subcommittee hearing on March 12, 2008, however, the trial courts have not committed to backfilling the proposed General Fund reduction and, as of the writing of this agenda, are still considering the DCSS proposal.

- Locate and Intercept Contracts – Reduce by $781,000 ($175,000 General Fund) the contracts with various state agencies to locate non-custodial parents (NCPs) and their assets and for the intercept of these assets. As originally proposed on January 10, this proposal also would have resulted in General Fund revenue losses in excess of the savings. To address this problem, DCSS indicates that they have identified administrative and workload savings in these contracts so that this reduction can be achieved without impacting customers or collections. As of the writing of this agenda, the LAO has not yet been able to confirm these administrative and workload savings.

- Child Support State Hearings – Reduce by $538,000 ($183,000 General Fund) and modify the chills support complaint resolution process in order to better determine which issues should go forward to a formal state hearing. The DCSS estimates that a modified complaint resolution process would cost half as much as the current state hearing process and would provide the same or better level of service to child support customers. However, DCSS does not have a specific process developed yet and proposed trailer bill language that would simply give the Director of DCSS the authority to determine the method the department uses for child support hearings without specifying what that method is.

- Customer Operations – Reduce by $1.1 million ($383,000 General Fund) and 14 positions to various areas of its Operations Divisions, including its Non IV-D Call Center, central financial work, the California Central Registry, the State Disbursement Unit, and locate and intercept processing. This component of the BBR was recently almost completely revised from that originally proposed on January 10 and most of positions now proposed for elimination are different. As of the writing of this agenda, the impact on customer service and child support collections from these revised proposals has not yet been determined.

Questions:

1. DCSS, describe the four BBRs listed above. Have you received a formal commitment from the Judicial Council on the backfill of General Fund? When will your proposal on how to modify the child support hearing process be final?
2. LAO, describe your concerns with the four BBRs.

Staff Recommendation: Hold these four proposed BBRs open pending more information on the General Fund revenue impacts and a concrete proposal to modify the state hearing process.

DCSS Issue 4– State Disbursement Unit (SDU) Bank Exceptions

Description: The Governor's Budget proposes two permanent positions to perform accounting activities for analyzing and processing banking exceptions and monitoring the recovery of funds. The DCSS will redirect $169,000 ($57,000 General Fund) from their Operating Expense and Equipment budget to fund the positions. Banking exceptions result in a loss of funds to the State, as the disbursement of funds has been made through the State Treasury, but the underlying funds have reversed because of exceptions.

Background: The DCSS received two permanent positions and one limited-term position in 2007-08 for processing SDU banking exceptions. These positions were funded through a permanent redirection of contract funds.

As part of their budget balancing reduction proposals for 2008-09, DCSS is also proposing to eliminate a position in their SDU that provides direct service to the public by responding to complex service inquiries and complaints and assists in technical oversight of the SDU. This proposed reduction is part of the reduction to customer operations discussed in the previous issue.

Question:

1. DCSS, describe your budget request.

Staff Recommendation: Hold open pending a better understanding of the SDU position proposed for elimination as part of the BBR and of whether resources can be redirected within the SDU to fund one of these requested positions.

Senate Budget & Fiscal Review Committee
Eileen Cubanski 651-4103

Hearing Outcomes – Part A

Subcommittee No. 3
10:30 a.m., Monday, March 24, 2008

Vote-Only Agenda

4140 Office of Statewide Health Planning and Development (OSHPD)

- Vote-Only Issue 1: Reduction in Administrative Services Support Costs
  Action: Approved as budgeted.
  Vote: 2-0

- Vote-Only Issue 2: State Nursing Assumption of Loans for Education (SNAPLE) Program
  Action: Approved as budgeted.
  Vote: 2-0

- Vote-Only Issue 3: Increase Mental Health Practitioner Education Fund Expenditure Authority
  Action: Approved as budgeted.
  Vote: 2-0

- Vote-Only Issue 4: Training Physician Assistants for Public Mental Health
  Action: Approved as budgeted.
  Vote: 2-0

- Vote-Only Issue 5: Increasing Mental Health Professional Shortage Areas in California
  Action: Approved as budgeted.
  Vote: 2-0

- Vote-Only Issue 6: Health Care Workforce Clearinghouse Program
  Action: Approved funding and 3.5 positions for 2008-09; rejected the 0.5 personnel analyst position and associated funding.
  Vote: 2-0

- Vote-Only Issue 7: Pre-Approval Program and Contracts Management Functions
  Action: Approved as budgeted.
  Vote: 2-0

4700 Department of Community Services and Development (CSD)

- Vote-Only Issue 8: Naturalization Services Program
  Action: Removed from vote-only agenda and held open for a future hearing.

5175 Department of Child Support System (DCSS)

- Vote-Only Issue 9: California Child Support Automation System (CCSAS)
  Action: Approved as budgeted.
  Vote: 2-0

- Vote-Only Issue 10: CCSAS Reference Data Analysis
  Action: Approved as budgeted.
  Vote: 2-0

- Vote-Only Issue 11: Child Support Performance Reports
  Action: Approved as budgeted.
  Vote: 2-0

- Vote-Only Issue 12: Administrative Resources Branch
  Action: Approved as budgeted.
  Vote: 2-0

- Vote-Only Issue 13: Selected Budget Balancing Reduction (BBR) Proposals
  Action: Approved as budgeted.
  Vote: 2-0

- Vote-Only Issue 14: Continue Suspension of Health Insurance Incentives and Improved Performance Incentives Programs
  Action: Approved the proposed trailer bill language.
  Vote: 2-0

5180 Department of Social Services (DSS)

- Vote-Only Issue 15: Selected Administrative Support Budget Balancing Reductions (BBRs)
  Action: Approved as budgeted.
  Vote: 2-0

0530 California Health and Human Services Agency (HHSA)

- Vote-Only Issue 16: Office of the Secretary
  Action: Approved as budgeted.
  Vote: 2-0

- Vote-Only Issue 17: Office of Health Insurance Portability and Accountability Act (HIPAA)
  Action: Adopted the proposed reduction and rejected the proposed redirection and requested positions.
  Vote: 2-0

- Vote-Only Issue 18: Child Welfare Council
  Action: Removed from vote-only agenda. Issue is a duplicate of one already included in Vote-Only Issue 16.

Discussion Agenda

4140 Office of Statewide Health Planning and Development (OSHPD)

- OSHPD Issue 1: Seismic Safety Deadline Extension
  Action: Held open pending finalization of the fee proposal from the Department.

- OSHPD Issue 2: Song-Brown Program Reduction
  Action: Approved the $497,000 General Fund reduction and backfilled with $497,000 in funds from the California Health Data Planning Fund.
  Vote: 2-0

5175 Department of Child Support Services (DCSS)

- DCSS Issue 1: Retain Compromise of Arrears Program (COAP)
  Action: Approved $700,000 ($230,000 General Fund) and 7.5 positions on a one-year limited term basis; extended the sunset date for COAP in the trailer bill language until June 30, 2009; and rejected the additional proposed changes to the program in the trailer bill pending a comprehensive COAP proposal.
  Vote: 2-0

- DCSS Issue 2: Child Support Federal Disregard
  Action: Approved as budgeted, including proposed trailer bill language.
  Vote: 2-0

- DCSS Issue 3: Various Budget Balancing Reduction (BBR) Proposals
  Action: Held open pending more information on the General Fund revenue impacts and a concrete proposal to modify the state hearing process.

- DCSS Issue 4: State Disbursement Unit (SDU) Bank Exceptions
  Action: Held open.

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

Chair, Senator Elaine K. Alquist

Senator Alex Padilla
Senator Mark Wyland

March 24, 2008

10:30 AM

Room 4203
(John L. Burton Hearing Room)

(Diane Van Maren)

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

PLEASE NOTE: Only those items contained in this agenda will be discussed at this hearing. Issues will be discussed in the order as noted in the Agenda unless otherwise directed by the Chair.

Please see the Senate File for dates and times of subsequent Subcommittee hearings, as well as full Senate Budget & Fiscal Review Committee hearings.

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, County Mental Health Plans 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 of 2004).

Background—Summary of Key Aspects of Mental Health Services Act (Proposition 63 of 2004), including Local Assistance Funding. The Mental Health Services Act (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. It is intended to expand mental health services to children and youth, adults and older adults who have severe mental illnesses or severe mental health disorders and whose service needs are not being met through other funding sources (i.e., funds are to supplement and not supplant existing resources).

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 Act requires that each County Mental Health program prepare and submit a three-year plan which shall be updated at least annually and approved by the Department of Mental Health (DMH) after review and comment by the Mental Health Services Oversight and Accountability Commission (OAC).

A key provision of the act is that the state is to provide for a General Fund "maintenance of effort" (MOE) based on expenditures for 2004-05. In addition, Mental Health Services Act funds are to be used to supplement and not supplant existing efforts.

Overall Governor's Budget. The budget proposes expenditures of almost $5.2 billion ($2.2 billion General Fund) for mental health services, including capital outlay for the State Hospitals. This is an increase of $267 million ($206 million General Fund) from the revised current-year budget. Of the total amount, $1.312 billion is proposed to operate the State Hospital system. The remaining $3.8 billion is for community-based mental health programs.

Governor's Proposed Reductions for Department of Mental Health. The Governor declared a fiscal emergency on January 10th, utilizing the authority provided within the State Constitution as provided for under Proposition 58 of 2004. Under this authority, the Governor can call the Legislature into Special Session to deal with substantial revenue declines or expenditure increases, and to address the fiscal emergency. Other than utilizing remaining bond financing, the Governor has generally proposed a 10 percent across-the-board reduction approach to the fiscal emergency.

With respect to the Department of Mental Health (DMH), the Governor has proposed a reduction of almost $17.5 million (General Fund) in the current year and $76.8 million (General Fund) in the budget year. All of the Governor's proposed reductions pertain to Community-Based mental health services. The Administration states that no reductions were proposed for the State Hospitals due to potential health and safety concerns.

Governor's Proposed Reductions to Department of Mental Health

Community-Based Mental Health Programs	Governor's Proposed 2007-08 Reduction	Governor's Proposed 2008-09 Reduction
Early and Periodic Screening, Diagnosis & Treatment	-$6,715,000	-$46,336,000
Mental Health Medi-Cal Managed Care	-$8,185,000	-$23,800,000
San Mateo and Laboratory Project	-$190,000	-$464,000
Healthy Families, supplemental mental health	-$20,000	-$71,000
Supplemental Rate for Community Treatment Facilities	-$1,200,000	-$1,200,000
AIDS Counseling	-$50,000	-$150,000
Caregiver Resource Centers	-$400,000	-$1,200,000
Cathie Wright Technical Assistance Center	-$10,000	-$40,000
Early Mental Health Initiative	--	-$1,634,000
DMH Headquarters Administration	-$722,000	-$1,948,000
Governor's Proposed Reductions of 10 percent	**-$17,492,000**	**-$76,843,000**

Legislature's Special Session Actions. After numerous hearings convened by both the Senate and Assembly, the Legislature took action to reduce the current-year shortfall of $3.3 billion and converted it into a little over $1 billion in General Fund reserve.

In addition, the resulting projected budget year deficiency was reduced by $7 billion, leaving an estimated shortfall of almost $8 billion at this time. In addition, the actions of the Legislature provided $8.6 billion in cash management solutions to enable the state to maintain its ability to pay its bills.

With respect to actions taken regarding the DMH budget, the Legislature adopted the following reduction proposals of the Governor, along with an LAO recommendation.

Actions Adopted by the Legislature in Special Session—Department of Mental Health

Program	Reduction for 2007-08	Reduction for 2008-09
Early and Periodic Screening, Diagnosis & Treatment	-$3,646,000	-$14,608,000
DMH Headquarters' Administration	$722,000	-$1,948,000
Caregiver Resource Center	-$400,000	
Cathie Wright Technical Assistance Center	-$10,000	
LAO—Reduce State Hospital Funding for SVPs	-$12,600,000	
Total Reduction in Special Session	**-$17,378,000**	**-$16,556,000**

Budget year issues included in the Special Session are to be discussed as part of the overall budget-year deliberations. Exceptions to this are issues that needed lead time for implementation or would be reduced on the natural due to action taken by the Legislature in the current year (such as the EPSDT adjustment).

The Legislature also adopted $292 million in the following *cash management* solutions as proposed by the Governor for programs administered by the Department of Mental Health. These actions were as follows:

- $200 million by delaying payment advance to County Mental Health Plans for Mental Health Medi-Cal Managed Care.
- $92 million by delaying payment advance to County Mental Health Plans for the Early and Periodic Screening, Diagnosis, and Treatment (EPSDT) Program.

(The "Vote Only" Calendar begins on the next page.)

B. ISSUES FOR "VOTE ONLY" *(Pages 5 through 8)*

1. Healthy Families Program Adjustments for Supplemental Mental Health

Issues: *First,* the Governor is proposing a 10 percent reduction of $71,000 (General Fund) for 2008-09 for supplemental mental health services provided to legal immigrant children. This proposed 10 percent reduction would result in a total reduction of $203,000 due to the 65 percent federal match received under this program (i.e., the federal State- Children's Health Insurance Program).

The Governor is targeting legal immigrant children for this reduction because this is the component of the program that receives General Fund support. Based on federal law, services provided to legal immigrant children under the HFP are not eligible for federal reimbursement. As such, the state provides a 35 percent General Fund match to County Mental Health Plans who provide a 65 percent match using their County Realignment Funds. (The funding relationship for this program are discussed further below in the background section.)

Second, the DMH is proposing an increase of $3.639 million ($76,000 General Fund and $3.563 million in Reimbursements) to reflect increased caseload and related technical adjustments. Total HFP expenditures for this portion of the program administered by the DMH are $48.1 million (total funds).

Background—What is the HFP and How are Supplemental Mental Health Services Provided? 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.

Subcommittee Staff Recommendation—Reject 10 Percent Reduction, and Adopt Caseload Adjustments. It is recommended to **(1)** reject the Governor's 10 percent reduction and, **(2)** adopt the proposed caseload adjustments for the budget year. The 10 percent reduction would directly affect access to services for children with serious emotional disorders and it is important to maintain a comprehensive program.

2. Closure of Children's School at Metropolitan State Hospital

Issue. The DMH proposes a reduction of $3.8 million ($3.4 million Proposition 98/General Fund) due to the closing of the adolescent program at Metropolitan State Hospital. The adolescent program is no longer operating at Metropolitan due to expanded options in the community for children with severe mental illness. Therefore, these funds which had been used for education purposes are no longer necessary.

Subcommittee Staff Recommendation—Adopt. No issues have been raised with this proposal.

3. Implementation of Foster Care Children Specialty Mental Health

Issue. The DMH is requesting an increase of $188,000 ($94,000 General Fund and $94,000 Reimbursements) to establish two positions (one for 18-months) to implement SB 785 (Steinberg), Statutes of 2007. The two positions include a Staff Mental Health Specialist and an Associate Mental Health Specialist.

The DMH is requesting these two positions to implement provisions of the legislation, including (1) development of informational program materials; (2)identifying training needs; (3) developing standardized contracts; (4) modifying various documents; and (5) working with the federal Center for Medicare and Medicaid Services (CMS) on certain federal requirements.

Subcommittee Staff Recommendation—Modify Request. No issues were raised regarding this request. However, it is recommended to eliminate the General Fund component and instead, utilize $94,000 from the Mental Health Services Account which is provided to the Department of Mental Health for administrative purposes. The functions of these staff positions would further the provision of mental health services and are not supplanting existing General Fund support. In addition, it is recommended to make both of these positions limited-term (18-months each).

4. Governor's Reduction to the Early Mental Health Initiative (EMHI)

Issue. The Governor proposes a $1.634 million (Proposition 98 General Fund) reduction, or over 10 percent, to the Early Mental Health Initiative (EMHI) for total program expenditures of $13.366 million (Proposition 98 General Fund) for 2008-09.

EMHI grants are awarded on a competitive basis for three years to public elementary schools to provide services to students in K through Third grades who are experiencing mild to moderate school adjustment difficulties. School sites must also contribute funding towards their individual program.

Background—What is EMHI? EMHI was established in 1991 through Assembly Bill 1650. It is designed to enhance the social and emotional development of young students and to minimize the need for more costly services as they mature. Students from Kindergarten through Third Grade who are enrolled in public schools are the target audience.

The EMHI has been independently evaluated and data is available for 7 years of the program (for both pre and post data participants). These findings indicate that the recipients of EMHI-funded services make significant improvements in social behaviors and school adjustment as evaluated by both teachers and school-based mental health professionals.

Subcommittee Staff Recommendation—Adopt Governor's Reduction. Due to the shortfall in the Governor's budget regarding the availability of Proposition 98 General Fund support, it is recommended to adopt the Governor's reduction proposed for this program.

5. Adjustments for the Forensic Conditional Release Program (CONREP)

Issue. The budget proposes a total increase of $1.792 million (General Fund) for CONREP. in 2008-09 for total expenditures of $26.1 million (General Fund). This total funding level supports a caseload of about 725 patients. Expenditures are for outpatient treatment services, ancillary services, supervision, State Hospital liaison visits, transitional residential facility contracts, and non-caseload services. The CONREP is budgeted under the DMH's state support item because it is a contract.

Of the requested increase, $846,000 (General Fund) is for local providers serving forensic patient populations. The DMH states this amount is needed to provide for the actual annual clinical care costs up to, but not to exceed, 4 percent per year. Of the $846,000 increase, $709,000 is proposed to maintain the current caseload of 725 patients and $137,000 to maintain contracts with facilities participating in the "State Transitional Residential" Program.

The remaining $946,000 (General Fund) requested amount is providing services to four Sexually Violent Predators *court-ordered* released into the community for outpatient treatment and supervision.

According to the DMH, CONREP costs range from $23,000 to $30,000 annually per patient and are therefore, substantially less expensive than a State Hospital bed. When appropriate, CONREP provides an immediate means to move individuals out of the State Hospitals, thereby making the existing State Hospital beds more available for more involved patients as needed.

Background—CONREP. 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.

In addition to the services provided through the contracts as referenced above, the DMH administers the State Transitional Residential Program (STRP) which is another component of the CONREP continuum of care. This program operates 40 beds located in three licensed non-medical facilities providing a highly structured residential program assisting patients' transition from the State Hospital system to the community. Typically, patients in a STRP facility stay about three to four months.

<u>Subcommittee Staff Recommendation—Approve.</u> No issues have been raised with this proposal. It is recommended to approve the increase for the budget year.

C. ISSUES FOR DISCUSSION-- State Administration, & Community Issues

1. State Administration—Internal Control Review of DMH Identifies Concerns

Issue. The Office of State Audits and Evaluations (OSAE) within the Department of Finance conducted an "internal control review" of the Department of Mental Health (DMH). The findings of this review were publicly provided to the DMH and Legislature on January 31, 2008. The OSAE review was conducted during the period of from July 2007 through December 2007.

This internal review encompassed the DMH headquarters, as well as the State Hospitals administered by the DMH. **The OSAE identified areas where managerial and fiscal controls are not in place or working as intended.**

Overall, the OSAE determined the DMH controls to be weak. Their review identified weak budgetary controls, lack of communication and coordination, and weak fiscal oversight among units. They note that due to weak fiscal oversight, the DMH has not effectively or timely prevented or detected budgeting and accounting errors which have resulted in lost opportunities to fund critical needs.

OSAE noted that to ensure a high degree of fiscal integrity, the DMH needs to institute organizational and programmatic budgets, proper accounting structures and allocation methods, document and communicate fiscal processes and control activities, and monitor mechanisms at all levels within the department.

The following *key* deficiencies were noted by OSAE:

- Organizational and programmatic budgets are not developed. Without this level of detail, DMH is prevented from adequately prioritizing activities, promoting responsible resource allocation, and establishing fiscal accountability.

- Written procedures do not exist over the DMH's budget development process for the State Hospitals. This includes policies and procedures for developing State Hospital patient population projections, the Sexually Violent Predator (SVP) evaluations' estimates, and distribution of budget allocations to State Hospitals from the DMH headquarters office.

- A method to track and account for costs in the State Hospitals related to the federal Civil Rights for Institutionalized Person's Act (CRIPA) was not planned or developed, hampering the State Hospitals' ability to adequately account for, control, and monitor expenditures. In an effort to exhaust the CRIPA funding, the DMH Budget Office provided direction but not until year end.

- Licensing and Certification activities within the DMH totaling $357,000 were incorrectly charged to the General Fund instead of the appropriate special fund (i.e., fee supported).

- Significant control weaknesses exist in the accounts receivable function. Inadequate controls over accounts receivable at DMH have a negative impact on cash flow and DMH's ability to meet its obligations as they become due.

- Contract controls are not in place or working as intended to ensure that DMH's best interests are served. Without adequate contracting controls, the propriety and legality of contracts cannot be assured, and timely delivery of quality goods and services may be compromised.

  For example, the same staff initiating the contract request is also responsible for evaluating, ranking, and ultimately selecting the proposals. For Information Technology contracts, the project manager requesting the contract selects the consultant, monitors performance, and indirectly approves payment by certifying the consultant's timesheet records.

- System development and Information Technology (IT) project management procedures are outdated. OSAE states that DMH's management does *not* meet the state's minimum requirements for planning, tracking, risk management, and communication. *Without adequate project management practices, the DMH is at risk that IT projects will neither be completed timely and within budget, nor accomplish the project objectives.*

  OSAE identified the IT project management requirements *not* meet to include the following:

  - Development and maintenance of project cost estimates for *all* projects.
  - Recording of actual costs by cost category and comparing actual costs to budgeted amounts.
  - Tracking and reporting of work plan activities, schedules, and milestones for *all* projects.
  - Regular status reporting to key stakeholders, including budgets and milestones.

  In addition, the department's IT Risk Management Plan was not updated or certified to the DOF. Further, OSAE stated that access and programming rights to systems, applications and files are not adequately controlled.

- Controls are not in place to ensure adequate safeguarding of public assets. Policies and procedures for reviews, approvals, and reconciliations are not documented. Encumbrance, disbursement, and adjustment postings to the general ledger are not reviewed for accuracy and propriety. Financial statements are unreliable.

For example, American Express credit card payments are made prior to verification and approval from program staff. This lead to $7,154 in fraudulent charges in December 2006 and January 2007. For example, of ten accrual transactions totaling $8.9 million, five were not supported by invoices and two were overstated, resulting in an overstatement of $1.9 million.

For example, prior-year financial statement accruals in the amount of $796,868 were not reversed and were reported again in the 2006-07 financial statements. For example, the Director's signature plate, used for signing department checks for various services, was not being removed from the check signing machine after checks were signed; therefore, fraudulent checks could have been issued. For example, costs claimed for Sexually Violent Predator (SVP) patients placed in the community by a contractor were not being matched against the patient's approved plan of expenditures prior to payment.

The OSAE provided the DMH with a series of recommendations (numerous pages) to assist the DMH management in focusing attention on strengthening internal controls, preventing and mitigating risks, and improving operations. **Further, to strengthen controls, OSAE recommended for the DMH to develop a plan to address the observations and recommendations noted in the report.**

Subcommittee Staff Comment and Recommendation. This OSAE report identifies fundamental concerns with core fiscal and administrative functions at the DMH. The DMH was recently re-organized (in November 2007) and has hired some new key personnel to address the layers of issues identified here. However, given the magnitude of the issues identified, it will take significant efforts on the part of the department to fully remedy them and to restore integrity and trust in the operations of the department.

With respect to budget issues, the following recommendations are proposed. *First*, the DMH should identify General Fund savings within the Headquarters office that can be achieved from re-tooling efforts. The OSAE identifies several areas where General Fund moneys were inappropriately utilized. With improved controls, savings should be achieved. The DMH should report back to the Subcommittee on April 28th as to this proposed savings level.

Second, some of the issues identified by OSAE pertain to the State Hospitals and their fiscal controls, including budget estimates. Therefore, it is also recommended for the Subcommittee to adopt placeholder trailer bill language, to be crafted by Subcommittee staff, the Administration and LAO, to require the DMH to provide the DOF and Legislature with a comprehensive budget estimate package on the State Hospitals.

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

1. DMH, Specifically what *key* and immediate steps have been taken to address these issues.

2. DMH, What amount of administrative savings can be identified from these efforts?

2. Status Update—Early and Periodic Screening, Diagnosis & Treatment Program

Issue. As highlighted in the background section below, significant issues were raised through the budget Subcommittee deliberations last year regarding the DMH's management and administration of the EPSDT Program.

Due to these management issues, the budget incurred a significant deficiency from prior-years claims not being addressed, as well as a federal audit whose results are still pending at this writing.

As part of its actions through the budget process, the Legislature requested the Office of State Audits and Evaluations (OSAE) to conduct a managerial review of the program to identify areas for correction.

Summary of OSAE Reports (Two Reports). The Office of State Audits and Evaluations (OSAE) within the Department of Finance conducted (1) an analysis of the estimating methodology used by the DMH for projecting EPSDT expenditures; and (2) a review of the DMH's fiscal processes involved in the payment of local assistance claims for the EPSDT Program and for Mental Health Managed Care (i.e., payments made to County Mental Health Plans for reimbursement of services provided).

With respect to the EPSDT estimating methodology, the DMH has made changes to analytically improve the forecast and will be working to establish an "Estimates" section within the department to conduct further work.

Regarding the OSAE review of the overall DMH payment system, among other things, the OSAE determined that:

- Program governance between the DMH and Department of Health Care Services (DHCS) is weak and unclear. Generally, governance over the program is fragmented, decentralized and ineffective.
- The County Mental Health Plans are not being paid timely due to problems with the DMH claims reimbursement system;
- DMH's claims reimbursement system, including the information system, is outdated and problematic.
- DMH is at continued risk of over billing the federal government because of insufficient corrective actions in response to previous billing errors. Additional measures must be taken to ensure that federal financial participation claims are accurate.
- DMH has not required the County Mental Health Plans to fully implement federal HIPAA requirements regarding patient records and processing.

Background on Previous Concerns of the Legislature. Significant issues were raised through budget Subcommittee deliberations last year regarding the DMH's management and administration of the EPSDT Program.

These issues intertwined and included the following key items:

- A significant deficiency request from the DMH for prior year claims from the counties.
- A DMH accounting error of $177 million that occurred in 2005-06.
- A need to significantly modify the DMH's claims processing (billing) system.
- Use of inaccurate methodologies for estimating program expenditures.
- A lack of communication between the DMH and the Department of Health Care Services (Medi-Cal agency) regarding program operations.
- Concerns with double billing the federal government for Medicaid (Medi-Cal) expenditures.

Budget Act of 2007 Actions. Due to the severity of the issues, the Legislature requested the Office of Statewide Audits and Evaluations (OSAE) within the Department of Finance to conduct a review of the DMH's methodology for calculating EPSDT budget estimates and another review of their overall systems for claims processing.

In addition, agreement was reached with the Administration to reimburse County Mental Health Plans for past-year claims of $260.2 million (General Fund) over a three-year period. About $86.7 million (General Fund) will be provided each year, commencing with the current-year, for this reimbursement.

Finally, the DMH was directed to work with the Legislature to develop an appropriate administrative structure for the program for implementation during 2008-09, including enacting legislation. It should be noted the Administration is working with the Legislature on this issue presently (i.e., Assembly Bill 1780 (Galgiani), as introduced).

Background--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 mental health 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, County MHPs are responsible for the delivery of EPSDT mental health services to children

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 Kim 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 MHPs 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.

Subcommittee Staff Comment and Recommendation. The DMH has taken the OSAE report recommendations and is working through the issues comprehensively with the County Mental Health Plans, stakeholder community, and other involved parties, including the Department of Health Care Services. Again, due to the layers of issues identified, it will likely take some time for the DMH to resolve them.

With respect to improving fiscal integrity, it is recommended for the Subcommittee to adopt placeholder trailer bill language, to be crafted by Subcommittee staff, the Administration and LAO, to require the DMH to provide the DOF and Legislature with a comprehensive budget estimate package on the EPSDT Program.

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

1. **DMH**, Please provide a *brief* update regarding *key* changes that have been accomplished and *key* items that still need to be accomplished.

2. **DMH,** Has the federal government provided the Administration with any recent updates regarding their federal audit of the EPSDT program? Is there *any* potential for federal audit exceptions that *may* result in state General Fund costs?

3. Proposed Reductions to Early and Periodic Screening, Diagnosis & Treatment

Issues. The Governor proposes significant reductions to the Early and Periodic Screening, Diagnosis and Treatment (EPSDT) Program through the Special Session and for the budget year.

These proposed reductions and their estimated current-year and 2008-09 implications are shown in the table below. Since the EPSDT Program receives a 50 percent federal match, total reductions for the current year are $13.4 million (total funds), and for 2008-09 are $92.7 million (total funds).

Governor's Special Session General Fund Reductions to EPSDT

Proposal	Current Year (General Fund)	2008-09 (General Fund)
1. Require a Six-Month Reauthorization for Day Treatment Services	--	-$19,448,000
2. Reduce Schedule of Maximum Allowances (rates)	-$3,069,000	-$12,280,000
3. Elimination of COLA (adopted by Legislature in Special Session)	-$1,878,000	-$7,516,000
4. Reduce Costs by increased DMH Monitoring (adopted by Legislature in Special Session)	-$1,768,000	-$7,092,000
Governor's Total Proposed Reductions	**-$6,715,000**	**-$46,336,000**

Though these issues were discussed in the Senate Budget & Fiscal Review Committee on February 4th, additional information has been obtained for discussion purposes.

The two proposals from the Governor which remain before the Legislature, items 1 and 2 from the table above, are discussed below.

- ***1. Require a Six Month Reauthorization for Day Treatment Services.*** Under this proposal, the DMH would require County Mental Health Plans (County MHPs) to review requests for EPSDT services submitted by Day Treatment providers that exceed six-months of treatment for a child. The DMH is seeking *emergency regulation authority* to implement this proposal

  Of the 8,000 children annually who receive Day Treatment services under the EPSDT Program, almost half of them are children who are also in Foster Care.

  The DMH estimates this would reduce expenditures by $38.8 million ($19.4 million General Fund) in 2008-09. The basis for this DMH estimate is shown below:

  - 8,000 children with severe emotional disturbances receive Day Treatment services and of these children about one-third, or 2,670 children, receive these services for more than six-months.
  - Of the 2,670 children, the DMH assumes 75 percent or 2,003 children would no longer require Day Treatment services.

Subcommittee staff is concerned with this proposal as presented for several reasons.

First, the proposal would eliminate over 2,000 children with severe emotional disturbance from receiving Day Treatment services. If from a clinical perspective these children no longer require Day Treatment services, then they indeed do not require the services.

However, the DMH has *not* provided any policy or clinical rational as to why 75 percent of these children, many of whom are in Foster Care, would no longer need Day Treatment services. As such, children would either be dropped from a program they need, *or* a General Fund savings level is being proposed that may not be realistically achievable.

If the intent of the DMH is that these 2,000 children would transition to local services supported with Proposition 63 Funds (Mental Health Services Act Funds), then the DMH needs to make clear how these children would be appropriately transitioned. In addition, if services other than Day Treatment services are more clinically appropriate for a particular child, then the County MHP should be utilizing the clinically appropriate service. Any shifting of services should be identified through the DMH oversight of the EPSDT Program and then reflected in any budgetary trend line. Therefore, it is unclear as to the intention of the proposal.

The DMH contracts with County MHPs, who in turn, contract with providers of Day Treatment services. There are several "DMH Letters" which have been issued over the past several years regarding the provision of Day Treatment services. As such, it is unclear as to how this proposed DMH budget issue interacts with the existing DMH contract with the County MHPs, or existing DMH issued Letters or program regulations.

Second, County MHPs are *already* required by the DMH to require providers of Day Treatment services to request payment authorization for continuation of Day Treatment services at least every three months and at least every six months. As such, it is unclear what further requirements the DMH intends to place on County MHPs or providers of Day Treatment services. If more oversight of the existing practice is necessary, the DMH can proceed with this aspect through their expanded "EPSDT monitoring" efforts which was approved by the Legislature.

Third, the DMH is seeking emergency regulation authority for this purpose. This is disconcerting for it would provide the DMH with substantive authority with little oversight by the Legislature. Further, the use of emergency regulation authority without any context as to how the policy and programmatic framework is to be designed is not constructive.

- ***2. Reduce Schedule of Maximum Allowances (rates).*** This Governor's proposal would permanently reduce the "Schedule of Maximum Allowances" by five percent. The Schedule of Maximum Allowances are upper limit rates, established for each type of services, for a unit of service (such as a patient day or minutes for other program services. In other words, the reimbursement for services cannot exceed these upper limits.

  The DMH states that this proposal would reduce rates by $24.6 million ($12.3 million General Fund) for 2008-09.

  It should be noted that the Legislature did adopt the Governor's proposal to eliminate the annual COLA provided to the Schedule of Maximum Allowances. This DMH proposal would lower this amount even further.

  The DMH states that they do not believe this reduction will result in a direct reduction in the number of clients served or a loss of medically necessary services to clients. They state that reductions are more likely to take the form of a reduction in the cost per client as the County Mental Health Plans implement more stringent reviews of medical necessity for specialty mental health services, increase reviews of authorizations for services and possibly reduce payments to providers.

Special Session Action—Certain Actions Taken. Due to fiscal constraints, the Legislature adopted the Governor's proposals to: (1) establish a unit within the DMH to monitor EPSDT claims; and (2) eliminate the Cost-of-Living-Adjustment using the federal home health market basket which is applied to the Schedule of Maximum Allowances used for rates.

Both of these actions are administrative in nature and did not require state statutory change. It is assumed these two actions will reduce expenditures by $7.3 million ($3.6 million General Fund) in the current-year and by $29.2 million ($14.6 million General Fund) in 2008-09.

Background—Summary of Governor's Proposed 2008-09 for EPSDT. The table below displays the budget of the EPSDT Program with the Governor's proposed Special Session adjustments. The DMH notes that General Fund expenditures are estimated to increase by $51.4 million for 2008-09 in the baseline budget (prior to any reductions), as compared to the current-year.

Governor's Budget for 2008-09	General Fund	Total Funds (General Fund + Federal Fund)
Governor's 2008-09 Baseline	$501,836,000	$1,016,715
Governor's Proposed Reductions	-$46,336,000	-$92,672,000
Governor's Proposed Budget	**$455,500,000**	**$924,043,000**

County Realignment Funds of $96.8 million are also estimated to be expended on EPSDT services but these revenues do not flow through the state's budget process and are not reflected in the figures above.

Background--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 mental health services include family therapy, crisis intervention, medication monitoring, and behavioral management modeling.

Though the Department of Health Care Services (DHCS) 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, County MHPs are responsible for the delivery of EPSDT mental health services to children

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 Kim Belshe' 1994), the DHCS 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. The state has lost several lawsuits and is required to expand access to EPSDT mental health services.

County MHPs 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.

Subcommittee Staff Recommendation—Hold Open. It is recommended to hold this item open pending the receipt of additional information from the DMH, as well as constituency groups.

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

1. **DMH**, Please briefly describe your proposal regarding the Six-Month Treatment Authorization Requirement. How would children be transitioned from services exactly?

2. **DMH**, Please briefly describe your proposal regarding the reduction to the Schedule of Maximum Allowances. How may this proposal affect access to services?

4. Proposed Adjustments to Mental Health Managed Care Program

Issue. The Governor proposes a total reduction of $47.6 million ($23.8 million General Fund), or 10 percent of the state General Fund support to the program, for the Mental Health Managed Care Program. Due to the loss of federal matching funds, the reduction equates to a 20 percent reduction overall.

The components of the Administration's proposal are shown in the table below. However, upon further clarification from the Administration, the DMH contends that the intent of this proposed reduction is really an "unallocated" reduction, and not elimination of the minor consent program or a rate reduction per say. According to the DMH they would leave the reduction up to each of the County Mental Health Plans on how it would choose to implement the reduction. In other words, each county would receive in essence, 10 percent less to work with. No trailer bill legislation is proposed.

Governor's Special Session General Fund Reductions to Mental Health Managed Care

Proposal	2008-09 (General Fund)	2008-09 (Total Funds)
1. Reduce Rates by 5 Percent	-$10,730,000	-$21,460,000
2. Eliminate Funding for Minor Consent	-$7,720,000	-$15,440,000
3. Eliminate Funding for Implementation of Federal Regulations	-$5,350,000	-$10,700,000
Governor's Total Proposed Reductions	**-$23,800,000**	**-$47,600,000**

Though these issues were discussed in the Senate Budget & Fiscal Review Committee on February 4th, additional information has been obtained for discussion purposes.

Background—How Mental Health Managed Care is Funded: Under this model, County Mental Health Plans (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 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 47 percent match while the state provided a 53 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.)

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—Previous Rate Reduction to Mental Health Managed Care Program. The Mental Health Managed Care Program, along with rates paid to other Medi-Cal Program providers, was reduced by 5 percent for a two-year period (from 2003 to 2005) as contained in legislation. Though the rates paid to providers of health care services under the Medi-Cal Program were restored in 2005, efforts to restore the five percent for this program have not succeeded. In addition, adjustments for certain medical cost-of-living-adjustments have not been provided by the state to County MHPs since 2000.

The Subcommittee is in receipt of a letter from several constituency groups expressing concern with the Governor's proposed reductions. Among other things, they 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 or backfill for General Fund support.

Subcommittee Staff Recommendation—Hold Open. It is recommended to hold this issue open pending receipt of any additional clarifying information from the DMH and constituency groups. Further, it is unclear to Subcommittee staff on what direction the DMH would provide to County Mental Health Plans or community mental health providers via "DMH Letters" or the like on how they would need to implement this reduction if the Legislature were to adopt it.

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

1. DMH, Please clarify the Governor's proposed reduction and how the DMH would in fact administer the reduction if adopted.
2. DMH, In your view, would this reduction result in reduced access to services at the local level?

5. Community Treatment Facilities

Issue. The Governor proposes to eliminate the state's share of a supplemental rate paid to Community Treatment Facilities which equates to a reduction of $1.2 million General Fund).

This issue was discussed before the full Senate Budget & Fiscal Review Committee on February 4th. Due to the length of this hearing, public testimony was abbreviated. No action was taken in the Special Session on this issue.

Background on Community Treatment Facilities. Community Treatment Facilities (CTFs), as established in statute, provide secured residential care for the treatment of children diagnosed as being seriously emotionally disturbed (SED). These are locked facilities and provide intensive treatment. Generally, CTFs were created as an alternative to out-of-state placement and state hospitalization for some children. The DMH and Department of Social Services have joint protocols for the oversight of these facilities.

The Budget Act of 2001 and related legislation provided supplemental payments to CTFs. These supplemental payments consist of both state (40 percent) and county (60 percent) funding. There are four CTFs in CA.

Elimination of this rate would likely shift costs to counties, or result in fewer children being served, or result in placing children in more expensive juvenile facilities.

Subcommittee Staff Recommendation—Hold Open. It is recommended to hold this issue open pending receipt of any additional information.

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

1. **DMH**, Please briefly describe the Governor's proposed reduction for the budget year.

6. California Caregiver Resource Centers

Issue. The Governor proposes a 10 percent reduction to the CA Caregiver Resource Center system which includes a $400,000 (General Fund) reduction in the current year and a $1.2 million (General Fund) reduction for 2008-09. The program was presently funded at $11.7 million (General Fund).

This issue was discussed before the full Senate Budget & Fiscal Review Committee on February 4th. Due to the length of this hearing, public testimony was abbreviated.

Special Session Action—Current Year Reduced. Due to fiscal constraints, the Legislature adopted the Governor's 10 percent reduction of $400,000 (General Fund) for the current year. This action reduced the current-year appropriation to $11.3 million (General Fund).

Background. The CA Caregiver Resource Center system provides assistance to about 13,000 families who are caring for an adult family member at home. Assistance includes consultation and care planning, counseling and support planning groups, education and training, legal and financial planning, respite care, and other mental health interventions.

The DMH contracts with 11 agencies statewide for these services. The availability of this assistance assists to delay if not eliminate the admission of family members to long-term care institutions.

Subcommittee Staff Recommendation—Hold Open. It is recommended to hold this issue open pending receipt of any additional information.

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

1. **DMH**, Please briefly describe the Governor's proposed reduction for the budget year.

D. ISSUES FOR DISCUSSION – State Hospitals

BACKGROUND

Overall Budget for the State Hospital System. The expenditures for the State Hospital system have increased exponentially in the past several years from $811.6 million in 2004 to over $1.312 billion proposed for 2008-09, including state administrative support. **This represents an increase of about $500 million, or almost 62 percent in only four-years.** The State Hospitals are primarily funded with General Fund support.

Expenditures of **$1.312 billion,** including state support, are proposed to operate the five State Hospitals and two psychiatric units which serve a projected total population of 6,448 patients for 2008-09.

The proposed budget for 2008-09 reflects an increase of $129 million ($123 million General Fund and $6 million County Realignment Funds) as compared to the Budget Act of 2007. Most of the proposed increase is due to **(1)** employee compensation adjustments required by the Coleman Court; and **(2)** compliance with the continued implementation of a settlement agreement with the federal government regarding the Civil Rights for Institutionalized Persons Act (CRIPA).

The Governor did *not* reduce the State Hospital system in his proposed across-the-board 10 percent reduction due to potential concerns with health and safety issues.

Overall Background and Funding Sources. 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 State Hospital 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).

Classifications of Penal Code Patients. Penal Code-related patients include individuals who are classified as: **(1)** not guilty by reason of insanity (NGI), **(2)** incompetent to stand trial (IST), **(3)** mentally disordered offenders(MDO), **(4)** sexually violent predators (SVP), and **(5)** other miscellaneous categories as noted.

The DMH uses a protocol for establishing priorities for penal code placements. This priority is used because there are not enough secure beds at the State Hospitals to accommodate all patients. This is a complex issue and clearly crosses over to the correctional system administered by the CA Department of Corrections and Rehabilitation (CDCR). The DMH protocol is as follows:

1. Sexually Violent Predators have the utmost priority due to the considerable public safety threat they pose.
2. Mentally Disordered Offenders have the next priority. These patients are former CDCR inmates who have completed their sentence but have been determined to be too violent to parole directly into the community without mental health treatment.
3. *Coleman v. Schwarzenegger* patients must be accepted by the DMH for treatment as required by the federal court. *Generally* under this arrangement, the DMH must have State Hospital beds available for these CDCR patients as required by the Special Master, J. Michael Keating Jr. If a DMH bed is not available the inmate remains with the CDCR and receives treatment by the CDCR.
4. Not Guilty by Reason of Insanity is the next priority.
5. Incompetent to Stand Trial is the last priority. It should be noted that there are about 250 to 300 individuals who are incompetent to stand trial who are presently residing in County jails due to the shortage of beds within the State Hospital system.

(Action items begin on the next page.)

<u>1. Proposed Baseline Patient Population at the State Hospitals</u>

<u>Issue.</u> The DMH proposes **two adjustments** to the State Hospital's budget due to estimated changes in the patient population. The first adjustment pertains to current-year funding (2007-08) and the second adjustment pertains to budget year funding (2008-09).

***First*, the DMH proposes a current-year reduction of $7.4 million (General Fund) based on a reduced patient caseload of 147 patients (after comparing September 30, 2007 actual caseload to budgeted caseload).** This methodology is applied to certain patient caseloads, including Incompetent to Stand Trial, Not Guilty by Reason of Insanity, Mentally Disordered Offender, and Other Penal Code.

The DMH uses a different methodology for the Sexually Violent Predator (SVP) caseload. For calculating the SVP caseload, the DMH uses a projection rate of 4 percent for SVP commitments (i.e., referrals that would result in a commitment to a State Hospital). The Legislative Analyst's Office (LAO) has questioned this percentage level in the past as being too high of a percentage for actual commitments.

Therefore, based on an LAO analysis of actual SVP patient population data, the Legislature reduced the State Hospital's current-year funding by $12.6 million (General Fund) in the Special Session. This reduction is in addition to the DMH's reduction of the $7.381 million (General Fund).

Second, the DMH proposes an increase of $23.9 million (General Fund) based on an increase in patient population of 470 patients, for a total of 6,448 patients for 2008-09 (estimated ending population as of June 30, 2009). As noted in the chart below, most the DMH proposed increase is attributable to projected increases in the SVP caseload and the Medically Disordered Offenders (MDO) caseload.

The proposed increase of $23.9 million (General Fund) would be used to hire 243.7 Level-of-Care staff for treatment of the increased caseload.

<u>Summary Chart of the Overall State Hospital Population.</u> As noted in the table below, about 92 percent of the beds are designated for penal code-related patients and about 8 percent are to be purchased by the counties, primarily by Los Angeles County.

DMH State Hospital Caseload Summary Projection *(DMH Estimate)*

Category of Patient	**Actual Census** (March 5th)	**Current Year Caseload (Revised)** (Ending June 30)	**Budget Year Caseload** (Ending June 30)	**Difference Over Current Year**
Sexually Violent Predators **Special Session Reduced**	700	867 ***Revised* to 739**	1,227	360 *Revised* to 488
Medically Disordered Offenders	1,210	1,258	1,360	102
Not Guilty by Reason of Insanity	1,209	1,248	1,238	-10
Incompetent to Stand Trial	1,095	1,133	1,151	18
Penal Code 2684s & 2974s (Referred by CDCR)	196	782	782	0
Other Penal Code Patients (various)	131	118	118	0
Juvenile Justice	8	30	30	0
SUBTOTAL-- Penal Code-	**4,549**	**5,436**	**5,906**	470 *Revised* to 598
County Civil Commitments	503	542	542	0
TOTAL PATIENTS	**5,052**	**5,978**	**6,448**	**470** ***Revised* to 598**

<u>Legislative Analyst's Office (LAO) Recommendation—Reduce Estimate for SVP Caseload.</u> As previously noted, the LAO believes the DMH has over estimated the SVP caseload in both the current-year and budget year. Specifically, the LAO notes the historical growth (from 1999 to January 2008) rate for the SVP committed caseload is 47 patients (average year-to-year increase).

As of March 2008, the SVP caseload at the State Hospitals was 700 patients. Yet the DMH was projecting a total caseload of 867 patients in the current year. Adoption of the LAO recommendation during the Special Session reduced the appropriation level to provide for a total of 739 total patients as of June 30, 2008. This level of funding for the current-year may likely need to be at the May Revision as well.

For 2008-09, the DMH is projecting an SVP caseload of 1,227 patients or 488 patients higher than the revised current year adopted in Special Session. Clearly, this estimate is overstated.

As such, the LAO recommends reducing the budget-year request by $13.8 million (General Fund) to reflect an increase in caseload of 220 SVP patients. The LAO will also be analyzing the May Revision for any other adjustments in this area.

<u>Subcommittee Staff Recommendation—Adopt Budget Bill Language and LAO Recommendation.</u> It is recommended to: **(1)** adopt Budget Trailer Bill Language to have the DMH provide information to the Office of State Audits and Evaluation (OSAE) in order for the OSAE to review the methodology used to estimate State Hospital caseload and fiscal information; and **(2)** adopt the LAO recommendation to reduce by $13.8 million (General Fund) due to over estimating by the DMH. The proposed Budget Bill Language is as follows:

"It is the intent of the Legislature for the Office of State Audits and Evaluations (OSAE) to examine the methodology used by the Department of Mental Health in developing its budget estimate of the State Hospital system, including the projecting of all patient caseload categories, operating expenditures and related information used for this purpose. As part of its analysis, the OSAE will also review marginal costing information used for this population. The OSAE shall report its preliminary finding to the chairpersons of the fiscal committees of the Legislature, including the Joint Legislative Budget Committee, by **October 1,** 2008. To the extent that these preliminary findings are applicable, they shall be incorporated into the Department of Mental Health's State Hospital estimate for the Governor's Budget in January. The OSAE shall provide its final report to the chairpersons of the fiscal committees of the Legislature, including the Joint Legislative Budget Committee, by December 1, 2008. Any substantive findings in the final report that have not already been incorporated into the estimate process will be incorporated into the State Hospital estimate for the May Revision."

<u>Questions.</u> The Subcommittee has requested a response to the following questions:

1. DMH, Please provide a brief summary of the proposal.
2. LAO, Please provide a brief summary of the LAO recommendation.

<u>2. Continued Activation of Coalinga State Hospital (CSH)</u>

<u>Issue.</u> The DMH is requesting an increase of $8.031 million (General Fund) for 124.9 positions (all Non-Level of Care), including $184,000 for workforce recruitment. The DMH states these positions are needed to proceed with the continued activation of Coalinga State Hospital (CSH), based on the DMH's projected patient population overall and for Coalinga specifically.

Specifically, the DMH is requesting 124.9 positions in the following areas.

- <u>Administrative Staff (12 positions).</u> These 12 positions are requested for administrative support in the following areas: information technology; medical records; personnel; housekeeping; food services; and clinical laboratory.

- <u>Patient Complaints and Appeals (2 positions).</u> These positions—two analysts—would be used for processing patient complaints and appeals. One of these positions would be at the DMH Headquarters Office and the other at Coalinga.

- <u>Expand Police Services (58.9 positions).</u> The DMH states that with a projected increased patient population, five additional "Residential Recovery Units" need to be opened. There are presently 8 units in operation now.

  For these units to be opened, the DMH states that 58.9 positions are needed in the CSH police department. This would include: (1) 54 Hospital Peace Officers; (2) 0.6 Hospital Police Lieutenant; and (3) 4.3 Hospital Police Sergeants.

- <u>Civil Rights for Institutionalized Persons Act (5 positions).</u> The Wellness and Recovery Model is currently being implemented at CSH. This requires data collection, entry, tracking, analyzing and monitoring of patient information. The DMH states that 5 positions are needed for this effort due to increased projected patient caseload. These positions include 4 analysts and one support position.

- <u>Patient Computer Program (3 positions).</u> CSH has adopted a patient computer program to provide all patients equal access, as well as content-controlled access, to over 200 computers that will be installed during the next year. The DMH is requesting 3 positions for this effort, including installation, support, maintenance and repair.

- <u>Dietetics (40 positions).</u> The DMH is requesting an increase of 40 positions (28 Food Service Workers and 12 Food Service Technicians) for increased projected patient caseload.

- <u>Communication Center (4 positions).</u> The DMH is requesting an increase of 4 positions for communication dispatch purposes, including requests for facility entrance checks, opening and closing of gates when admitting patients, out-of-hospital medical appointments, court appearances, and conducting patient counts.

In addition to the position request, the DMH is requesting $184,000 for various workforce recruitment activities, including the following:

- $120,000 for radio, television, print media and online advertisements. This dollar figure assumes $10,000 per month for 12 months.
- $29,000 for recruitment conferences that are out-of-state.
- $7,000 for recruitment conferences that are in-state.
- $12,000 for postage for recruitment flyers and data base recruitment mailings;
- $12,000 for promotional advertising that show products regarding CSH and job contact information.
- $4,000 to pay for possible job candidates to travel and interview for difficult to recruit classes. This dollar amount assumes $500 per position..

Background—Coalinga State Hospital (CSH). CSH, a 1,500 bed facility located adjacent to the Pleasant Valley State Prison, admitted its first patients in September 2005. CSH is primarily to be used for housing and treating SVP patients, along with some other penal code-related patients, including Mentally Disordered Offenders (MDOs) and specified others. However, due to historic problems in attracting personnel to fill vacancies—both clinical and "non-level-of-care"--, Coalinga has been very slow to activate and to fill its beds with patients.

The DMH states that presently (as of March 5, 2008) Coalinga provides treatment to a total of 710 patients, of which 661 are SVP patients. With respect to the DMH's budget year estimate of patient population for Coalinga, the following table is provided.

Coalinga State Hospital Patient Projections

Patient Category	Actual Census (March 5, 2008)	Current Year Revised Population	Difference With Actual	Budget Year Estimated Population	Difference Revised CY to Budget
Sexually Violent Predator	661	781	-120	1,141	360
Mentally Disorder	0	66	-66	66	0
Penal Code2684 &2974	49	50	1	50	0
TOTALS	710	897	-187	1,257	360

As noted in this table, the DMH is projecting significant growth for 2008-09. They are estimating an increase of 360 patients above the revised current year estimate, and an increase of *547 patients* (187 plus 360), *or 77 percent*, above the actual population presently.

However as previously noted by the LAO, the actual commitments of SVPs to the State Hospital system is *not* occurring to the degree that was originally estimated by the DMH. The LAO states there has been an average years-to-year increase in SVP caseload of 47 patients, not the substantial increase as estimated by the DMH.

Subcommittee Staff Recommendation—Hold Open. It is recommended to hold this issue open pending the receipt of May Revision and updated information from the DMH.

First, it should be noted that CSH presently has 1,548.4 authorized positions at the facility (according to the DOF's Salary and Wages document) with 366.7 vacancies reported as of late December 2007. As such, General Fund resources have been appropriated by the Legislature which are currently not being expended. These funds (i.e., salary savings) should be adjusted overall at the May Revision when an updated State Hospital caseload is computed. These adjustments may reduce the need for some of these requested Non-Level-of-Care positions at Coalinga.

Second, the DMH states that many of the requested 124.9 new positions for Coalinga are needed to meet existing Non-Level-of-Care needs, including security and certain licensing and certification requirements. However, this information was not contained in the written materials (Budget Change Proposal) provided to the Legislature in January, nor had they been provided to the Subcommittee Consultant at the time of this writing.

Further, it is suggested for the LAO to review this proposal more comprehensively within the context of their SVP population estimate.

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

1. DMH, Please provide a brief update on the activation of Coalinga State Hospital.
2. DMH, Please provide a brief summary of the need for the budget request.

3. Request for Additional Administrative Resources for CRIPA Activities

Issues. The DMH is seeking **a total increase of $5.1 million** (General Fund) for **two areas** related to the implementation of the Civil Rights of Institutionalized Persons Act (CRIPA) Agreement. **In total, the DMH is requesting funding for 23 new positions (18 positions at Headquarters and 5 at the State Hospitals), plus information technology resources.** The CRIPA Agreement with the U.S. Department of Justice was effective in June 2006 and the DMH has been provided with some budget augmentations in past years to meet identified needs.

The two DMH requests related to CRIPA implementation are summarized below.

(A) More Headquarters Support--$1.9 million (General Fund) for 11 Positions, Travel and Training. The DMH requests funds for 11 positions, along with operating expenses which include training and travel costs. Of the $1.9 million request, $1.356 million is for personnel, $318,330 is for travel, and $195,000 is for training.

The DMH contends these positions are needed to demonstrate competency to assume oversight and monitoring roles currently filled by the Court Monitor and his team of experts prior to their *expected departure date of June 30, 2011*. DMH contends they must begin to hire staff no later than July of 2008 in order to have a full complement of staff and resources in place to take over the duties of the Court Monitor and his team.

Total Positions = 11	Description of Requested Headquarters' Positions
Staff Counsel III (Specialist)	Two-year limited-term position.
Senior Psychiatrist	To oversee all clinical activities falling in the domain of psychiatry and medical services and ensure implementation of standardized, evidence-based practices in accordance with CRIPA requirements.
Consulting Psychologist	To oversee all clinical activities related to psychology services at the State Hospitals.
Nurse Consultant	To oversee all clinical activities related to the delivery of nursing services at all State Hospitals and ensure implementation of standardized, evidence-based practices in accordance with CRIPA requirements.
Training Officer III	To plan and coordinate the standardization of training services at all State Hospitals for a variety of recovery-based treatment modalities including diagnosis-specific treatments and specialty area trainings.
Rehabilitation Therapist	To oversee all clinical activities regarding rehabilitation therapy services and ensure implementation of standardized, evidence-based best practices.
Clinical Social Worker	To oversee all clinical activities regarding social work services at the State Hospitals.
Research Analyst (two)	To provide programming and data support to Headquarters monitoring psychologist. These analysts will track data relevant to ensuring quality of care and assist in managing monitoring tools related to CRIPA performance measures.
Supervising Special Investigator	To conduct investigations in response to allegations of abuse and neglect, and monitoring investigations for quality assurance.
Senior Special Investigator	To provide assistance to the Supervising Special Investigator.

Along with these positions, the DMH is seeking **an increase of $318,330 for travel to support 18 headquarter positions** (i.e., the requested 11 positions above, and some existing positions). The DMH assumes a high level of travel for these positions since they will be located in Sacramento and will need to travel to the State Hospitals. The costs assume air travel, motel costs, car rental, gas, food and incidentals.

An increase of $195,000 in training costs is also requested. The DMH would contract out for training related to the Recovery Model of treatment, including diagnosis-specific treatment (26 skill set areas) and specialty area training.

(B) Information Technology: Increased Costs for More Headquarters' Staff, Development of WaRMSS and Data Staff at State Hospitals. This is the second piece of the overall requested CRIPA augmentation. The DMH is requesting an **increase of almost $3.3 million** (General Fund) in the budget due to a revision to their information technology project for CRIPA implementation called "Wellness and Recovery Model Support System" (WaRMSS).

According to the DMH, they submitted a revision to the WaRMSS project in November 2007. The requested funding change is $3.263 million (General Fund) more than the original estimate. **This is a 224 percent increase in expenditures.** The funding changes between their original project submittal and their revision is summarized in the table below.

Summary of Revised WaRMSS Information Technology Project

Category	Original 2008-09 Costs	Requested Funding Changes	Total Revised Expenditures
Staff (increase of 12 staff)	$465,600	$1,032,000	$1,497,600
Hardware	$0	$205,000	$205,000
Software	$31,600	$87,600	$119,200
Software Customization	$192,000	$1,412,800	$1,604,800
Project Oversight	$58,500	$153,800	$212,300
Data Center	$461,700	$159,000	$620,700
Telecommunications	$150,000	$0	$150,000
Other operating expenses	$93,000	$213,000	$306,000
Totals	**$1,452,400**	**$3,263,200 *increase***	**$4,715,600**

- <u>Staff Costs (12 new staff).</u> The DMH is requesting an increase of $1.032 million to **(1)** hire 7 new information technology staff at Headquarters to perform development, maintenance, quality assurance testing, and build new reporting databases; and **(2)** hire 5 new staff (two-year) at the State Hospitals to facilitate hands-on WaRMSS training.

  The DMH states the 7 additional staff at Headquarters would be used as follows:
  - Senior Programmer Analyst — Quality Assurance Testing
  - Associate Programmer Analyst — Quality Assurance Testing
  - Senior Programmer Analyst — Development and Maintenance
  - Staff Programmer Analyst — Development and Maintenance
  - Senior Programmer Analyst — Ad-hoc Database Administrator
  - Associate Programmer Analyst — Technical Writer

  The 5 new staff at the State Hospitals would be used to train existing staff on computer skills.

- Hardware, Software, and Software Customization. Combined together, these items reflect a requested increase of $1.7 million (General Fund). The hardware costs ($205,000 increase) include the purchase of 5 servers and 5 storage area networks. The software costs ($87,600 increase) consist of software licenses for new development staff and new storage area networks and servers at each hospital for the new reporting databases.

  Most of the increased costs are attributable to software customization ($1.4 million). This includes the following: (1) $594,000 for development contracts; (2) $465, 500 for quality assurance and testing; (3) $161,000 for business analyst contractor; and (3) $192,000 for Ad-Hoc reporting specialist.

- Project Oversight. Additional expenditures of $153,800 are proposed for more oversight activities for the WaRMSS project. This is all done by contract.

- Data Center. Additional expenditures of $159,000 are proposed for increased data charges to support a centralized reporting database and hardware.

- Operating Equipment and Expenses. Additional expenditures of $213,000 is requested for general operating expenses, travel, training, and communications for all of the requested 12 new staff.

Background—Deficiencies at State Hospitals Lead to U.S. DOJ Agreement Regarding CRIPA. In July 2002, the U.S. Department of Justice 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 identified similar conditions at Napa, Patton, and Atascadero (Coalinga was not involved). **The Administration and US DOJ finally reached a Consent Judgment (Agreement) on May 2, 2006.**

This Agreement provides a timeline for the Administration to address the CRIPA deficiencies and included 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.

The “Recovery Model”, as required by the Agreement, 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.

What is WaRMSS? The Wellness and Recovery Model Support System (WaRMSS) is the automation system used to address requirements identified in the CRIPA Agreement. According to the DMH, the key project objectives include the following:

- Automate patient specific data to assist in monitoring and evaluation.
- Develop a centralized application to support the new CRIPA required business processes for use by all five State Hospitals.
- Minimize redundant entry of data, facilitate ease of data retrieval, and allow for the access of prior hospitalization data upon admission to a different State Hospital.
- Standardize business processes across all State Hospitals.

Originally, WaRMSS was scheduled to begin development in May 2006 and be completed by January 1, 2009. The DMH's revised schedule now assumes a June 30, 2009 completion date.

Subcommittee Staff Comment and Recommendation to Re-Tool Proposal. Clearly, the CRIPA Agreement is important for California to meet. However, considerable question arises regarding this proposal with respect to the utilization of existing resources within the DMH Headquarters and State Hospitals, as well as the significant increase in funding for the WaRMSS information system specifically.

Further, given the concerns raised by OSAE in their Internal Control Review with respect to the lack of contract oversight and disarray with information technology projects, question arises as to whether the DMH should be proceeding with this project on their own without *substantially* increased oversight by the Office of the State Chief Information Officer.

First, the DMH has vacancies within *both* the Long-Term Care Division and Information Technology Division which could be redirected for key efforts regarding CRIPA implementation. Based on recent DMH organization charts, there are numerous vacancies within both of these Divisions. For example, there are at least 8 vacant Consulting Psychologist positions and at least 8 vacant journey-level Analyst positions within the Long-Term Care Division. The Information Technology Division has at least 6 vacancies which are journey-level Information Analysts or higher. Additional resources should not be provided when existing resources are not being fully utilized.

Further in the view of Subcommittee staff, the DMH has resources within the Community-Services Division of the department which are either vacant, or could be used for redirection in some cases. In addition, some of the vacant existing positions could be re-classified and assigned to the Long-Term Care Division or Information Technology Division for use in meeting CRIPA needs.

Second, with respect to the WaRMSS implementation, the overall $3.263 million (General Fund) increase over the original estimate appears to be excessive (224 percent increase). This is particularly questionable given the augmentation provided in 2006, as discussed below.

The Legislature has been very supportive of CRIPA implementation efforts, including funding in 2006. Specifically, the Legislature approved $2.5 million ($2.4 million General Fund) in 2006 for WaRMSS. Of this total amount $1.8 million was for Headquarters state support for 5 new positions, $985,000 in contract funds for software development and project oversight. The remaining amount of $706,000 was to be used to fund 10 permanent positions at the State Hospitals to support the system. Therefore, it is unclear why more State Hospital staff is needed for this effort. In addition, the Administration's proposal for continued activation of Coalinga State Hospital also requests additional positions to implement WaRMSS.

It is therefore recommended for the Subcommittee to reject this proposal in its entirety and send it to Conference Committee for further discussion. If the DMH chooses to provide a revised proposal to the Subcommittee prior to the May Revision for its consideration, then this issue could be revisited if desired by the Chair. Given the very difficult fiscal situation, it is imperative for the Administration to more comprehensively utilize existing resources and operate in a more efficient manner.

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

1. DMH, Please provide a brief update regarding CRIPA implementation.

2. DMH, Please provide a brief summary of the request.

4. County Purchased Beds at the State Hospitals are Subsidized by State

Issue. Due to fiscal constraints, Subcommittee staff is raising the issue of the state's continued use of General Fund support for State Hospital beds purchased by County MHPs for civil commitments. Specifically, the DMH provides about $9.8 million (General Fund) to subsidize, or to offset the full cost of, the State Hospital beds purchased by County MHPs.

As noted above, County MHPs purchase State Hospital beds from the DMH on a contracted basis. According to the DMH's budget, it is estimated that County MHPs will contract for a total of 542 beds (i.e., "Civil Commitments") in 2008-09.

Counties purchase State Hospital beds using their County Realignment Funds (Mental Health Subaccount). Under realignment, counties may choose to purchase State Hospital beds or to utilize community-based resources as appropriate for the individual patient.

During the mid-1990's, the DMH provided some General Fund support to counties to offset the high cost of State Hospital beds while counties were developing community-based resources, including crisis intervention services and more expansive continuum of care services. As community-based resources were expanded, the counties purchased fewer State Hospital beds over time.

Subcommittee Staff Comment and Recommendation. During the mid-1990's General Fund augmentations were provided for several years to assist in offsetting the high cost of State Hospital beds to enable counties to purchase beds as necessary for patient care.

However, with the development over time of community-based resources, and the state's present fiscal situation, the state should consider eliminating the $9.8 million (General Fund) subsidy for counties. Without the General Fund subsidy, County MHPs may choose to purchase a State Hospital bed at full cost, utilize other long-term care resources, access other community-based resources, or develop new treatment models for patients.

It is recommended to have a discussion on this issue and to hold it open at this time, pending receipt of information from the DMH and County MHPs.

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

1. DMH, Please comment on the use of state General Fund support in subsidizing the County MHP purchase of State Hospital beds.

2. LAO, Any comment regarding this issue?

5. Court Testimony and Evaluation Expenses for Sexually Violent Predators

Issue. The DMH is requesting an increase of $3.037 million (General Fund) to fund “initial” evaluations due to the underestimation of actual referrals received. The DMH states that current year-to-date data indicates the DMH will be receiving about 9,000 total cases in the budget year. This is an additional 1,380 cases above the previous funded projection of 7,620 cases per year.

Jessica’s Law increased the number of case referrals to the DMH by expanding the definition of a sexually violent offense from 9 to 35 qualifying sex offenses.

Each referred individual meeting the criteria must, at a minimum, be evaluated by two licensed clinicians (i.e., “initial” evaluation). Since the implementation of Jessica’s Law, 29 percent of the cases referred have required “initial” evaluations. Ten percent of these cases resulted in a difference of opinion (one negative and one positive) and required a third and fourth evaluation. Therefore, the DMH anticipates it will conduct 5,742 initial evaluations (9,000 cases * 29 percent *2.2) in 2008-09.

As noted in the table below, the DMH is presently funded to perform 5,197 initial evaluations and is requesting the increase of $3.037 million to fund an additional 545 more cases. The cost per “initial” evaluation is being increased from $3,835 to $4,000 to reflect increased travel costs. The $4,000 per “initial” evaluation assumes $3,500 for clinical work and $500 for travel expenses. All of these evaluations are done through contracts administered by the DMH.

Evaluation Component	**Total Amount Current Year**	**Requested Increase for Budget Year (GF)**	**Total 2008-09**
Initial Evaluations	$19,930,000 (5,197 total)	**$3,037,505** (545 more cases)	$22,968,000 (5,742 total)
Initial Court Testimony	$732,000		$732,000
Evaluation Updates	$410,000		$410,000
Recommitment Evaluations)	$1,574,000		$1,574,000
Recommitment Court Testimony	$1,087,000		$1,087,000
Recommitment Updates	$853,000		$853,000
Other miscellaneous, airfare, consultation, evaluator training	$2,801,000		$2,801,000
Totals (rounded)	**$27.4 million**	**$3.037 million**	**$32.2 million**

Background-- DMH Responsibilities. When the DMH receives a referral from the CA Department of Corrections and Rehabilitation (CDCR), the DMH is responsible for the following key functions:

- *Screening*. The DMH screens referred cases to determine whether they meet legal criteria pertaining to SVPs to warrant clinical evaluation. Those not referred for an evaluation remain with the CDCR until their parole date.

- *Evaluations.* Two evaluators (Psychiatrists and/or Psychologists), who are under contract with the DMH, are assigned to evaluate each sex offender while they are still held in state prison. Based on a review of the sex offender records, and an interview with the inmate, the evaluators submit reports to the DMH on whether or not the inmate meets the criteria for an SVP. If two evaluators have a difference of opinion, two additional evaluators are assigned to evaluate the inmate.

Offenders, who are found to meet the criteria for an SVP, as specified in law, are referred to District Attorneys (DAs). The DAs, then determine whether to purse their commitment by the courts to treatment in a State Hospital as an SVP.

If a petition for a commitment is filed, the clinical evaluators are called as witnesses at court hearings. Cases that have a petition filed, but that do *not* go to trial in a timely fashion may require updates of the original evaluations at the DA's request.

The amount of time it takes to complete the commitment process may vary from several weeks to more than a year depending on the availability of a court venue and the DA's scheduling of cases. While these court proceedings are pending, offenders who have not completed their prison sentences continue to be held in prison. *However*, if an offender's prison sentence has been completed, he or she may be held either in county custody or in a State Hospital.

Background—Sexually Violent Predator Act. Enacted in 1995 (AB 888, Rogan), this act created a new civil commitment for "Sexually Violent Predators" (SVPs). The DMH is responsible for the implementation and administration of the SVP Program. This program is impacted by change which has occurred in the form of amended statutes, court decisions, changes in the methods of risk prediction and increased expectations for contract evaluators to be better prepared to conduct evaluations and provide court testimony.

Background—SB 1128 (Alquist), Statutes of 2006. This legislation made changes in law to generally increase criminal penalties for sex offences and strengthen state oversight of sex offenders. For example, it requires that SVPs be committed by the court to a State Hospital for an undetermined period of time rather than the renewable two-year commitment provided under previous law.

This law also mandates that every person registering as a sex offender is subject to assessment using the State-Authorized Risk Assessment Tool for Sex Offenders (SARATSO), a tool for predicting the risk of sex offender recidivism.

Background—Proposition 83 of November 2006—"Jessica's Law". Approved in November 2006, this proposition increases penalties for violent and habitual sex offenders and expands the definition of an SVP. The measure generally makes more sex offenders eligible for an SVP commitment by **(1)** reducing from two to one the number of prior victims of sexually violent offenses that qualify an offender for an SVP commitment, and **(2)** making additional prior offenses "countable" for purposes of an SVP commitment.

Subcommittee Staff Recommendation—Hold Open. It is recommended to "hold" this issue "open" *and* to direct the Legislative Analyst's Office (LAO) to analyze the DMH's request in the context of recent trends regarding the need for the initial evaluations, as well as the level of funding proposed for this purpose.

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

1. DMH, Please provide a brief description of the evaluation process and the budget request.

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

Subcommittee No. 3: Monday, March 24th (Room 4203) 10:30 AM
(Please use the Subcommittee Agenda for this day as a guide to this document please.)

ISSUES FOR VOTE ONLY—(Pages 5 through 8)

- **Action:** Approved the "**Vote Only" Calendar** (Pages 5 through 8, Items 1 through 5). These actions saved an additional $23,000 General Fund as compared to the Governor's budget and maintained a fully-funded Healthy Families Program.
- **Vote:** 2-0 (Senator Wyland absent)

C. ISSUES FOR DISCUSSION—(Page 9)

- **Action:** Adopted placeholder trailer bill language as referenced in the Agenda and to have the department report back to this Subcommittee on April 28th regarding a General Fund savings estimate.
- **Vote:** 2-0 (Senator Wyland absent)

2. Status Update—EPSDT Program (Page 12)

- **Action:** Adopted placeholder trailer bill language as referenced in the Agenda.
- **Vote:** 2-0 (Senator Wyland absent)

3. Proposed Reductions to EPDST (Page 15)

- Held Open.

4. Proposed Adjustments to Mental Health Managed Care Program (Page 19)

- Held Open.

5. Community Treatment Facilities (Page 21)

- Held Open.

6. California Caregiver Resource Centers (Page 22)

- Held Open.

D. ISSUES FOR DISCUSSION – State Hospitals (Page 23)

1. Proposed Baseline Patient Population at the State Hospitals (Page 25)

- **Action:** **(1)** Adopted Budget Bill Language as shown in the agenda, and **(2)** Adopted the LAO General Fund savings of $13.8 million for 2008-09.
- **Vote:** 2-0 (Senator Wyland absent)

2. Continued Activation of Coalinga State Hospital (CSH) (Page 28)

- Held Open.

3. Request for Additional Administrative Resources for CRIPA (Page 31)

- **Action:** Rejected this augmentation request in order to send it to Conference Committee for further discussion. (If the DMH has a revised proposal on this issue prior to May Revision, the Subcommittee is open to discussing it.)
- **Vote:** 2-0 (Senator Wyland absent)

4. County Purchased Beds at the State Hospitals (Page 36)

- Held Open.

5. Court Testimony and Evaluation Expenses for SVPs (Page 37)

- Held Open.

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

Chair, Senator Elaine K. Alquist

Senator Alex Padilla
Senator Mark Wyland

April 7, 2008

10:30 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 Care 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.

Managed Risk Medical Insurance Board (MRMIB)

A. OVERALL BACKGROUND (Pages 2 through 5)

Purpose and Description of Department. 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) Program; and **(3)** Major Risk Medical Insurance Program (MRMIP).

Summary of Funding. The budget proposes total expenditures of almost $1.4 billion ($432.3 million General Fund, $846.2 million Federal Trust Fund and $115.1 million in other funds) for all programs administered by the Managed Risk Medical Insurance Board. A summary of projected program expenditures is shown below, ***prior*** to the Governor's proposed reductions. I

Summary of Expenditures (dollars in thousands)	**2007-08**	**2008-09**	**$ Change**	**% Change**
Program Source				
Major Risk Medical Insurance Program (including state support)	$40,089	$35,999	-$4,090	1.0
Access for Infants & Mother (with state support)	$135,563	$154,692	$19,129	14.1
Healthy Families Program (with state support)	$1,099,469	$1,200,055	$100,586	9.1
County Health Initiative Program	$2,777	$2,874	$97	3.5
Totals Expenditures	**$1,277,898**	**$1,393,620**	**$115,722**	**9.1**
General Fund	$396,040	$432,338	$36,298	9.2
Federal Funds	$770,423	$846,213	$75,790	9.8
Other Funds	$111,435	$115,069	$3,634	3.3
Total Funds	**$1,277,898**	**$1,393,620**	**$115,722**	**9.0**

Governor's Proposed Reductions for Managed Risk Medical Insurance Board. The Governor declared a fiscal emergency on January 10th, utilizing the authority provided within the State Constitution as provided for under Proposition 58 of 2004. Under this authority, the Governor can call the Legislature into Special Session to deal with substantial revenue declines or expenditure increases, and to address the fiscal emergency. Other than utilizing remaining bond financing, the Governor has generally proposed a 10 percent across-the-board reduction approach to the fiscal emergency.

With respect to the Managed Risk Medical Insurance Board, the Governor has proposed a reduction of $121.7 million ($43.2 million General Fund *and* $78.5 million federal funds) as shown in the table below. It should be noted that the savings level shown below assumed a July 1, 2008 implementation date.

Governor's Proposed Reductions to Healthy Families Program

Healthy Families Program	Governor's Proposed 2008-09 Reduction (General Fund)	Governor's Proposed 2008-09 Reduction (Total Funds)
Reduce rates paid to participating health plans by 5%	-$22,400,000	-$63,100,000
Benefit limit for dental coverage ($1,000 annually)	-$6,300,000	-$17,700,000
Increase premiums families pay for coverage	-$11,100,000	-$31,300,000
Increase co-payments for certain services	-$3,400,000	-9,600,000
Total Reduction to Program	**-$43,200,000**	**-$121,700,000**

Legislature's Special Session Actions. After numerous hearings convened by both the Senate and Assembly, the Legislature took action to reduce the current-year shortfall of $3.3 billion and converted it into a little over $1 billion in General Fund reserve. In addition, the actions of the Legislature provided $8.6 billion in cash management solutions to enable the state to maintain its ability to pay its bills.

The resulting projected budget year deficiency was reduced by $7 billion, leaving an estimated shortfall of almost $8 billion at this time.

No actions were taken by the Legislature to reduce the Healthy Families Program.

Overall Background—Description of the Healthy Families Program. The Healthy Families Program (HFP) provides health, dental and vision coverage through managed care arrangements to children (up to age 19) 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 are in families that exceed the 250 percent federal income level, then they are no longer eligible to remain in the HFP.

There are also two "bridge" programs that enable children to transition from Medi-Cal to the HFP, and from the HFP to Medi-Cal. This is done in order to help ensure continued coverage for children who may be going back and forth between the two programs due to family income changes, or a change in their age. It should be noted that with the enactment of Senate Bill 437 (Escutia), Statutes of 2006, the "bridge" programs will phase-out and presumptive eligibility processes will be implemented.

Background Summary of Eligibility for the Healthy Families Program (HFP)

Type of Enrollee in the HFP	Income Level Based on Federal Poverty	Comments
Infants up to the age of two years who are born to women enrolled in Access for Infants & Mothers.	200 % to 300 %	• Income from 200% to 250%, covered through age 18. • Income is above 250 %, they are covered up to age 2.
Children ages one through 5 years	133 % to 250 %	Healthy Families Program covers from 133 percent and above because children below this are eligible for Medi-Cal.
Children ages 6 through 18 years	100 % to 250 %	Healthy Families Program covers children in families above 100 %. Families with two children may be "split" between programs due to age.
Some children enrolled in County "Healthy Kids" programs. These include (1) children without residency documentation; and (2) children from 250 percent to 300 percent of poverty.	Not eligible for Healthy Families Program, including 250 percent to 300 percent	State provides federal S-CHIP funds to county projects as approved by the *MRMIB.* Counties provide the match for the federal funds.

<u>Background—HFP Benefit Package.</u> The HFP benefit package is modeled after that offered to state employees, including health, dental and vision. The enabling federal legislation—the State's Children's Health Insurance Program (S-CHIP)—required states to use this "benchmark" approach. These benefits are provided through managed care arrangements. The HFP directly contracts with participating health, dental and vision care plans. Participation from these plans varies across the state but consumer choice has *historically* always been available.

In addition to these HFP benefits, enrolled children can also access the California Children's Services (CCS) Program if they have a CCS-eligible medical condition. An HFP enrolled child is also eligible to receive *supplemental* mental health services provided through County Mental Health Plans. These additional services are provided in accordance with state statute that created California's Healthy Families Program (i.e., California's S-CHIP). These services are also available to children enrolled in Medi-Cal.

Background—HFP Premiums. 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 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. Families that select a health plan designated as a "community provider plan" receive a $3 discount per child on their monthly premiums. Families with incomes between 200 percent and 250 percent of poverty pay $12 to $15 per child per month. The family maximum per month is $45 for these families.

Summary of Budget Year Funding and Enrollment for the HFP. A total of almost $1.1 billion ($387.8 million General Fund, $676.2 million Federal Title XXI Funds, $904,000 Proposition 99 Funds, and $7.4 million in reimbursements) is proposed for the HFP, excluding state administration. This reflects a reduction of almost $37 million ($10.8 million General Fund), or a 3.3 percent reduction as compared with the Budget Act of 2007. Most of this decrease is attributable to the Governor's proposed reductions, as well as adjustments to projected caseload.

The HFP is funded at a *65 percent federal match* through a federal allotment (i.e., this is not a federal entitlement program).

The budget assumes a total enrollment of 954,252 children as of June 30, 2008, an increase of 45,340 children over the revised current year enrollment level, or a growth rate of about 5 percent.

Total HFP enrollment of 954,252 children is summarized by population segment below:

- Children in families up to 200 percent of poverty 687,361 children
- Children in families between 201 to 250 percent of poverty 211,034 children
- Children in families who are legal immigrants 17,478 children
- Access for Infants and Mothers (AIM)-Linked Infants 16,798 children
- New children due to changes in Certified Application Assistance 4,574 children
- New children due to improvements in the enrollment process 5,333 children
- New children due to implementation of SB 437, Statutes of 2006 11,674 children

(Discussion items begin on next page.)

1. Governor Proposes Increase in Healthy Families Subscriber Premiums

Issue. The Governor proposes to increase the monthly premium amounts paid by families for their children to receive health care services under the Healthy Families Program. The MRMIB uses these monthly subscriber payments to offset overall program expenditures which then reduces the need for General Fund support. The HFP is funded at a *65 percent federal match* through a federal allotment (i.e., this is not a federal entitlement program).

The table below displays the current premium payment and the Governor's proposed increase. Specifically, Subscribers from 151 to 200 percent would experience a *77 percent increase* ($7 dollars more per month per child). Subscribers from 201 to 250 percent would experience a *27 percent increase* ($4 dollars more per month per child).

A total reduction of $31.3 million ($11.1 million General Fund and $20.2 million federal S-CHIP funds) is assumed from this proposal with an effective date of July 1, 2008. This action would require state statutory change, emergency regulation authority and a state plan amendment (i.e., a change to the state's plan filed with the federal government.

Governor's Healthy Families Program—Proposed Premium Increases

HFP Subscriber Family Income %	Existing Monthly Premium Payment	Governor's Premium Payment	Increase Per Month	Annualized Increase (12 months)
100 to 150 percent	$7 per child Maximum per family of $14	No change	--	--
151 to 200 percent	$9 per child Maximum per family of $27	$16 per child Maximum per family of $48	$7 child $21 family	$84 child $252 family
200 to 250 percent	$15 per child Maximum per family of $45	$19 per child Maximum per family of $57	$4 child $12 family	$48 child $144 family

The MRMIB states that *no* federal approval is needed for this proposal because California would still meet federal cost-sharing requirements of not exceeding 5 percent of a family's income for program expenditures (such as through premium payments and copayments for services).

The MRMIB notes that families with incomes from 151 to 200 percent of poverty have not had their premiums increased since inception of the program in 1998. Families with incomes from 200 to 250 percent of poverty had their premiums increased from $9 per child to $15 ($6 dollar increase) and $27 per family to $45 ($18 dollar increase) as of July 1, 2005.

It should be noted that the MRMIB savings level does not recognize any reduction in caseload occurring due to their proposed increase in premiums.

Background on HFP Premiums and Premium Discount Options. HFP premiums are in state statute and *must be paid* by families to maintain their child's enrollment in the program. Subscribers with incomes over 200 percent of poverty had their premiums increased as of July 1, 2005 (from $9 to the present $15 per child). No other Subscriber categories have had their premiums increased since inception of the program back in 1998.

The HFP does offer subscribers "premium discount options" to offset some costs associated with premiums and co-payments. Discounts offered include (1) $3 per child per month discount for enrollment in a "community provider plan"; (2) subscriber paying 3 months in advance to get one month "free"; and (3) a 25 percent monthly discount for payment of premiums through electronic funds transfer or reoccurring credit card payment.

Subcommittee Staff Comment and Recommendation—Hold Open. The Governor's proposal would significantly increase premiums for two categories of Subscribers—children with family incomes from 151 to 200 percent and children with family incomes from 200 to 250 percent. Specifically, Subscribers from 151 to 200 percent would experience a *77 percent increase* ($7 dollars more per month). Subscribers from 201 to 250 percent would experience a *27 percent increase* ($4 dollars more per month).

The MRMIB anticipates increased use of the premium discount options. However, it is likely that some families would be unable to pay premiums given the increase and will disenroll or not enroll their children. The MRMIB has not accounted for any decrease in enrollment which is likely to occur under their proposal.

Families at these poverty income levels experience significant difficulties living in the California economy. One of the original intents of the enabling Healthy Families Program legislation is to ensure access to health, dental and vision care for low-income families. Significant increases in premiums clearly deter enrollment and access to services.

If the Legislature chooses to raise the HFP premiums above existing levels, consideration should be given to adjusting by a lower amount and to obtain information from the MRMIB regarding the relationship between premium increases and caseload decreases (children being disenrolled for lack of payment and families not enrolling children due to the premium level). More analysis needs to be done regarding this threshold question.

Further, the MRMIB notes that any changes to HFP premiums above existing levels will require a lead time of about 4 months to effectuate the change.

It is recommended to hold this issue open 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 proposal.
2. MRMIB, How would increasing the premium families pay for their children in Healthy Families potentially affect HFP enrollment (caseload)?

2. Governor's Proposal to Increase Co-Payments for Services Under HFP

Issue. The Governor proposes to increase the co-payments of HFP subscribers from $5 to $7.50 for *non-preventive* services for children in families with incomes *over* 150 percent of poverty (i.e., from 151 to 250 percent). Co-payments are paid by parents when they take their child in for certain types of medical appointments and services.

A total reduction of $9.6 million ($3.4 million General Fund and $6.2 million federal S-CHP funds) is assumed from this action. This proposal requires a statutory change, emergency regulation authority, and a State Plan Amendment to implement. No federal approval is needed. This savings level assumes a July 1, 2008 implementation date; however the MRMIB notes that they would need about four months to implement this proposal if the Legislature adopts it.

Non-preventive services is a broad category and includes, but is not limited to, the following:

- Emergency room visits if not hospitalized;
- Doctor visits for other than well-child visits, inpatient services or chronic care treatment;
- Prescriptions;
- Eye Exams and Prescription glasses;
- Physical, speech, and occupational therapy; and
- Root canals, oral surgery, crowns, bridges, and dentures.

This proposal would increase co-payments by $2.50, or 50 percent more than paid now, for families over 150 percent of poverty. The MRMIB states this amount was selected due to the savings level it achieves.

It is assumed that an increase in co-payments will reduce utilization of services by families (their children), and thereby, reduce plan rates by about 1.25 percent.

Subcommittee Staff Comment and Recommendation—Hold Open. This proposal to increase co-payment proposal, coupled with the proposal to increase premiums, would still meet the federal cost-sharing requirement of not exceeding 5 percent of a family's income.

However, as noted in the table below, the Governor's proposals (co-payment and premium combined) would increase a family's cost significantly—42 percent and 28 percent respectfully.

Percent of Annual Family Income Spent on Healthy Families Enrollment

Income Level	Current Level	Proposed Level	Increase/Change
150 to 200 percent	1.9 percent	2.7 percent	42 percent increase
200 to 250 percent	1.8 percent	2.3 percent	28 percent increase

It should be noted that the Administration's savings level assumes a 1.25 percent reduction in medical treatment utilization due to the increase in the co-payment. Because of the co-payment increase, they anticipate that parents will take their children in for appointments and/or medical treatment less often due to the expense.

Another aspect of the co-payment proposal is that it would likely be cumbersome to administer because families would need to inform providers of their income level whereas this is not required at this time. When it comes to co-payments there is presently no stratification between the income levels.

Therefore, increasing the co-payments as proposed would be difficult for families and cumbersome to administer.

<u>Questions.</u>

1. MRMIB, Please provide a brief summary of the proposal and how it would be administered.

2. MRMIB, Please explain the anticipated drop in utilization of 1.25 percent.

3. Governor's Proposal to Limit Dental Coverage

Issue. The Governor proposes to institute an annual limit of $1,000 per child for dental coverage within the HFP for a total reduction of $17.7 million ($6.3 million General Fund and $11.4 million federal S-CHIP funds).

A July 1, 2008 implementation date is assumed. Implementation would require (1) state statutory change; (2) emergency regulation authority; (3) contracts to be re-negotiated with plans; and (4) a State Plan Amendment. The MRMIB states that it will take about 4 months to implement this proposal if adopted by the Legislature.

This proposal would limit the annual dental coverage offered to subscribers and would reduce plan costs (i.e., rates). As such, this proposal also interacts with the 5 percent rate reduction issue as discussed below (item 4 on this Agenda), as well as the Governor's proposal to increase co-payments.

According to the MRMIB and their contracted actuary, establishing this dental limit would result in a 12 percent savings in dental benefits over the current year.

The MRMIB contends that if the $1,000 cap is imposed, dental benefits will remain the same; however subscribers with multiple dental needs would likely need to spread services over more than one-year (i.e., in order to avoid the cap and pay out-of-pocket on the amount above the cap). T
he MRMIB's actuary estimates that 5 percent of the HFP subscribers would reach the $1,000 annual limit.

Background on Dental Coverage. Presently, the MRMIB contracts with 6 dental plans for the provision of dental care services to children enrolled in the HFP. These plans receive a capitated reimbursement from the HFP based on a defined benefit package and contract rate negotiations.

The HFP dental plan provides dental services which are very similar to those received by state employees (i.e., under CalPERS plans). The MRMIB does not provide orthodontia; this is done through the CA Children's Services (CCS) Program when it is medically necessary.

Subcommittee Staff Comment and Recommendation—Hold Open. This proposal needs to be viewed in the overall context of the other HFP reduction proposals. More clarification is also needed regarding the percentage of HFP enrolled children who would likely reach the cap.

Further, consideration should be given for providing preventive dental cleanings outside of any proposed cap. It is recommended to hold this issue open until receipt of the Governor's May Revision.

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

1. MRMIB, Please provide a brief summary of your proposal, including any needed statutory changes
2. MRMIB, Please explain how the existing dental benefits would remain the same if a 12 percent savings would be achieved through this proposal?
3. MRMIB, Please describe how the children are that would be most affected by this proposal (such as what type of dental needs are likely to go above the $1,000 cap).
4. MRMIB, Would preventive dental cleanings be included in the cap?

4. Governor's Proposal to Reduce Healthy Families Plan Rates by 5 Percent

Issue. The Governor proposes to reduce by 5 percent, for a total reduction of $63.1 million ($40.7 million federal S-CHIP), the rates paid to plans participating in the Healthy Families Program. A July 1, 2008 implementation is assumed. This proposed reduction would affect all plans (health, dental and vision).

Generally, the MRMIB negotiates contracts annually and is noted for operating an efficient program. MRMIB presently contracts with 23 health plans, 6 dental plans, and 3 vision plans to achieve statewide coverage.

Plan rates, including health, dental and vision, are normally negotiated between January and March and approved by the MRMIB Board in March of each year for the upcoming budget year. MRMIB negotiates with plans on a confidential basis.

This proposal requires: (1) a statutory change; (2) emergency regulation authority; (3) contracts to be re-negotiated with the plans; and (4) a State Plan Amendment which requires federal approval. This proposal interacts with the limit to dental coverage, and the proposal to increase copayments, below.

The MRMIB states that it will take about 4 months to implement this proposal if adopted by the Legislature.

Subcommittee Staff Comment and Recommendation—Hold Open. This issue needs to be viewed within the context of the other HFP proposals as well.

Though the MRMIB does not anticipate any benefit reductions resulting from the proposed rate reduction, this could be a consequence of the proposal since health plans would likely desire to curtail their costs based on a reduced capitation rate. There is also the potential for reduced access to services if a plan needs to limit its network due to the rate reduction.

Currently there are 7 counties with only one health plan available. If the 5 percent reduction occurs, and this plan decides not to contract with the HFP, MRMIB would have to find another plan. It is not fully clear on what may occur under this situation.

This proposal also interacts with the limit to dental coverage and the proposal to increase copayments.

It is recommended to hold this issue open pending 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 proposal.
2. MRMIB, What is your perspective regarding the potential for a lack of statewide coverage for services, the potential for limiting networks and the potential for benefit limitations under this proposal?

<u>Department of Health Care Services: Medi-Cal Program</u>

A. OVERALL BACKGROUND

<u>Purpose:</u> The federal Medicaid Program (called Medi-Cal in California) provides medical benefits to low-income individuals who have no medical insurance or inadequate medical insurance. Generally, California receives a 50 percent match from the federal government for most Medi-Cal Program expenditures.

Medi-Cal is at least three programs in one: (1) a source of traditional health insurance coverage for poor children and some of their parents, (2) a payer for a complex set of acute and long-term care services for the frail elderly and people with developmental disabilities and mental illness, and (3) a wrap-around coverage for low-income Medicare recipients.

<u>Who is Eligible and Summary of Medi-Cal Enrollment:</u> Generally, Medi-Cal eligibles fall into four categories of low-income people as follows: **(1)** aged, blind or disabled; **(2)** low-income families with children; **(3)** children only; and **(4)** pregnant women.

Men and women who are *not* elderly and do not have children or a disability *cannot* qualify for Medi-Cal no matter how low their income. Low-income adults without children must rely on county provided indigent health care, employer-based insurance or out-of pocket expenditures or combinations of these.

Generally, Medi-Cal eligibility is based upon family relationship, family income level, asset limits, age, citizenship, and California residency status. Other eligibility factors can include medical condition (such as pregnancy or medical emergency), share-of-cost payments (i.e., spending down to eligibility), and related factors that are germane to a particular eligibility category. States are required to include certain types of individuals or eligibility groups under their Medicaid state plans and they may include others—at the state's option.

The Medi-Cal Program also has several "special programs" that provide limited services for certain populations**.** These include the **(1)** Emergency Medical Services Program which provides emergency medical services to undocumented individuals; **(2)** the Family PACT Program which provides reproductive health care services; **(3)** the Breast and Cervical Cancer Program which provides services related to cancer for women up to 200 percent of poverty; **(4)** the Disabled Working Program which allows certain disabled working individuals to pay a premium to buy into the Medi-Cal Program; and **(5)** the Tuberculosis Program which provides treatment for TB. These programs are limited in their eligibility and in the services that are funded under them.

As summarized below, Medi-Cal has the following general categories of eligibility. It should be noted that Medi-Cal eligibility is complex and that California has over 120 individual Aid Codes for eligibility tracking purposes.

Medi-Cal Program	**Income Level Based on Federal Poverty**	**Comments**
Pregnant Women	Up to 200 percent of poverty	Medi-Cal funds about 500,000 births annually.
Infants aged zero to one year	Up to 200 percent	
Children ages one through 5 yrs	Up to 133 percent	Healthy Families Program covers above 133 percent.
Children ages 6 through 18 yrs (up to age 19)	Up to 100 percent	Healthy Families Program covers above 100 percent for these children. Families with two children maybe "split" between programs due to age.
Parents	Up to 100 percent	Parents who are "undocumented" receive only emergency care.

Medi-Cal provides health insurance coverage to about 18 percent of Californians. The projected Medi-Cal eligible caseload is shown in the table below.

Summary of Caseload Medi-Cal Eligibles	2007-08	2008-09	Caseload Change	Percent Change
Families/Children	**4,821,000**	**4,699,000**	**-122,000**	**-2.6%**
CalWORKS	1,179,000	1,179,000	no change	no change
Working Families	2,981,000	2,871,000	-110,000	-3.8%
Pregnant Women	214,000	220,000	6,000	2.7%
Children	447,000	429,000	-18,000	-4.2%
Aged/Disabled	**1,744,000**	**1,790,000**	**46,000**	**2.6%**
Aged	671,000	691,000	20,000	2.9%
Disabled	1,073,000	1,099,000	26,000	2.4%
Undocumented Persons	**71,000**	**73,000**	**2,000**	**2.7%**
TOTALS	6,636,000 people	6,562,000 people	-74,000	-1.1%

Summary of Budget: Total Medi-Cal expenditures of $36.4 billion (total funds) are proposed for 2008-09, including both state support and local assistance.

The Governor proposes total General Fund expenditures of $13.7 billion in local assistance for 2008-09. This reflects a net General Fund decrease of $402 million or 2.9 percent below the revised current-year level as shown in the chart below. The Governor's spending plan proposes significant adjustments and policy changes that reduce spending in the budget year. These issues will be discussed over the course of several budget hearings.

Medi-Cal General Fund Summary	2007-08 Estimated	2008-09 Proposed	Difference	Percent
Local Assistance				
Benefits	$13,184,000,000	$12,829,000,000	-$354,000,000	-2.8%
County Admin (eligibility)	$786,000,000	$734,000	-$52,000,000	-7.1%
Fiscal Intermediaries (claims processing)	$101,000,000	$105,000	$4,000,000	3.8
Total Local Assistance	**$14,071,000,000**	**$13,668,000,000**	**-$402,000,000**	**-2.9%**
DHS Operations	**$129,000,000**	**$132,000,000**	**$3,000,000**	**2.3%**
Caseload	6,636,000 people	6,562,000 people	-74,000	-1.1%

Legislature's Special Session Actions. After numerous hearings convened by both the Senate and Assembly, the Legislature took action to reduce the current-year shortfall of $3.3 billion and converted it into a little over $1 billion in General Fund reserve.

In addition, the resulting projected budget year deficiency was reduced by $7 billion, leaving an estimated shortfall of almost $8 billion at this time. In addition, the actions of the Legislature provided $8.6 billion in cash management solutions to enable the state to maintain its ability to pay its bills.

With respect to actions taken regarding the Medi-Cal Program, the Legislature adopted the Governor's 10 percent rate reduction to Medi-Cal, with specified modifications, and all of the Governor's proposals regarding cash management. Detail regarding these proposals is contained within the enabling Special Session legislation, AB 3 (xxx) and AB 5 (xxx).

(Vote Only items begin on the next page.)

B. Issues for "Vote Only"—Department of Health Care Services (Through Page 18)

1. Various Reductions to State Support.

Issue. The Governor has proposed reductions to DHCS state support. Most of the reductions identified by the DHCS are from eliminating state staff positions and reducing operating expenses. These are shown in the table below.

Governor's Reductions for State Support

Description of Reduction	General Fund Savings 2008-09
1. Reduce positions in Pharmacy Benefits Division	$231,000
2. Reduce positions in Utilization Management Division	$529,000
3. Reduce positions in Safety Net Care Pool Division	$181,000
4. Reduce positions in Medi-Cal Eligibility—Policy B section (Leaves 12 remaining staff)	$99,000
5. Reduce positions in Systems of Care Division	$194,000
6. Reduce positions in Long-Term Care Division	$620,000
7. Reduce HIPAA contract funding	$482,000
8. Reduce contract funding in Managed Care Division	$937,000
9. Reduce positions in Managed Care Division	$292,000
10. Reduce positions in Fiscal Intermediary Information Technology Management	$415,000
11. Reduce positions in Fiscal Intermediary Project Management/Contract Section/Internal Operations	$588,000
12. Reduce positions in Fiscal Intermediary—Medi-Cal Dental Services	$133,000
13. Reduce positions in Medical Case Management Program	$548,000
14. Reduce positions, travel, and minor contract costs in the Executive Directors area	$182,000
TOTAL GENERAL FUND REDUCTION	**$5,431,000**

Subcommittee Staff Recommendation—Adopt Governor's Reductions Shown in Table. No issues have been raised regarding these proposed reductions to state support.

It should be noted that the Governor has proposed additional reductions to the DHCS state support item. These additional issues will be reviewed by the Subcommittee at a later date.

2. In Home Supportive Services Waiver—Extend State Staff

Issue. The DHCS proposes an increase of $389,000 ($195,000 General Fund) to permanently establish 4 positions—an Associate Governmental Program Analyst, a Health Program Specialist, a Health Program Auditor III and an Accounting Officer—which expire as of July 1, 2008.

The Legislature originally approved these positions on a two-year limited-term basis to administer the In Home Supportive Services (IHSS) Waiver which was approved by the federal CMS in July 2004. The IHSS Waiver is overseen by the DHCS in its role as the single state Medicaid (Medi-Cal) agency as required by federal law. Specifically the DHCS is required to monitor the health and safety of Waiver participants, oversee the financial aspects of the program and ensure cost neutrality.

Background—Summary of IHSS Waiver. This Waiver enables CA to obtain federal matching funds through Medicaid (Medi-Cal) for (1) provider wage payments to the parents of minor children and to spouses of IHSS; (2) advance payments to individuals who hire and train their own caregivers; and (3) restaurant meal allowances for individuals with physical or mental impairments who cannot prepare meals at home. The existing Waiver is set to expire June 30, 2009.

Subcommittee Staff Recommendation—Modify the Request. This is an important waiver for the state and it needs to be maintained using existing staffing levels. However, in lieu of permanent positions, it is recommended to simply extend the existing positions for two more years. This enables the Legislature to have more oversight regarding the program.

3. Breast and Cervical Cancer Treatment Program-- Extend State Staff

Issue. The DHCS proposes an increase of $716,000 ($358,000 General Fund) to permanently establish 7.5 positions—six Associate Governmental Program Analysts, a Staff Services Manager I and an Office Technician—which expire as of July 1, 2008.

The Legislature originally approved these positions on a two-year limited-term basis to provide assistance with a backlog in reviewing certain eligibility redeterminations and related functions.

Subcommittee Staff Recommendation—Modify the Request. These positions are important in order to ensure that eligible individuals are enrolled in the program and receive cancer treatment. However, in lieu of permanent positions, it is recommended to simply extend the existing positions for two more years. This enables the Legislature to have more oversight regarding the program. The LAO is also recommended a two-year limited-term designation.

4. Provider Enrollment—Extend State Staff

Issue. The DHCS proposes an increase of $189,000 ($47,000 General Fund) to extend two positions—two Associate Governmental Program Analysts—to June 30, 2010. These positions are set to expire as of June 30, 2008.

These positions were originally funded by the Legislature on a two-year limited-term basis to reduce a backlog of Medi-Cal provider applications.

Subcommittee Staff Recommendation—Deny Request. The LAO recommends denying this request and Subcommittee staff concurs with the recommendation. This action will save $189,000 (total funds).

SB 857 (Speier), Statutes of 2003, required that all incoming applications be processed within 180 days or the provider be enrolled automatically in Medi-Cal. In addition, regulations were enacted to allow rendering providers to apply to Medi-Cal only one time. Previously, providers within provider groups were required to re-enroll for every group and location where they practiced. These actions have dramatically reduced the backlog and have improved the average application processing time significantly.

C. Medi-Cal Program Issues for Discussion

1. Governor's Proposal to Mandate Quarterly Reporting on Children in Medi-Cal

Issue. The Governor proposes to eliminate annual eligibility for children and to instead, require families to submit status reports on a quarterly basis (three times annually plus a re-determination form) or lose Medi-Cal Program enrollment. About 472,000 children would be affected by this proposal overall.

A total reduction of $167.1 million ($83.5 million federal funds) is assumed with a July 1, 2008 implementation date. These savings would be achieved from the disenrollment of 157,400 children from Medi-Cal, primarily for the failure of their families to return a quarterly status report.

This level of disenrollment assumes that 37 percent of the affected families will fail to return a quarterly status report. Children would be dropped from Medi-Cal enrollment if a quarterly status report is not received, even if they are still eligible for Medi-Cal.

The Administration's savings level does *not* take into consideration increased costs for county administration (either staffing or changes to county eligibility information systems), or cost shifting between the Medi-Cal and Healthy Families programs.

The Governor's proposal requires: (1) statutory changes; (2) emergency regulation authority; (3) changes to county eligibility systems; (4) increased county administrative workload; and (5) a Medi-Cal State Plan Amendment.

How Would the DHCS Quarterly Status Report Proposal Work? Under the DHCS proposal, families participating in Medi-Cal only (non-cash aid) would be required to complete quarterly status reports every three months even if there is no change in the families' circumstance. Medi-Cal coverage is discontinued if the form is not returned. According to the DHCS, a Medi-Cal enrollee has 60-days to return their quarterly status report form before they are terminated from the program. The specific steps are as follows:

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

The table below illustrates the paper trail for quarterly status reporting as compared to annual redeterminations.

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

Children, who lose coverage due to the non-return of the quarterly status report, are subject to a Medi-Cal review as provided under Senate Bill 87 (Escutia), Statutes of 2000. Generally, this requires that in instances when Medi-Cal eligibility has been terminated on one basis, a review must be conducted to determine if the individual is eligible for Medi-Cal under *other* circumstances. All avenues of potential Medi-Cal eligibility are to be reviewed to determine ongoing eligibility.

Therefore, all children disenrolled due to the lack of quarterly status reporting will need to be processed by County Welfare Departments, including an "ex parte" review of other case files the county has on the child, attempted telephone contact with the child's family, and a Medi-Cal form 355.

Potential Affect of Administration's Proposal on Medi-Cal Managed Care. The majority of the children who would be affected by the Administration's quarterly status report are enrolled in Medi-Cal Managed Care plans. Enrollment into Medi-Cal Managed Care has administrative costs associated with it which are in addition to County eligibility processing expenditures.

These include costs of the "health care options" enrollment broker (i.e., Maximus) and costs to the health plan (such as a commercial plan or local initiative plan) for new member processing. Costs to Maximus include those associated with assisting Medi-Cal enrollees in selecting a health care plan and maintaining files of members to be sent to health plans.

The costs to health plans are for updating member files, mailing out their enrollment insurance cards, and ensuring that members have a primary care provider.

Under the existing annual enrollment for children, these administrative costs (i.e., Maximus and health plan administration) are kept to a minimum because "new member" costs are not being incurred on a frequent basis. However, the Administration's proposal would likely increase these costs as children cycle in and out of Medi-Cal (i.e., "churning") and in and out of Medi-Cal Managed Care plans. Based on Subcommittee staff's review of the Medi-Cal estimate, it appears that no adjustments were made to account for any potential changes (either increases or decreases).

Background—Existing Annual Enrollment for Children. California is currently among 15 states that offer an annual eligibility for children. Currently, children determined eligible for Medi-Cal are enrolled for coverage for one-year (i.e., until an annual re-determination form is submitted). The annual redetermination form is a comprehensive document and requires County Welfare Department review and approval. Families are also required to report any changes in income, assets, and related items within ten days during their enrollment period.

Annual enrollment for children has been in operation for over 7 years. Numerous independent analyses have shown its effectiveness because it assists in assuring consistent health care coverage and provides a medical home for comprehensive coverage (most children are enrolled in Managed Care Plan arrangements).

Independent analyses have also shown that annual enrollment for children serves to focus limited state dollars on direct health care services versus administrative paperwork and shifting between programs (i.e., Medi-Cal and Healthy Families).

Background—Report: "How Much Does Churning in Medi-Cal Cost?" This report, published in April 2005 by Dr. Gerry Fairbrother, examined the stability of children's enrollment in both Medi-Cal Fee-for-Service and Medi-Cal Managed Care. Specifically, an analysis was done using California's data on children who are disenrolled, subsequently re-enrolled, and the costs to the state of processing and re-processing applications for the same eligible children. Key findings of this report are as follows:

- Stability in health care is important for optimum quality. Because health care plans participating in Medi-Cal Managed Care are held accountable for children enrolled at least one-year according to the standard "Health Plan Employer Data and Information Set" (HEDIS), the one-year mark is an important one. It is generally thought that less than one year is not enough time to show improvement. Beyond reporting and accountability, one year has come to represent the minimum amount of time to bring about quality improvement.

- In California, three out of four Medi-Cal children (75 percent) had been enrolled in the same health plan for one or more years, and are part of the Medi-Cal Managed Care reporting. This is striking since Managed Care as a delivery system has enormous potential for monitoring and intervening in care for a large proportion of poor children.

- About 20 percent of the children in the study were disenrolled at least once in the course of the three years of data analysis, but subsequently regained Medi-Cal coverage. Most of the children disenrolled from Medi-Cal and subsequently re-enrolled, did so *within four months.*

- The fact that the breaks in Medi-Cal coverage were relatively short suggests that children probably remain eligible and lost coverage for other reasons, such as having trouble navigating the complexities of Medi-Cal Program renewal. "Churning" is important because if the same eligible children are being enrolled and re-enrolled, then inefficiencies are introduced and quality of care may be adversely affected.

- Churning has significant implications for cost, in that administrative dollars to process applications diminish funds available for actual coverage. In times of fiscal constraint, it is especially important to focus limited funding on health care, rather than administration.

- Based on information provided by the Administration, the study identified about $200 in costs per child (in 2005) for processing children into Medi-Cal and subsequently into Medi-Cal Managed Care. This means that California spent over $120 million to re-process eligible children over a three-year period or about $30 million annually.

Legislative Analyst's Office Recommendation. The LAO has no issue with the Governor's proposal to mandate quarterly status reporting for children. However they have made an adjustment to the proposed reduction to account for increased costs caused by children re-entering Medi-Cal when services are needed. Therefore the LAO assumes a combined savings of $138 million ($69 million General Fund) from this proposal and the Administration's proposal regarding adults (Agenda issue 2, below).

Subcommittee Staff Comment and Recommendation—Hold Open. There are several concerns with this proposal. First, it would create an inequity with the Healthy Families Program. The Healthy Families Program provides annual eligibility for children with family incomes which are generally higher than Medi-Cal families. There should be continuity between the programs for ease of shifting children, when applicable, between the two programs to maintain uninterrupted coverage. Instituting a change in Medi-Cal would be clearly biased.

Second, there are various independent reports, including some that have specifically used California data, which note the importance of health care coverage for children and the need to have a medical home, such as that offered through Medi-Cal Managed Care plans. Managed Care as a delivery system has enormous potential for monitoring and intervening in care for a large proportion of poor children. HEDIS data is tracked based on annual enrollment because it usually takes a year to have measurable outcomes. “Churning” would occur if the quarterly status reports are reinstituted which in turn would negate many of the principles of a Managed Care approach. In fact, a federal review conducted of California in 2000 expressed grave concerns that a significant number of Medi-Cal individuals were losing coverage because quarterly status reports were not being returned (comment made prior to implementation of the annual eligibility process).

Three, the adoption of annual eligibility for children 7 years ago was intended to ensure continuity of health care and to reduce over time Medi-Cal administration costs in order to make the program more efficient and effective. If the quarterly status reports are reinstated, counties will need more funding to re-program computer systems, train eligibility workers and hire additional staff to process additional paperwork. Increased funding over time will also be needed for the “health care options” contractor (i.e., Maximus), as well as for managed care plans for member enrollment activities. This is particularly true with the need for the state to do “SB 87” processing as referenced above.

Fourth, some of the data available from the DHCS shows that disenrolled children are often re-enrolled when they need health care services. As such, there is a likelihood that utilization of services within Managed Care plans will not decline as much as caseload. This will result in a higher utilization per enrollee and a higher capitation rate overall that will offset a portion of the DHCS’ assumed caseload savings.

Fifth, California still has over 750,000 uninsured, low-income children. We provide funding under the Healthy Families Program to conduct outreach to enroll more children and to maintain their enrollment. As such, the Administration’s proposal is completely counterintuitive to conducting outreach and the related measures to ensure eligible children’s enrollment in public programs.

It is recommended to hold this issue open pending receipt of additional information.

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

1. DHCS, Please provide a brief description of the proposal, including how the savings level was determined.
2. DHCS, Specifically what information will be required to be completed on the quarterly status reporting form under this proposal?
3. DHCS, Would the “SB 87” processing still be required under the proposal?
4. DHCS, Why is emergency regulation authority being requested?

2. Governor's Proposal to Shift Adults from Semi-Annual to Quarterly Reporting

Issue. The Governor proposes to eliminate semi-annual eligibility for parents and to instead, require parents to submit status reports on a quarterly basis (three times annually), along with an annual re-determination form, or lose Medi-Cal Program enrollment.

A total reduction of $17.2 million ($8.6 million General Funds) is assumed with a July 1, 2008 implementation date. These savings would be achieved from the disenrollment of parents from Medi-Cal, primarily for failure to return a quarterly status report. Parents would be dropped from Medi-Cal enrollment if a quarterly status report is not received, even if they are still eligible for Medi-Cal.

The Administration's savings level does *not* take into consideration increased costs for county administration or Medi-Cal Managed Care plan administration (such as member enrollment as discussed above under Agenda issue #1).

This change requires: (1) statutory changes; (2) emergency regulations; (3) changes to county eligibility systems; (4) increased county administrative workload; and (5) a Medi-Cal State Plan Amendment.

Medi-Cal populations *not* affected by the proposal include: (1) women who are pregnant and enrolled in the Medi-Cal eligibility "pregnancy" aid codes (however, women who are enrolled in the 1931 (b) eligibility category and then become pregnant would be affected by this proposal); (2) CalWORKS-linked adults (they already have CalWORKS paperwork requirements); and (3) aged, blind and disabled eligibility categories.

Background—Existing "Semi-Annual" Eligibility for Parents. Currently, parents determined eligible for Medi-Cal are enrolled for coverage for six months. They must submit a semi-annual status report to continue enrollment for an additional six months. At the one year anniversary of enrollment, parents must submit a comprehensive annual redetermination form to continue enrollment. Families are also required to report any changes in income, assets, and related items within ten days during their enrollment period.

Semi-annual reporting for parents has been in use for over 5 years (plus about two-years of annual eligibility). It assists in assuring, where applicable, uninterrupted health care coverage and serves to focus limited state dollars on direct health care services versus administrative paperwork.

Legislative Analyst's Office Recommendation. The LAO has no issue with the Governor's proposal to eliminate "Semi-Annual" reporting and mandate quarterly status reporting for adults. The LAO assumes a combined savings of $138 million ($69 million General Fund) from this proposal and the Administration's proposal regarding children (Agenda issue 1, above). The LAO made a technical adjustment in the Governor's proposals to account for increased costs caused by people re-entering Medi-Cal when services are needed; a reduction of $23 million was reflected for this.

Subcommittee Staff Comment and Recommendation—Hold Open. This issue parallels the Administration's proposal mandating a quarterly reporting process for children. As such, the concerns previously expressed are similar.

In the February 4th hearing, convened by the Senate Budget & Fiscal Review Committee, questions were raised regarding the availability of Semi-Annual reporting data. The California Welfare Directors Association (CWDA) has provided information from counties that represent about 85 percent of the statewide Medi-Cal enrollment caseload. Based on this data, the CWDA reports that of the 34,194 adults whose Medi-Cal cases were discontinued due to incomplete reporting or failure to return the Semi-Annual report (1) 22,393 or 70 percent of the adults were back on Medi-Cal within less than a year; and (2) ninety percent of the 22,393 cases had actually returned to Medi-Cal *within the first 90-days* after being discontinued. As such, there is "churning" within the adult Medi-Cal population as well. Implementation of a quarterly status report (versus the existing semi-annual) would likely increase this "churning".

Further, given the level of assumed savings from this proposal, and the lack of accounting for likely additional administrative costs (i.e., county processing costs, health care options costs and Managed Care member costs), there is question as to what true level of savings would be achieved from this action on an annual basis.

It is recommended to hold this issue open pending receipt of additional information.

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

1. DHCS, Please provide a brief description of the proposal, including how the savings level was determined.
2. DHCS, Specifically what information will be required to be completed on the quarterly status reporting form under this proposal?
3. DHCS, Would the "SB 87" processing apply under this proposal? If not, why not please?

3. Governor's Proposals to Substantially Reduce County Eligibility Processing

Issue. The Governor is proposing to substantially reduce funding provided to County Welfare Departments for Medi-Cal Program eligibility processing. The reductions are shown in the table below.

Governor's Proposals to Reduce Funds for County Eligibility Processing

Description of Governor's Proposal	General Fund Reduction	Total Fund Reduction
A. Reduce "Base Allocation"	-$15.3 million	-$30.6 million
B. Eliminate CA Necessities Index Adjustment	-$22.4 million	-$44.8 million
C. No funding for new caseload	-$33.4 million	-$66.8 million
TOTAL REDUCTION	**-$71.1 million**	**-$142.2 million**

<u>A. Reduce "Base Allocation" (-$30.6 million total funds).</u> The Governor proposes to reduce the base allocated used to fund County staff to conduct Medi-Cal eligibility processing, including intake and re-determination work with people applying for Medi-Cal services.

This represents a 2.5 percent reduction to the base allocation. The savings level assumes a July 1, 2008 implementation date and would require a change in statute and release of an "All County Letter" by the DHCS to implement.

Subcommittee staff notes that this proposed reduction was backed into by the Administration in order for the DHCS to meet the fiscal target proposed by the Governor. In addition, reducing the base allocation would likely result in delays and inaccuracies in eligibility determinations. Not only would this affect individuals trying to enroll into the program, it would also affect re-determinations by continuing eligibility when one may no longer be eligible for services. Therefore, increased expenditures could potentially result from this proposal.

<u>B. Eliminates Funding for CA Necessities Index Adjustment (-$44.9 million total funds).</u> Through agreements made in the Budget Act of 2003, as noted below in the background section, the Administration has been providing certain adjustments to counties to ensure appropriate funding levels to maintain eligibility processing staff to meet County Performance Measures.

The Governor proposes to eliminate the CA Necessities Index (CNI) funding of $44.9 million ($22.5 million General Fund) to recognize the counties "cost of doing business" (i.e., an allowable allocation for county salary adjustments). The $44.9 million (total funds) is calculated by taking the base for 2007-08 allocation and multiplying it by the index. (DOF calculates the CNI to be 3.66 percent for 2008-09).

Subcommittee staff notes that reducing state funding for county salary adjustments may make it more difficult for counties to hire and retain staff, and may lead to holding County eligibility positions vacant due to funding shortfalls.

C. No Funding for New Caseload (-$66.8 million total funds). The Governor proposes to reduce funding for County staff to conduct Medi-Cal eligibility processing which is allocated to counties based on projected Medi-Cal caseload levels. Specifically, the Administration is not funding counties to process new caseload for Medi-Cal in 2008-09.

Funds allocated to counties for caseload growth enable counties to hire additional staff to handle increased workload associated with additional people applying for Medi-Cal enrollment. Without this funding, longer waits for Medi-Cal enrollment and health care assistance will likely occur.

Subcommittee staff notes that this proposal would also affect County Performance Measures as describe below. It is unrealistic for the DHCS to assume that counties can meet Medi-Cal eligibility processing timelines if appropriate funding is not provided to address staffing needs.

Summary of Funding for County Administration (Eligibility Processing). Counties receive funding from the state to conduct eligibility determinations and annual redeterminations and to maintain each Medi-Cal enrollee case throughout the year. The funding ratio for these activities is 50 percent General Fund, along with the federal matching funds. The table below summarizes the funding for County Administration processing.

Summary of Funding for County Administrative Processing for Medi-Cal Program

	Actual 2006-07 General Fund Amount	Estimated 2007-08 General Fund Amount	Governor's Proposed 2008-09 General Fund
County Administration	$673 million	$786 million	$734 million
Caseload	6.544 million	6.638 million	6.564 million

***Background on County Welfare Departments and Medi-Cal Program*. ** County Welfare Departments serve as a surrogate for the state in administering the Medi-Cal eligibility determination process for all people applying for enrollment and all aspects of enrollment redeterminations. Counties receive funding from the state to conduct eligibility determinations and redeterminations and to maintain each case throughout the year.

In the Budget Act of 2003, a compromise between the Legislature, Administration and County Welfare Departments was achieved. This agreement resulted in a reduction of $376 million (total funds) in county Medi-Cal administrative funding and implementation of "County Performance Standards". On-going savings from this action are estimated to save the state *at least* $450 million ($225 million General Fund) annually.

The County Performance Standards are in statute and require all 58 counties to meet specified processing requirements. Counties that are out of compliance with any of the compliance criteria must enter into a Corrective Action Plan with the DHCS for improving performance. If a county fails to improve its performance, the DHCS can penalize the county up to 2 percent of its annual Medi-Cal eligibility allocation for the following year.

Additional County Performance Standards have been added to statute since this time, including criteria for standards that bridge Medi-Cal with the Healthy Families Program and for the processing of certain DHCS alerts related to the Medi-Cal Eligibility Determination System (i.e., the state's data bank on Medi-Cal eligibility).

Concerns from Constituency Groups. The Subcommittee is in receipt of letters from constituency groups expressing concerns with the Administration's proposal. First, the County Welfare Directors Association expresses significant concerns with these proposals. They note the proposed reductions are completely counter to the County Performance Measures implemented in 2003 and would result in counties not being able to meet the requirements.

Further, the proposed reduction in the base allocation and caseload growth would severely under fund the system and lead to (1) people not receiving their Medi-Cal eligibility in a timely manner, (2) counties not meeting federally required annual redeterminations, and (3) children losing health care coverage because they cannot be appropriately transitioned to the Healthy Families Program (i.e., the bridge from Medi-Cal to Healthy Families is done by the counties).

Other constituency groups have expressed concerns because Medi-Cal enrollees will have difficulty reaching their County case workers when needed, and providers will not be able to verify Medi-Cal enrollee information on demand as presently done through the counties.

Subcommittee Staff Comment and Recommendation—Hold Open. The Administration has *not* offered a comprehensive approach in its series of reductions targeting County Administration. Further, all of the proposals would directly affect the ability of County Welfare Departments to meet the statutorily required County Performance Measures. Presently the state saves *at least* $450 million ($225 million General Fund) from the performance measures. As such, the Administration's proposal places these existing savings at risk.

Though there have been numerous discussions with the DHCS regarding making improvements to the Medi-Cal eligibility process, the DHCS has accomplished little in this regard. The Medi-Cal Manual (over 1,000 pages) which county eligibility workers must use is *not* current, and the DHCS has not completed regulations for many years. In addition, there have been over 593 "All County Letters" over the past 10 years which contain instructions to the counties. Three sources of information must be searched and clarified in many instances for counties, as well as advocates, to understand the Medi-Cal Program. Plus there is state law and federal law to interpret.

Clearly the DHCS needs to be a better business partner. The state could undertake a review of the Medi-Cal Program manual, regulations and All County Letters to provide increased clarity and structure and improve efficiency. Some of these components should be included in any reduction discussion regarding county administration.

It is recommended to hold this issue open pending receipt of additional information.

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

1. DHCS, Please provide a brief summary of the three proposals.
2. DHCS, If these proposals are implemented, can the state still meet federal minimum requirements for processing Medicaid (Medi-Cal) applications?
3. DHCS, Please explain from your perspective why these reductions would or would not affect savings the state currently obtains from County Performance Standards.
4. DHCS, What short-term changes can the state do to facilitate the counties ability to process Medi-Cal eligibility changes more effectively?

4. Cessation of Payment for Part B Premiums for Share-of-Cost Individuals

Issue. The Governor proposes to eliminate the state's payment of the Medicare Part B Premium for individuals who are enrolled in Medi-Cal with a share-of-cost *and* do not meet their share-of-cost every month.

Specifically, the DHCS would no longer pay the Part B premiums of about $100 per month for individuals enrolled in Medi-Cal with a "share-of-cost" who are Medicare entitled (i.e., adjusted income exceeds 129 percent of poverty) but do *not* meet their monthly share-of-cost requirement under the Medi-Cal Program. The DHCS states there is no federal requirement to pay Part B premiums for these individuals.

There are about 57,000 individuals, primarily aged, blind and disabled with income above 129 percent of the federal poverty level who would be affected by this proposal. These individuals would either need to pay the Part B Premium on their own to maintain the Medicare outpatient services coverage, *or* pay out-of-pocket for outpatient medical services until they meet their share-of-cost requirement in Medi-Cal. If an individual meets the Medi-Cal share-of-cost requirement, the DHCS would pay the person's Part B Premium the following month.

The DHCS assumes savings of $66.5 million (General Fund) in 2008-09 with an implementation date of July 1, 2008. Federal matching funds are not applicable to this proposal. The proposal requires trailer bill legislation to implement.

Background on Medicare Part B Premiums (Outpatient Services). Currently, California participates in a "buy in" agreement with the federal government whereby our Medi-Cal Program automatically pays the federal Medicare Part A (inpatient) *and* Part B premiums (outpatient) for all Medi-Cal enrollees who have federal Medicare entitlement. This "buy-in" allows California to defer certain Medi-Cal expenditures to the federal government's Medicare Program and therefore, saves General Fund expenditures.

With respect to the Part B Premium Program, Medi-Cal automatically pays Part B premiums for all Medi-Cal enrollees who have Medicare Part B entitlement in the following groups:

- Full scope Medi-Cal recipients, who are currently both Medicare Part B entitled and Medi-Cal eligible with no share-of-cost.
- Medicare Savings Program individuals, who are not on Medi-Cal, but who qualify for Medicare premium payments under federal income and asset rules.
- Medi-Cal "share-of-cost" individuals who are Medicare entitled but whose adjusted income exceeds the federal income poverty limit of 129 percent of poverty. This is a "state-only" program. There is no federal requirement for the payment of Medicare premiums for this group of individuals. (This is the group that is proposed for elimination by the DHCS if they do not meet their monthly share-of-cost. Generally, Medi-Cal share-of-cost individuals have income levels that are too high to qualify for full-scope Medi-Cal services at no-cost to them; therefore, they need to spend out-of-pocket for some of their health care costs.)

Special Session Action. The Governor included this proposal as part of his Special Session package. It was not adopted by the Legislature for the current year. The budget year issue remains under discussion.

Legislative Analyst's Office Recommendation—Adopt Governor's Proposal. The LAO recommends to adopt the Governor's proposal and to capture the $66.5 million (General Fund) savings for the budget year. The LAO believes this reduction proposal would have a lesser effect on the provision of direct care services than some other alternatives proposed by the Governor. Further, they note that for other "share-of-cost" programs the state generally does not provide a benefit until an individual meets their share-of-cost.

Subcommittee Staff Comment and Recommendation—Hold Open. Generally, the issue at hand is whether the state is reaping any cost-benefit by paying Part B Premiums for certain individuals. Historically, the state has paid Medicare premiums (both "A" for inpatient services and "B" for outpatient services) because it was cost-beneficial for the state to do so since it shifted some medical expenditures from Medi-Cal to Medicare (100 percent federally funded).

However, the DHCS contends that the state does not save General Fund support within Medi-Cal through the payment of Part B Premiums for share-of-cost individuals (as a category). The DHCS states that these individuals have an average share-of-cost of *over* $500 per month (i.e., the person has to spend this much on medical expenses to be eligible for Medi-Cal) and the average outpatient cost for this population is less than $300 per month.

This means on average, the share-of-cost individual would not meet their share-of-cost so the state does not save General Fund when it pays the monthly Part B Premium on a regular basis. This is because the state would pay $100 for the premium but the individual would not be eligible for Medi-Cal and Medi-Cal would not have had to pay for any outpatient services since the share-of-cost was not meet.

Under the DHCS proposal, if an individual meets their share-of-cost, the state would then pay the Part B Premium for the month following the first month that they meet the share-of-cost and then continue until they don't meet the share-of-cost. The DHCS believes this approach is cost-beneficial because outpatient costs which would be "owed" by Medi-Cal would be shifted to the Medicare Program. According to DHCS data, about 16 percent of the existing share-of-cost individuals actually meet their share-of-cost each month.

It should be noted that the DHCS has not provided any details as to how their proposal would functionally operate if adopted by the Legislature. This information needs to be provided.

In an effort to maintain more of a safety net approach for people, the Subcommittee may want to consider an approach whereby the state continues to pay an individual's Part B Premium if their share-of-cost is *under* $500. For example, individuals with a $200 monthly share-of-cost have monthly incomes of $820 ($9,840 annually). As such, a monthly Part B Premium represents a considerable cost for aged and disabled individuals. This safety net approach would reduce the Administration’s savings by $4.6 million (General Fund) but would help ensure that very low income, aged and disabled individuals are assisted.

At this time, it is recommended to hold this issue open to obtain more information.

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

1. **DHCS**, Please provide a brief description of the proposal, *and* how it would functionally operate.

5. Proposed Elimination of Adult Dental Services

Issue. The Governor proposes to discontinue dental services for adults 21 years of age or older, including pregnant women and individuals with developmental disabilities. Only adults in nursing facilities would continue to receive services because these services are federally required. In addition, dental services provided to children would not be directly affected because federal law requires these services.

The Governor proposed this action through the Special Session but the current year change was not adopted by the Legislature. For the budget year, a reduction of $229.9 million ($114.9 million General Fund) is assumed with an implementation date of July 1, 2008. This proposal requires a change in statute, regulatory changes and a Medi-Cal State Plan Amendment.

It should be noted that the Department of Developmental Services (DDS), which services individuals with developmental disabilities, would need to provide dental services at 100 percent General Fund expenditure if these DHCS Medi-Cal Program services are eliminated. The Governor's budget proposal however does not account for these costs. According to the DDS, an increase of $4.680 million (General Fund) would be needed to provide these services. Therefore the Governor's proposed savings for this issue should be reduced by this amount to account for this need.

Further as noted below, Denti-Cal services were reduced by the Governor under his 10 percent rate reduction proposal which was adopted by the Legislature in the Special Session. This reduction equates to about a $60.3 million ($30.8 million General Fund) amount for 2008-09. The DHCS did not account for the confounding affects of this rate reduction and their proposed elimination of Adult Dental services. As such, a technical adjustment would be needed to this proposal if adopted by the Legislature to account for this interaction.

The DHCS notes that lack of dental treatment often results in emergency room visits which results in a shift and increase to medical and hospitals costs.

Legislature's Special Session Actions. The Governor proposed a 10 percent rate reduction to health care services provided under the Medi-Cal Program. The Denti-Cal Program was included in this rate reduction which will be effective as of July 1, 2008.

Background—Dental Services. Medi-Cal's dental program—"Denti-Cal"-- provides primary and specialty dental care for adults and children. Adult dental care is provided at the state's option and is not federally required, except for adults in nursing homes, but is federally reimbursed. Six other states besides California provide these services to adults. Federal law requires states to provide dental services to children.

According to the most recent actual expenditures from 2005-06, Denti-Cal expenditures were $553.7 million (total funds). Of this amount, $266.3 million in expenditures, or 48 percent, were for services to children. The remaining $287.4 million in expenditures were for adults. Of the amount expended for adults, $140.1 million, or 48 percent, was for adults who are in the aged, blind and disabled Medi-Cal eligibility category.

Therefore, 74 percent of the Denti-Cal Program expenditures are for children and aged, blind and disabled adults.

Denti-Cal operates using strict cost containment requirements. Recent changes enacted to reduce expenditures include: **(1)** pre-treatment x-rays to justify restorations; **(2)** restricted use for certain laboratory processed crowns; **(3)** increased provider enrollment requirements; **(4)** reduced payment for periodontal deep cleaning; and **(5)** an $1,800 annual cap for adult services. In addition as noted above, a 10 percent rate reduction to all dental procedures provided under Denti-Cal will be effective as of July 1, 2008.

It should be noted that the Department of Developmental Services (DDS), which services individuals with developmental disabilities, would need to provide dental services at 100 percent General Fund expenditure if these DHCS Medi-Cal Program services are eliminated. It is estimated that this would cost about $4.680 million (General Fund) in 2008-09.

Subcommittee Staff Comment and Recommendation—Hold Open. The importance of dental care and oral health has been analyzed and highlighted in many recent reports. The Surgeon General has reported that oral health problems can cause infection and signal trouble in other parts of the body. Periodontal (gum) disease in pregnant women has been associated with pre-term and low-birth weight babies, diabetes, cardiovascular disease, stroke, and bacterial pneumonia. Left untreated, dental disease can result in severe pain and infection leading to various health problems, and difficulty with the activities of daily living.

Based on a recent report (May 2007) by the CA Healthcare Foundation, about 40 percent of private dentists practices in California accept Denti-Cal reimbursement.

The DHCS notes that lack of dental treatment often results in emergency room visits which results in a shift and increase to medical and hospitals costs.

It is recommended to leave this issue open pending receipt of additional information.

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

1 DHCS, Please provide a brief summary of the proposal.

2 DHCS, What is the potential for other expenditures within the Medi-Cal Program to increase due to the elimination of Adult Dental services?

6. Governor's Proposal to Reduce Funding to Public Hospitals to Backfill for General Fund Support in Certain State-Operated Programs

Issue. The Governor proposes to shift federal funds designated for uncompensated care for Public Hospitals, as contained in the state's Hospital Financing Waiver, to backfill for General Fund support in certain state-operated programs, including the Medically Indigent Adult Long-Term Care Program, the Breast and Cervical Cancer Treatment Program, the California Children's Services (CCS) Program, and the Genetically Handicapped Persons Program (GHPP).

The federal funds would be redirected from the Safety Net Care Pool which is a component of the state's Hospital Financing Waiver. Safety Net Care Pool Funds are capped at $560 million (federal funds) annually and are provided to hospitals for uncompensated care costs, except for $44.5 million which is used by the state to offset General Fund costs in various state-operated programs.

The table below outlines the existing redirection provided to these state-operated programs, along with the Governor's proposed increase in the shift for 2008-09. The Administration is proposing this shift to save General Fund support.

As noted, the existing baseline shift saves the state almost $44.5 million in General Fund support. The Governor's additional shift would save an additional $34.4 million in 2008-09. The combined total would save $78.850 million General Fund for 2008-09.

It should be noted that the annualized shift (effective in 2009-2010), which consists of the existing baseline and the proposed additional shift for 2008-09, would be a total of $98.650 million.

Summary of Governor's Proposed Use of Safety Net Care Pool Funds

Program	Existing Redirection (Baseline)	Additional Shift for 2008-09 (Increase)	Total Amount of Shift for 2008-09	Total Amount Annualized
Medically Indigent--LTC	$18,450,000	$6,726,000	$25,176,000	$23,480,000
Breast & Cervical Cancer	--	$1,024,000	$1,024,000	$1,913,000
CA Children's Services Program	$18,000,000	$17,839,000	$35,839,000	$55,257,000
Genetically Handicapped Persons	$8,000,000	$8,811,000	$16,811,000	$18,000,000
TOTALS	**$44,450,000**	**$34,400,000**	**$78,850,000**	**$98,650,000**

In order to obtain the federal funds available under the state's Hospital Financing Waiver, California must use both state General Fund support and "certified public expenditures" (CPEs) as a match.

A key aspect of this arrangement is that designated Public Hospitals receive federal matching funds based on generated CPEs and intergovernmental transfers. This means that Public Hospitals and counties must spend their own revenues in order to obtain the federal funding that is made available.

Certain expenditures incurred by the state can also serve as CPE for purposes of obtaining federal Safety Net Care Pool Funds. When this is done, the state can save General Fund support by using federal funds as a backfill.

The effect of the Governor's proposal is that fewer funds would be available to Public Hospitals from the Safety Net Care Pool. This could affect access to services by both Medi-Cal enrollees and the uninsured

<u>Background—Summary of Hospital Financing Waiver.</u> As a result of federal policy changes, California was required to completely change its method in which Safety-Net Hospitals (about 146 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 and Ducheny), Statutes of 2005, provides the state statutory framework for implementing the new Hospital Finance Waiver.

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.

The framework of the Waiver is quite complex and consists of several funding mechanisms, including the Health Care Support Fund (i.e., Safety Net Care Pool), Stabilization Funding, Disproportionate Share Hospital (DSH) payments, replacement DSH and replacement Graduate Medical Education payments, Physician Services, Distress Hospital Fund, and Medi-Cal per diem and cost-based payments.

<u>Constituency Letters.</u> The Subcommittee is in receipt of numerous letters, including from the CA Hospital Association of Disproportionate Share Hospital Task Force, in strong opposition to the Governor's additional redirection of federal Safety Net Care Pool Funds.

<u>Legislative Analyst's Proposal—Shift an Additional Amount.</u> The LAO proposes to expand the number of state-operated programs which could obtain funds from the Safety Net Care Pool. Generally, the LAO would shift an additional $20.1 million by claiming federal funds from the Safety Net Care Pool for the Expanded Access to Primary Care Program (EAPC), the Rural Health Services Program, Clinic Grants-In-Aid Program, and the Seasonal and Migratory Workers Clinic Program. This shift would also involve the movement of Proposition 99 Funds (Cigarette and Tobacco Product Surtax Funds).

Subcommittee Staff Comment and Recommendation—Hold Open. First, the Safety Net Care Pool is a capped amount and the federal funding it provides feeds into a series of payments to hospitals which serve a significantly high portion of uninsured people. The purpose of the Waiver was to stabilize funding for these core hospitals and to provide for appropriate growth over the course of the 5-year Waiver period. As such, it is questionable as to whether the Administration's proposal to increase state-operated program support (as noted in the table above) can be implemented and maintained on an annualized basis without threatening the integrity of the overall Waiver.

The state's Hospital Financing Waiver is complex and relies on a series of calculations and funding formula's which are contained in state statute and the various Waiver documents but are also subject to variations contingent upon various point-in-time data-driven information. As such, the Safety Net Care Pool (capped at $586 million federal funds) is used to address the following factors:

- Need for Public Hospital Baseline (at least $325 million draft figure). The Hospital Waiver requires a baseline level of funding adjustment to account for final expenditures incurred as of 2004-05. This is a data-driven calculation and is still pending receipt of information and finalization. But basically, *at least* 55 percent or so of the Safety Net Care Pool is needed to maintain the base. These funds are obtained using Public Hospital CPEs as the state's match.

- Need for South Los Angeles Medical Services Preservation ($100 million). As required in Senate Bill 474 (Kuehl), Statutes of 2007, funds from the Safety Net Care Pool are to be used to maintain a functional safety-net among a grouping of hospitals (mainly private hospitals) due to the closure of Martin Luther King/Harbor Hospital in Los Angeles. This preservation fund is supported by the Safety Net Care Pool.

- Distressed Hospital Fund ($11.8 million). As contained in the enabling legislation of SB 1100, Statutes of 2005, this fund is used to provide an immediate fusion of funding to certain hospitals due to unusual circumstances in an effort to stabilize the hospital's funding. Funds from the Safety Net Care Pool are used for this purpose and are obtained by using state-operated program CPEs as the state's match.

- Budget Neutrality ($32.7 million). Due to the complexities of funding shifts, including the shifting of General Fund support away from Public Hospitals to support Private and District Hospitals, the state identified this amount of the Safety Net Care Pool to be used towards state-operated programs. State generated CPEs are used to draw this amount.

These above items tally to a total of **at least $470 million**. This would leave about $116 million or so available for Stabilization Funding. Stabilization Funding is another aspect of the Waiver and is intended to provide both Public and Private Hospitals with growth funds to account for medical costs, medical training and increased patient care.

Therefore the Administration's proposed increase of $34.4 million to support state-operated programs increases the draw on the Safety Net Care Pool to be a total *annualized* amount of $98.650 million (as shown in the above table). As such, little would be left remaining for hospital Stabilization Funding which was a key component of the five-year Waiver.

Further, the five-year Waiver was structured to require the Public Hospitals to use Certified Public Expenditures (CPEs) in lieu of state General Fund support. The General Fund support was shifted to assist in funding Private and District Hospitals. As such, there was in essence, no state General Fund impact with the Waiver. Yet the DHCS is now proposing to backfill state General Fund with Waiver dollars.

Clearly the Governor's proposal would affect access to services by both Medi-Cal enrollees and the uninsured, including Hospital Outpatient services as well as Hospital Inpatient services.

With respect to the LAO proposal, it creates added complexity that could potentially place the entire Hospital Financing Waiver at risk. The LAO proposal would require a re-opening of the Waiver and a re-negotiation with the federal CMS as well as discussions with diverse hospital groups. Further, Proposition 99 Funds (Cigarette and Tobacco Products Surtax Funds) can be redirected to backfill for General Fund support in other areas. (A discussion on Proposition 99 Funds will be conducted in a future Subcommittee hearing.) Lastly, the proposal would direct additional funds away from core hospital programs.

It is recommended to leave this issue open at this time pending receipt of additional information.

Questions. The Subcommittee has requested a response to the following questions.

1. DHCS, Please provide a summary of the proposal.

2. DHCS, In your view would there be sufficient funding for hospitals under the Waiver without these funds?

3. DHCS, Would there be any need to change state statute, the existing Waiver, or to obtain federal CMS approval of this proposal? Please explain.

7. Governor's Proposal to Reduce Payments for Private Hospitals and Districts

Issue. The Governor proposes to reduce by 10 percent the amount paid to Private Hospitals and District Hospitals under the state's Hospital Financing Waiver by making adjustments to certain disproportionate share hospital payments, including replacement payments, which are paid to these hospitals. A total reduction of $47.3 million ($24 million General Fund) is proposed for 2008-09.

This proposal would, in effect, reduce by 10 percent the amount Private Hospitals and District Hospitals receive in disproportionate share hospital replacement payments. Therefore, these hospitals would receive less reimbursement for their uncompensated care costs.

Under the state's Hospital Financing Waiver, hospitals participating in the Medi-Cal Program receive funds from several sources based on a complex formula. A key aspect of this arrangement is that Public Hospitals receive federal funds based on the use of their certified public expenditures and intergovernmental transfers, whereas Private Hospitals and District Hospitals receive a mixture of state General Fund support and federal funds.

The payments the DHCS is proposing to reduce are "replacement" Disproportionate Share and "replacement" Graduate Medical Expenses. When the Waiver was structured, federal funds which the Private and District Hospitals had received were restructured with the intent of the state to ensure that in the aggregate, these hospitals would receive payments equal to what they received in 2004-05 (i.e., prior to the Waiver).

As such, the Governor's proposal would reduce the overall funding level available to these hospitals under the Waiver.

Subcommittee Staff Comment and Recommendation—Hold Open. This Governor's proposal would reduce the amount of funding Private and District Hospitals receive for uncompensated care reimbursement. It also dilutes the Governor's original Waiver arrangement with these hospitals.

Clearly the Governor's proposal would affect access to services by both Medi-Cal enrollees and the uninsured, including Hospital Outpatient services as well as Hospital Inpatient services.

Questions. The Subcommittee has requested a response to the following questions.

1. DHCS, Please provide a brief summary of the proposal.

2. DHCS, In your view would there be sufficient funding for hospitals under the Waiver without these funds?

3. DHCS, Would there be any need to change state statute, the existing Waiver, or to obtain federal CMS approval of this proposal? Please explain.

8. LAO--Implement Public Assistance and Reporting Information System (Discussion Purposes)

Issue. The LAO in their alternative budget proposal states that a savings of $7 million (General Fund) can be achieved in 2008-09 by having the DHCS begin implementation of using the Public Assistance and Reporting Information System (PARIS).

This is the second year in which the LAO has raised the issue of having the DHCS precede with implementation of PARIS.

In Supplemental Report Language of the Budget Act of 2007 directs the DHCS to provide the Legislature with the following two reports:

- A report examining the implementation of PARIS in order to allow DHCS to identify veterans enrolled in the Medi-Cal Program who could instead receive medical benefits through the federal Veteran's Administration. This is due as of April 1, 2008. (It has not yet been provided to the Legislature at the time of this writing.)

- A report examining the implementation of the PARIS interstate/federal match to allow California to identify enrollees who are receiving duplicate benefits from health and social services programs in two or more states and thereby facilitate improved program integrity by disenrollment of enrollees upon verification that they are no longer reside in California. This is due as of July 1, 2008.

Background—PARIS. The Public Assistance Reporting Information System (PARIS) is a federal computer data matching process to help states share information with one another about individuals enrolled in state and federal health and social services programs. It identifies public assistance recipients in participating states who are eligible for federal benefits, including Veterans Affairs benefits. The process also identifies individuals who are simultaneously enrolled in and receiving benefits from Medicaid, SSI/SSP, CalWORKS, and Food Stamps in more than one state.

Questions. The Subcommittee has requested a response to the following questions:

1. LAO, Please present your findings.

2. DHCS, What can be accomplished in the budget year to proceed on this issue?

Senate Subcommittee No. 3: Monday, April 7, 2008
(Please use the Subcommittee Agenda for this day as a guide to this document please.)

Issues for "Vote Only"—Department of Health Care Services

1. Various Reductions to State Support.

Motion. Approve the Governor's reductions as proposed noted in the table below.

Vote. 3-0

Governor's Reductions for State Support

Description of Reduction	General Fund Savings 2008-09
1. Reduce positions in Pharmacy Benefits Division	$231,000
2. Reduce positions in Utilization Management Division	$529,000
3. Reduce positions in Safety Net Care Pool Division	$181,000
4. Reduce positions in Medi-Cal Eligibility—Policy B section (Leaves 12 remaining staff)	$99,000
5. Reduce positions in Systems of Care Division	$194,000
6. Reduce positions in Long-Term Care Division	$620,000
7. Reduce HIPAA contract funding	$482,000
8. Reduce contract funding in Managed Care Division	$937,000
9. Reduce positions in Managed Care Division	$292,000
10. Reduce positions in Fiscal Intermediary Information Technology Management	$415,000
11. Reduce positions in Fiscal Intermediary Project Management/Contract Section/Internal Operations	$588,000
12. Reduce positions in Fiscal Intermediary—Medi-Cal Dental Services	$133,000
13. Reduce positions in Medical Case Management Program	$548,000
14. Reduce positions, travel, and minor contract costs in the Executive Directors area	$182,000
TOTAL GENERAL FUND REDUCTION	**$5,431,000**

2. In Home Supportive Services Waiver—Extend State Staff

Motion. Modify the Administration's proposal by extending the requested existing positions for two more years only.

Vote. 3-0

3. Breast and Cervical Cancer Treatment Program-- Extend State Staff

Motion. Modify the Administration's proposal by extending the requested existing positions for two more years only.

Vote. 3-0

4. Provider Enrollment—Extend State Staff

Motion. Deny the request for state support savings of $47,000 General Fund.

Vote. 3-0

SUBCOMMITTEE NO. 3 Agenda

Health, Human Services, Labor & Veteran's Affairs

Chair, Senator Elaine K. Alquist
Senator Alex Padilla
Senator Mark Wyland

Agenda – Part B (Labor)

Monday, April 7, 2008
10:30 pm
Room 4203
(Consultant: Bryan Ehlers)

Vote-Only Agenda

Discussion Agenda

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.

Items Proposed for Vote-Only:

0559 Labor & Workforce Development Agency

The Labor and Workforce Development Agency (LWDA) brings together the departments, boards, and commissions, which train, protect and provide benefits to employees. The LWDA is primarily responsible for three different types of functions, labor law enforcement, workforce development, and benefit payment and adjudication. The LWDA 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 and is funded through reimbursements from those departments. The Agency provides policy and enforcement coordination of California's labor and employment programs and policy and budget direction for the departments and boards.

The Governor's Budget begins by funding 18.0 positions (including 2.0 new positions) and budget expenditures of $3.1 million for the LWDA, but then includes a 10-percent, across-the-board GF reduction (Budget-Balancing Reduction–BBR) of $226,000 and 1.0 position. Taking into account the proposed BBR, the Governor's Budget would provide approximately $550,000 more in FY 2008-09 compared to adjusted-FY 2007-08.

Vote-Only Item 1: LWDA BBR—Eliminate One Agency Position

As part of his 10-percent, across-the-board BBR, the Governor proposes to reduce the LWDA budget by $226,000 General Fund (GF) and 1.0 position (Staff Services Analyst).

Staff Comment: When the LWDA was first created it assumed some responsibilities that formerly rested at the departments. According to the Administration, the elimination of one agency position would result in the transfer of some responsibilities back to the departments.

Vote-Only Item 2: LWDA BCP-1—Agency Information Officer and On-going Operational Costs

The LWDA requests 1.0 position (Agency Information Officer—AIO) and $417,000 (reimbursement authority) for administrative support provided by the Employment Development Department (EDD).

Staff Comment: The functions of the LWDA are supported by reimbursements paid by its constituent departments. This request would provide $167,000 for the AIO, $242,000 for administrative support, and $8,000 for one-time costs. Due to the relatively small size of the expenditure increase, the constituent departments are not requesting a corresponding increase and will absorb the additional costs. Staff notes that this proposal is consistent with the policies and plans of the State Chief Information Officer.

7100 Employment Development Department

Vote-Only Item 3: EDD BBR—Reduce Unemployment Insurance Appeals Board

The Governor proposes a 10-percent GF reduction of $56,000 and 0.5 positions to the California Unemployment Insurance Appeals Board (CUIAB).

Staff Comment: The CUIAB holds hearings on petitions from taxpayers concerning assessments made by EDD's Tax Branch. Through this process, the CUIAB resolves liability for employment tax contributions, including but not limited to Personal Income Tax (PIT) withholdings (which result in GF revenue). Because these activities are supported by a mix of fund sources, the EDD indicates this reduction would affect the cost-sharing ratio and require special funds to pay a greater proportionate share of the program costs (albeit on a relatively small scale given the size of the reduction).

Vote-Only Item 4: EDD BBR—Reduce Administrative Support

The Governor proposes a 10-percent GF reduction of $190,000 and 1.8 positions to administrative support activities for the EDD tax collection program.

Staff Comment: The EDD indicates this reduction would have no adverse effect on revenue collection; however, because the EDD collects federal and state taxes under a cost-sharing agreement, reducing the GF contribution would require other funds to bear a greater proportionate share of the costs of tax collection efforts and would put the PIT portion of the ratio further out of federal compliance. The EDD indicates that its processing of employer taxes has changed since the last approved tax-sharing ratio in 1992 and that the GF is already being supplemented by other funds, but staff notes that the additional impact of this reduction to the cost-sharing ratio would be de minimis.

Vote-Only Item 5: EDD BCP-5—Heroes at Home

The EDD requests $5.9 million (special fund) to expend the FY 2008-09-portion of $7.6 million in grant funds recently awarded to California by the United States Department of Labor for the Heroes at Home demonstration project. The funds would be used to continue the demonstration project to provide Career Advancement Accounts for active duty military spouses with post-secondary education to receive training to gain the skills needed to successfully enter, navigate, and advance in 21st century jobs.

Staff Comment: The EDD requested and received authority to expend $1.7 million of the allotted grant funds in the current fiscal year.

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, California established a state Workforce Investment Board (Board) comprised of: (1) the Governor; (2) two members of the Senate, appointed by the President pro Tempore; (3) two members of the Assembly, appointed by the Speaker; and (4) 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.

The Governor proposes $4.4 million (federal funds and reimbursements) and 20.0 positions for the Board's budget—a decrease of approximately $100,000 from adjusted current-year expenditures, and no change in positions.

Vote-Only Item 6: CWIB BCP-1—SB 293 Workload

The California Workforce Investment Board (CWIB) requests an increase of $100,000 (federal funds) to perform specific and required workforce development activities per Chapter 630, Statutes of 2006 (SB 293, Ducheny).

Staff Comment: Due to a reduced federal Workforce Investment Act allotment for FY 2007-08, the EDD and CWIB have shared in funding reductions on a proportionate basis, including a $400,000 reduction proposed for the CWIB in both FY 2007-08 and 2008-09. However, a budget augmentation is also proposed for the CWIB, $700,000 in FY 2007-08 and $500,000 in FY 2008-09, to implement SB 293. The LWDA has already directed the increase to FY 2007-08 appropriation levels citing authority provided by Provision 2 of Item 7100-001-0869, Budget Act of 2007. This request reflects the net, budget-year effect of the $400,000 reduction and the $500,000 augmentation.

SB 293's primary mandate for the CWIB is the development of a state strategic workforce development plan that will provide a framework for developing strategies for public policy, fiscal investment, operations for all state labor exchange, workforce education, and training programs.

7350 Department of Industrial Relations

Vote-Only Item 7: DIR BBR—Reduce Self-Insurance Plans Operating Expenses and Equipment

The Governor proposes a 10-percent GF reduction of $4,000 to the Department of Industrial Relations (DIR) Self Insurance Plans (SIP) program.

Staff Comment: The DIR proposes a reduction in the General and Miscellaneous Operating Expense line item within this program and expects the reduction to have a minimal impact.

Vote-Only Item 8: DIR BBR—Reduce Division of Labor Statistics and Research

The Governor proposes a 10-percent GF reduction of 3.0 positions and $294,000 to the DIR Division of Labor Statistics and Research (DLSR). The proposal includes moving the publication of apprenticeship prevailing wage determinations from the DLSR to the Division of Apprenticeship Standards.

Vote-Only Item 9: DIR BBR—Reduce Administrative Support

The Governor proposes a 10-percent GF reduction of 3.0 positions and $553,000 to DIR Administrative Support, to be taken out of operating expenses in the budget and personnel offices as well as the Office of the Director.

Staff Comment: The DIR indicates the administrative workload would be redistributed amongst remaining staff. The operating expense reduction represents approximately 2.2 percent of all administrative operating expenses (which is also supported by special funds).

Vote-Only Item 10: DIR BCP-6—Network Security and Project Management

The DIR requests 3.0 positions and $650,000 (various special funds) to: (1) provide project management and oversight for critical information systems projects; (2) comply with federal and state laws pertaining to protection of personal and confidential information; and (3) provide ongoing support to meet the growing information management and reporting needs of the department.

Vote-Only Item 11: DIR BCP-10—Limited-Term Conversion in Legal Unit

The DIR requests to convert 1.0 limited-term positions in the Legal Unit to permanent status at a cost of $185,000 (Workers' Compensation Administration Revolving Fund—WCARF) to support ongoing regulatory activities related to workers' compensation reform.

Staff Comment: Chapter 34, Statutes of 2004 (SB 899) originally provided the DIR with 5.5 positions for a two-year limited-term, and 4.0 of those positions were extended for an additional two years in the Budget Act of 2006. With those positions set to expire, the

DIR requests that 1.0 Industrial Relations Counsel III (Specialist) be made permanent to address ongoing workers' compensation regulation workload.

Vote-Only Item 12: DIR BCP-14—Effective Injury and Illness Prevention Programs

The DIR requests a one-time augmentation of $307,000 (WCARF) to assist any school or district that has high risk of occupational injury or illness and needs to establish and maintain effective occupational Injury and Illness Prevention Programs (IIPPs), as required by law.

Staff Comment: The funding for this proposal was collected as penalties from schools that do not have adequate IIPPs. This request would provide the expenditure authority for the DIR to make the funds available on a first-come-first-serve basis to high risk schools that do not currently meet the IIPP requirements contained in statute.

Vote-Only Item 13: DIR BCP-16—Workers' Compensation Insurance Coverage Program—SB 869

The DIR requests 1.0 position and $143,000 (WCARF) to carry out the workers' compensation insurance coverage program with the appropriate amendments indicated by Chapter 662, Statutes of 2007 (SB 869).

Staff Comment: SB 869 amended existing law to: (1) require the workers' compensation insurance coverage program to systematically identify unlawfully uninsured employers; (2) authorize the Labor Commissioner to prioritize targets for the program in consideration of available resources; and (3) required the Labor Commissioner to publish the annual report concerning the effectiveness of the program on the Labor Commissioner's website. The costs of the bill's requirements are to be offset by penalties assessed as the program is implemented.

Vote-Only Item 14: DIR BCP-17—Implement Amusement Ride Safety Law Revisions—SB 783

The DIR requests 2.6 positions and $311,000 (Elevator Safety Account) to implement the new provisions of Chapter 478, Statutes of 2007 (SB 783).

Staff Comment: Among other things, SB 783 expanded the types of accidents that owners and operators of non-permanent or portable amusement rides must report to the Division of Occupational Safety and Health (DOSH), and required the DOSH to enforce the statutory and regulatory provisions pertaining to portable amusement rides by issuance of citations and civil penalties. The DIR indicates 2.0 positions would work to implement the new provisions, while 0.6 positions would be under the Occupational Safety and Health Appeals Board to manage the estimated increase in the number of appeal cases.

STAFF RECOMMENDATION ON VOTE-ONLY ITEMS: APPROVE Vote-Only Items 1 through 14.

VOTE on Vote-Only Items 1 through 14:

Items Proposed for Discussion:

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 Governor's Budget begins by funding 9,039.4 positions (including 197.4 new positions) and budget expenditures of $11.7 billion for the department, but then includes a 10-percent, across-the-board GF reduction (Budget-Balancing Reduction–BBR) of $246,000 and 2.3 positions. The individual BBRs are as follows:

Program	**General Fund***	**Personnel Years (PYs)**
Unemployment Insurance Appeals Board—Audit Appeals Reduction	-$56	-0.5
Administrative Support Reduction	-$190	-1.8
TOTALS	-$246	-2.3

(*dollars in thousands)

Taking into account the proposed BBRs, the Governor's Budget would provide approximately $421 million more in FY 2008-09 compared to adjusted-FY 2007-08 totals (occurring almost entirely in the Unemployment Compensation Disability Fund and the Unemployment Fund), and $5.5 million less GF.

EDD Item 1: BCP-1—Automated Collection Enhancement System (ACES)

The EDD requests 18.0 positions and $2.8 million ($2.6 million GF) to fund year three of the ACES project. The ACES will provide an integrated and automated solution that will use state-of-the-art employer tax collection, storage, account management, and data retrieval technologies to maximize the effectiveness of the EDD tax collection operations as well as collect penalties and back-wages that are due to the Department of Industrial Relations (DIR).

Staff Comment: The ACES received initial funding of $2.9 million in the Budget Act of 2006, and an additional $2.8 million in the current year for procurement and contracting. Staff notes that the positions and funding the EDD requests are largely consistent with the plan reflected in last year's BCP; however, in order to speed up the project and generate additional revenues to the state sooner, the Administration has proposed provisional language (see Attachment A) to allow the EDD to go forward in fiscal year

(FY) 2008-09 with work that would otherwise have to wait six months for funding approval in the 2009-10 budget process. The language would authorize the DOF, upon 30-day notification of the Legislature and receipt of a new ACES Special Project Report, to increase the ACES appropriation. Additionally, the DOF would be required to report to the Legislature any positions administratively established for the EDD to perform ACES activities.

According to the EDD, this proposal would enable the ACES to generate $40 million in additional revenue in FY 2009-10, compared to the $20 million estimated in the original Feasibility Study Report. The ACES is expected to increase revenue collection by approximately $71.4 million (with $50 million benefiting GF) by the end of FY 2012-13, and each year thereafter. Staff notes that because the state is utilizing a benefits-based procurement strategy for the ACES, project costs (both for the vendor and ongoing) will be paid out of the additional revenue generated by the ACES. Based on the current Request for Proposal, the amount to be paid to the vendor would be capped at $46 million. In other words, return on investment would start after paying both the ACES GF state costs and the GF vendor costs. The vendor would not receive full compensation if sufficient revenue levels are not met.

Staff Recommendation: APPROVE the request, including the accompanying provisional language.

VOTE:

EDD Item 2: BCP-2—Disability Insurance Automation (DIA) Project

The EDD requests one-time funding of $1.1 million (Disability Insurance Fund) to support 6.6 positions previously approved for the DIA, a multi-year project. The resources would be used to continue the third year of procurement, development, and implementation of the DIA, which will provide greater access to services for claimants, medical providers, and employers by allowing them to submit disability claims electronically.

Staff Comment: The DIA project was initially approved in FY 2006-07 with $1.8 million and 6.6 positions, and was provided $1.4 million and 6.6 positions again in the current year to prepare and release a Request for Proposal for the system integrator (SI) vendor and begin the initial procurement activities for selection of that vendor. Staff notes that the 2007-08 proposal originally contemplated requiring 2008-09 project funding of $10.9 million; however, it was determined after the 2007-08 proposal had been submitted that the SI vendor procurement process would require longer than the nine months scheduled in the original Feasibility Study Report (FSR). As a result, the project is approximately one year delayed and $1 million over the original timeline and budget. According to the new timeline, the EDD plans to award and begin the SI contract in the latter part of FY 2008-09, with the majority of project costs to be incurred in 2009-10 ($11.3 million) and 2010-11 ($13.1 million) as the project solution is designed, developed, tested, and deployed.

As noted, the project savings have been diminished somewhat diminished by costly delays; however, the EDD indicates that expected efficiencies from the project are currently anticipated to result in a net estimated reduction of 48.6 PYs in SFY 2010-11. An additional net estimated reduction of 159.6 PYs and $5.3 million savings are expected to be seen in SFY 2011-12. These estimates are included in the current Special Project Report (SPR) and are subject to change based upon the Prime Solution provided by the selected vendor that will be incorporated into a subsequent SPR.

Staff Recommendation: APPROVE the request.

VOTE:

EDD Item 3: BCP-3—Economic and Employment Enforcement Coalition (EEEC)

The EDD requests 25.0 two-year limited-term positions and $2.5 million ($1.25 million EDD Contingent Fund and $1.25 million Unemployment Compensation Disability Fund) to continue the department's participation in the EEEC. The EEEC includes the Department of Industrial Relations (DIR), the Department of Consumer Affairs, and the United States Department of Labor, and was established to combat employment tax and labor law non-compliance within certain industries by conducting joint outreach and enforcement efforts.

Staff Comment: The EEEC was established in FY 2005-06 to combat the "underground economy" which the Franchise Tax Board conservatively estimates results in losses of more than $6.5 billion a year in statewide tax evasion. Within the underground economy, employers utilize various illegal schemes to conceal their true tax liability, as well as reduce their operating costs associated with insurance, payroll taxes, licenses, employee benefits, safety equipment, and safety conditions. The EEEC conducts multi-agency sweeps within defined geographical areas and currently focuses on seven industries known to be participating in the underground economy, including agriculture, construction, car wash, garment, janitorial, restaurant, and racetracks. As of FY 2006-07, the EDD reported over 2,000 employer inspections conducted, resulting in identification of nearly $110 million in unreported wages and over $17.1 million in additional liability assessed. This additional liability reflects potential revenue to the GF; however, staff notes that the state must still collect on the liability and participants in the underground economy may seek to elude collection efforts.

According to the EDD, the participating agencies have learned a great deal from two full years of experience with the EEEC. For example, efforts originally targeting horseracing tracks and the custodial industry proved to be ineffectual because of difficulty conducting surveillance. As a result, the EEEC plans to better utilize its resources by targeting the palette manufacturing and repair industry and auto body shops. Additionally, the EDD has identified performance measures to evaluate EEEC effectiveness and accomplishments (see Attachment B). According to the Administration, the EDD plans to incorporate these performance measures into future EEEC reporting required in provisional language associated with this request.

The EDD was approved $2.5 million and 25.0 three-year, limited-term positions in 2005-06 at the inception of the EEEC and, if approved, this request would essentially renew the same funding and positions for an additional two years to continue the EDD's participation in the program. Staff notes that the DIR and Contractors' State License Board (CSLB) also have requests to renew their respective EEEC resources (Senate Budget Subcommittee 4 approved the CSLB request on March 24, 2008, and the DIR item is discussed below—see DIR Discussion Item #5).

Staff Recommendation: APPROVE the request, and acknowledge that, in so doing, the subcommittee expects the proposed performance measures to be included in future reporting on the EDD's EEEC efforts.

VOTE:

EDD Item 4: Staff Issue—Workforce Investment Act (WIA) Discretionary Funds

The Governor's Budget proposes expenditure of approximately $56.7 million in federal WIA discretionary funds within broad categories, including $2.4 million for pre-apprenticeship Governor's pilot projects.

Staff Comment: In its *Analysis of the 2008-09 Budget Bill*, the LAO notes that, relative to the current year, the Governor reallocated WIA discretionary funds, opting to reduce funding in some areas, like parolee services, in order to provide funding in other areas, like the pre-apprenticeship Governor's pilot projects and regional collaboratives. The LAO recommends redirecting these resources back to parolee services because of the demonstrated value of the parolee employment programs in reducing recidivism for parolees, and because doing so would create an equivalent level of GF savings.

Staff notes that the subcommittee may wish to accept the LAO's recommendation to prioritize funding for programs with demonstrated benefits versus newer or less proven programs; however, due to the likelihood that the level of WIA funding provided by the federal government will change (relative to the amount currently budgeted), the subcommittee should wait to take action on this item until the final federal funding level is known.

Staff Recommendation: HOLD OPEN.

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 DIR 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 Governor's Budget begins by funding 2,880.7 positions (including 36.3 new positions) and budget expenditures of $393.1 million for the department, but then includes a 10 percent, across-the-board General Fund (GF) reduction (Budget-Balancing Reduction–BBR) of $1.3 million and 9.4 positions. The individual BBRs are as follows:

Program	**General Fund***	**Personnel Years (PYs)**
Self-Insurance Plans—Operating Expenses & Equipment Reduction	-$4	--
Mediation/Conciliation Reduction	-$221	-1.8
Division of Occupational Safety & Health—Board Reductions	-$222	-1.8
Division of Labor Statistics & Research—Transfer Publication of Apprenticeship Prevailing Wage Determinations	-$294	-2.9
Administrative Support Reduction	-$553	-2.9
TOTALS	-$1,294	-9.4

(*dollars in thousands)

Taking into account the proposed BBRs, the Governor's Budget would provide approximately $6.8 million more in FY 2008-09 compared to adjusted-FY 2007-08 totals, including $549,000 less GF.

DIR Item 1: BBR—Reduce State Mediation and Conciliation Services

The Governor proposes a 10-percent GF reduction of $221,000 and 2.0 positions to the State Mediation and Conciliation Service (SMCS) which was established to improve employer-union relations by mediating labor disputes free of charge.

Staff Comment: According to the DIR, a decrease in the number of mediators (from 13 to 11) would result in an increase in the number and duration of public sector strikes in the state. For example, in the last year alone the SMCS has been involved in helping to avert strikes in transit (San Bernardino and Contra Costa bus companies) and schools (San Francisco and others), and has helped broker deals to end strikes (for example, Hayward schools, Mendocino county deputy District Attorneys, and Hartnell College faculty). Fewer mediators spread out over the same number of disputes could result in more unresolved disputes and ultimately result in more or longer work stoppages.

Although the Administration has not identified an explicit cost associated with this proposal, staff notes that work stoppages, such as public transit strikes that prevent or delay employees from arriving at work, can have adverse effects on the state economy. Additionally, the state cannot collect Personal Income Tax from workers who are not receiving a paycheck. Notwithstanding these potential (and somewhat speculative) costs, the subcommittee may still wish to approve this reduction if it believes that the savings could be used to avoid more certain and/or greater costs in another program area.

Staff Recommendation: APPROVE the reduction.

VOTE:

DIR Item 2: BBR—Reduce Division of Occupational Safety and Health Staff

The Governor proposes a 10-percent GF reduction of 2.0 positions and $222,000 to the EDD's Division of Occupational Safety and Health (DOSH). The reduction would result in: (1) the elimination of 1.0 Hearing Officer position at the Occupational Safety and Health Appeals Board (OSHAB), whose responsibility it is to handle appeals from private and public-sector employers regarding citations issued by the DOSH for alleged violation of workplace safety and health laws; and (2) the elimination of 1.0 Staff Services Manager (SSM I) position at the Occupational Safety and Health Standards Board (OSHSB), whose responsibility it is to ensure a safe and healthful workplace for California workers by promoting, adopting, and maintaining reasonable and enforceable standards, as well as by granting or denying applications for variances from adopted standards and responding to petitions for new or revised standards.

Staff Comment: The DIR indicates the reduction to the OSHAB would result in over 1,000 fewer appeals heard by the board (there are currently 3,000 cases backlogged) and would increase the potential of federal complaint filing due to failure to process cases in a timely manner. According to the DIR, a federal complaint (alleging, for example, that the state takes 16 months to process appeals compared to the Federal OSHA standard of 10 months) could result in the state losing the right to implement its own OSHA plan and in being required to institute the federal program instead.

Staff additionally notes that each appeal represents an alleged violation and a potential amount due and payable to the GF—the current backlog is estimated at approximately $1.9 million. Thus, this reduction would further delay penalty collections due to the GF.

The DIR indicates that the reduction to the OSHSB would result in delays in the rule-making process and the board's ability to respond to petitioners and applicants.

Staff Recommendation: APPROVE the reduction.

VOTE:

DIR Item 3: BCP-1—California Occupational Safety and Health Act (Cal/OSHA) Program Fund Shift (Including TBL)

The DIR requests to establish, through trailer bill language (TBL) a new Occupational Safety and Health Fund (OSHF) to be supported by a new assessment on Workers' Compensation premiums. The initial assessment for FY 2008-09 would be $18.9 million, and would (1) create $9.6 million in savings to the Targeted Inspection & Consultation Fund (TICF) by shifting expenses to the newly created OSHF; (2) provide funding of $3.9 million to fund current Cal/OSHA shortages; and (3) provide approximately $5.4 million for an initial fund balance and support negotiated salary increases for public safety staff.

Staff Comment: The Governor's Budget proposes total expenditures of $104.1 million for Cal/OSHA, with approximately 25 percent provided from the GF, 25 percent from federal funds, and the remainder consisting of various special funds.

Among the special funds supporting Cal/OSHA, existing labor code provides for the establishment and maintenance of four separate funds that are repositories for assessments made on employers' workers' compensation premiums (in the case of employers who are not self-insured) and on total indemnity (in the case of employers who are self-insurers). These funds, including the TICF, support various DIR activities related to workers' compensation and occupational safety and health. This proposal would add a fifth assessment that would also support mandated activities of the Cal/OSHA program.

According to the DIR, the TICF has served since the mid-1990s as the Cal/OSHA program's only cushion against swings in funding from the GF and inflationary costs. Since approximately 2002, when a statewide fiscal crisis triggered GF reductions in Cal/OSHA, the TICF has been relied upon to meet mission critical requirements and the program has gradually exhausted a surplus that existed previously in the fund. While federal funds have remained stagnant over the last three fiscal years, program costs have increased, and last year the DIR submitted a request in the May Revise for a $13 million loan to the TICF from the Workers' Compensation Administration Revolving Fund (another of the four funds currently supported by workers' compensation premium assessments) so that program services would not have to be reduced.

The DIR indicates that the TICF has no remaining capacity to backfill any loss in funding or unfunded increases. Therefore, the Administration has proposed TBL to institute a new assessment to support a new fund, the OSHF, which would: (1) replace the TICF in support of the Cal/OSHA program (approximately $9.6 million annually); (2) offset current and/or anticipated funding shortfalls (approximately $3.9 million annually, primarily related to past General Salary Increases) that have not been covered by flat federal funding over the past several years; (3) fund the estimated cost of a FY 2008-09 General Salary Increase (approximately $1.5 million); and (4) provide an initial fund balance of approximately $3.8 million (as a reserve for economic uncertainties). According to the DIR, the new assessment would result in an approximate 10-percent increase to the total average annual assessment for employers. For example, the DIR estimates that the FY 2006-07 assessment was $7.01 per $1,000 of premium, and this proposal would increase that amount by $0.69 to $7.70 per $1,000 of premium.

Staff Recommendation: APPROVE the request and the accompanying TBL.

VOTE:

DIR Item 4: BCP-19—Targeted Inspection & Consultation Fee Restructuring to Fund Loan Repayment (Including TBL)

The DIR requests authorization to revise the TICF fee structure to increase revenue by approximately $3.9 million annually. The increased revenue would be used to repay a $13 million loan from the WCARF over a six-year period.

Staff Comment: This request is related to DIR Discussion Item #3 (above), and would increase assessments on employers' workers' compensation premiums to pay back the aforementioned loans taken out in FY 2007-08. Specifically, the proposed TBL would increase the maximum assessment from $2,500 (currently levied only on employers with a payroll of more than $3.5 million) to $10,000 for employers with payrolls of more than $20 million. Staff notes that the TBL would set various assessment amounts (ranging between $2,500 and $10,000) for employer payroll above $3.5 million and below $20 million.

Staff Recommendation: APPROVE the request and the accompanying TBL.

VOTE:

DIR Item 5: BCP-2—Economic and Employment Enforcement Coalition (EEEC)

The DIR requests 29.0 two-year limited-term positions, 1.0 two-year limited-term position for the LWDA, and $3.5 million (various special funds) to continue the department's participation in the EEEC. The EEEC includes the EDD, the Department of Consumer Affairs, and the United States Department of Labor, and was established to combat employment tax and labor law non-compliance within certain industries by conducting joint outreach and enforcement efforts.

Staff Comment: This proposal is consistent with the EDD proposal described above (see EDD Discussion Item #3), in that the Administration has requested renewal of all existing limited-term positions associated with DIR EEEC efforts. However, this request also includes a new position to be located at the LWDA that would coordinate, direct, and provide consistency across all EEEC efforts. Staff notes that to the extent that EEEC activities have been initiated and organized at the ground level, the ability to coordinate activities across departments and collect uniform data on outcomes has been limited or, at best, hamstrung. The proposed LWDA position would presumably better enable the EEEC to collect uniform data which could then be used to better target its activities where they can have the greatest effect.

Although the benefits of the EEEC are not strictly monetary (because mere enforcement serves as a deterrent to other would-be lawbreakers), according to the DIR, its EEEC efforts resulted in approximately $26.4 million in citation assessments, projected penalties, and payroll tax liabilities in FY 2006-07, with the GF-portion of these dollars estimated at approximately $9.9 million. These figures were up from $12.7 million and $3.0 million, respectively, in FY 2005-06.

Staff notes that the DIR has identified additional performance measures for tracking future EEEC activities, including:

- Conducting outreach surveys to validate interest level in, and effectiveness of, each of the various types of outreach.
- Instituting a quarterly follow-up inspection program based upon randomly selected samples of employers EEEC has cited in sweeps during the prior two quarters.
- Tracking the effectiveness of enhanced collection efforts such as license withholding.

As with the EDD, the subcommittee may wish to request the DIR to verbally commit to incorporating these performance measures into the EEEC reporting already required in the provisional language.

Staff Recommendation: APPROVE the request, and acknowledge that, in so doing, the subcommittee expects the proposed performance measures to be included in future reporting on the DIR's EEEC efforts.

VOTE:

DIR Item 6: BCP-8—Security Upgrades for District Offices

The DIR requests one-time augmentations of $386,000 (Workers' Compensation Administration Revolving Fund—WCARF) in FY 2008-09 and $557,000 (WCARF) in FY 2009-10 to support the installation of safety-related components to improve and make more consistent the security standard for the Division of Workers' Compensation's (DWC) 24 district offices.

Staff Comment: The DIR has worked with the California Highway Patrol (CHP) to obtain security assessments on district offices in light of several events involving breaches of security in DWC facilities. To date, the CHP has assessed 10 of 24 buildings and this request reflects the CHP recommendations the DIR deemed minimally necessary to protect staff, including panic buttons, alarm systems, key card systems, and installation of tempered glass. According to the DIR, some of the CHP recommendations were directed at the building as a whole, and included capital improvements which are not within the department's authority to implement as some of the leased facilities. Additionally, the CHP called for bullet proof/ballistic glass, magnetometers, and video surveillance cameras which the DIR opted not to implement.

Given that the CHP was hired to conduct the building assessments because of its security expertise, the subcommittee may wish to question the DIR as to the department's rationale for opting to follow some CHP recommendations but not others. While staff acknowledges that the CHP may have prescribed certain measures that were cost prohibitive and that the DIR may have felt the need to prioritize certain security measures over others, the safety of state worker's is a prime concern and the Legislature will want to feel assured that the proposed security upgrades do not, in a manner of speaking, padlock the front door while inadvertently leaving the back door wide open.

Staff Recommendation: HOLD OPEN.

VOTE:

DIR Item 7: BCP-9—Redirect Rehabilitation Unit Personnel to New Return-to-Work Unit with TBL

The DIR requests redirection and reclassification of 22.0 existing positions within its current Rehabilitation Unit to the newly-created Return-to-Work Unit in order to support the administrative workload associated with Chapter 6, Statutes of 2002 (AB 749) relative to Return-to-Work (RTW) and Chapter 34, Statutes of 2004 (SB 899) regarding the Supplemental Job Displacement Benefit. The DIR also proposes trailer bill language (TBL) to extend the sunset on the RTW.

Staff Comment: AB 749 established, until January 1, 2009, a RTW program consisting of reimbursement to employers for wages of certain injured workers who were returned to work, as well as a supplemental job displacement benefit designed to enhance and reinforce the workers' compensation reform goal of promoting RTW programs. Subsequent legislation required the DIR to contract with an independent research organization to conduct a study and issue a report on the RTW program by January 1, 2008. Staff notes that, according to the DIR, this report is still unfinished and will likely not be made available to the Legislature before the close of the budget subcommittees (more than five months late). Because the report is not available and the Legislature is therefore unable to evaluate the justification for continuing the RTW program on a permanent basis, the DIR has proposed a one-year program extension so that the Legislature may weigh the program merits in next year's budget process.

Consistent with the workers' compensation reform shift to a RTW model, SB 899 abolished the vocational rehabilitation benefit in workers' compensation effective January 1, 2009. As this function is phased out, the DIR is requesting that associated staff be redirected and reclassified to work on the RTW and supplemental job displacement benefit programs.

Staff Recommendation: HOLD OPEN pending the aforementioned report.

DIR Item 8: BCP-12—Statewide Facilities—Additional Space for District Offices

The DIR requests $875,000 (WCARF) in FY 2008-09 and approximately $1.5 million and $1.7 million in FYs 2009-10 and 2010-11, respectively, to support costs associated with additional space in the Los Angeles, Riverside, and Santa Ana district offices, the relocation of the Grover Beach district office as well as adjustments to the Statewide Facilities schedule.

Staff Comment: According to the DIR, the requested funding is necessary because the DIR has received multiple new positions over the past several years associated with workers' compensation reform, but standard complement of Operating Expense and Equipment funding for new staff has proven insufficient to meet the facilities needs at the district offices where those staff have been located. For example, the DIR cites the need to fund: (1) additional hearing rooms and cubicles; (2) reconfiguration and addition of space; and (3) increases in leased-space costs and one-time costs for moves.

While staff acknowledges that additional positions often spur the need and/or desire for the facilities changes noted above, given the current fiscal crisis, the department must demonstrate a strong connection to health and safety or an offsetting savings/cost avoidance/revenue associated with the request before the subcommittee will give it further consideration. To date, the DIR has provided insufficient information to justify all of the elements of this request according to these criteria. Staff notes that certain components of the proposal may warrant additional consideration on an individual basis because they would avoid greater costs (for example, relocating an office to less expensive leased space), or address real health and safety concerns (if, for example, staff are currently provided insufficient work space in violation of existing laws or regulations). However, the subcommittee may wish to deny the request at this time and offer the DIR reconsideration on any components for which it wishes to submit additional information.

Staff Recommendation: DENY the request, and offer the DIR reconsideration in the future should it choose to bring forward additional information addressing the criteria cited above.

VOTE:

DIR Item 9: BCP-13—Relocate DIR's San Francisco Headquarters

The DIR requests $432,000 (including $130,000 GF) in FY 2008-09, $3.6 million (including $1.1 million GF) in FY 2009-10, and $6.9 million (including $2.1 million GF) ongoing to fund the relocation of the DIR headquarters office and two District Offices to allow for the expansion of the Administrative Office of the Courts (AOC) and the Department of Justice (DOJ) within the Hiram Johnson State Building located in San Francisco.

Staff Comment: According to the LAO, neither the AOC nor DOJ has provided a plan justifying the need for the proposed move, and, therefore, this request is premature.

Staff notes that the proposed move is intended to provide additional space to the AOC and DOJ as well as the DIR. However, given current fiscal constraints, it is unclear whether any of these agencies will need additional space in the immediate future.

Staff Recommendation: DENY the request.

VOTE:

DIR Item 10: Staff Issue—Electronic Adjudication Management Systems (EAMS)

The EAMS is a computer-based, workers' compensation case management project currently under development by the DIR and intended to convert the Workers' Compensation Appeals Board (WCAB) to paperless processes. The stated goal of the EAMS project is to eliminate redundancy, create efficiency and make the workers' compensation case management system more accessible to users, while preserving confidentiality. Staff notes, however, that concerns have been raised by stakeholders in the workers' compensation arena regarding the EAMS design and implementation plan.

Funding in the amount of $20.1 million was originally approved for a workers' compensation case management system (later known as the EAMS) in the Budget Act of 2004. Consistent with broader efforts being made at the time to reform the workers' compensation system, the original request was made as part of the Governor's May Revision to the budget, and provisional language was included to make the appropriation contingent upon submittal and approval of a Feasibility Study Report (FSR) by the Department of Finance. The approved FSR projected costs of $24 million spanning five years; however, subsequent delays required reappropriation of approximately $8.8 million in FY 2006-07 and an updated project report put the revised project cost at $36 million (as of October 2006). According to the DIR, the 50-percent increase in project costs were the result of unforeseen delays that occurred in the contract solicitation process and a higher-than-expected project bid.

The EAMS development and build phase is currently scheduled to be completed by the summer of 2008, followed by a pilot test of the system at all Division of Workers' Compensation district offices before the EAMS goes "live" for all users (including injured workers, law firms, insurance carriers, and healthcare providers) sometime late in 2008.

Based on input received by staff, EAMS stakeholders harbor several major concerns about the project, including the following:

- The EAMS roll-out plan is unclear. For example, the DIR has indicated that, in the summer of 2008 during the lead-up to "go live," WCAB district offices may close (or at a minimum cease functioning normally) for days at a time while staff are trained to use the new system. One WCAB "Notice to Community," dated February 27, 2008, states that "efforts are underway to have staff to keep our office open during training days." Staff notes that stakeholders have expressed concern that, given the equivocation in the message related above, it is unclear that the DIR's plan would adequately safeguard the constitutional right of injured workers to an expeditious hearing.

- The contract for the EAMS system calls for the state to receive just 2,500 licenses—the number of users who can use the system at any given time—and the WCAB has reserved 1,200 of these licenses for internal use. This leaves only 1,300 for all of the attorneys, applicants, claims professionals, lien claimants, and others who have a vested interested in the 650,000 claims filed and the 300,000 hearings held each year. In the view of the stakeholders, this shortage of licenses represents a very real barrier to access with serious legal and monetary ramifications.

Attachment C is a set of questions submitted by Assesmblymember Juan Arambula to Keven Star, court administrator of the Division of Workers' Compensation to try and gain clarification on the issues of concern to the EAMS stakeholders. Staff notes that the Assembly Insurance Committee is set to hold an informational hearing on April 9, 2008, entitled: "*THE DIVISION OF WORKERS COMPENSATIONS ELECTRONIC ADJUDICATION MANAGEMENT SYSTEM (EAMS): IS THE SYSTEM READY AND DOES IT SERVE ITS USERS?*"

The subcommittee may want the DIR to clarify the current status of the EAMS, but may wish to await developments in the Assembly's informational hearing before taking any further action on this item. Staff recommends that the Chair request the DIR to provide the subcommittee with a copy of the department's responses to the questions in Attachment C.

Attachment A—ACES Provisional Language

7100-001-0001--For support of Employment Development Department, for payment to Item 7100-001-0870.. 25,664,000

+

Provisions:

1. (a) Of the funds appropriated in this item, $2,559,000 is to support the development of the Automated Collection Enhancement System (ACES). These funds may not be used for any other purpose or for items outside the approved project scope. Changes in the project scope must receive approval using the established administrative and legislative reporting requirements.

7100-001-0185

Provisions:

4. Of the funds appropriated in this item, $6,000 is to support the development of the Automated Collection Enhancement System (ACES). These funds may not be used for any other purpose or for items outside the approved project scope. Changes in the project scope must receive approval using the established administrative and legislative reporting requirements.

7100-001-0514

Provisions:

3. Of the funds appropriated in this item, $6,000 is to support the development of the Automated Collection Enhancement System (ACES). These funds may not be used for any other purpose or for items outside the approved project scope. Changes in the project scope must receive approval using the established administrative and legislative reporting requirements.

7100-001-0588

Provisions:

2. Of the funds appropriated in this item, $239,000 is to support the development of the Automated Collection Enhancement System (ACES). These funds may not be used for any other purpose or for items outside the approved project scope. Changes in the project scope must receive approval using the established administrative and legislative reporting requirements.

Attachment B—EDD Performance Measures to Evaluate the EEEC

Develop an Outreach Survey
Develop a survey for each of the three types (Industry Specific, Post Inspection Meeting, and Employee Outreach) of EEEC outreach events to determine if the information being provided to the attendees is of value to them. These surveys would score for each of the categories and the scores tracked.

Number of attendees coming to Outreach events
Report the number of individuals attending outreach events. This measurement would demonstrate the effectiveness of the EEEC outreach marketing efforts and need for such events in a given geographical area.

Conduct random re-inspections of businesses within all EEEC industries
Conduct random re-inspections of businesses to determine the effectiveness of the EEEC program. This method would not only benefit EDD but all partnered agencies in evaluating their enforcement processes and to ensure employers remain in compliance.

Increase in Tax Assessments related to targeted business
Report the assessed liabilities as a result of audit referrals made by the Department's EEEC Agents. Assessed liabilities are a good measurement for a tax program and it is suggested that this performance measure be included.

Increase in employees reported to EDD as a result of an EEEC Payroll Tax Audit
Report the number of previously unreported employees found during an audit of an EEEC audit referral. This is a good measurement as it indicates that EEEC is targeting the most egregious violators for inspection.

Increase in employees reported to EDD within all of the EEEC focused industries
Develop a method of tracking the number of reported employees within all of the EEEC focused industries. This measurement may indicate whether EEEC visibility in the field and publicity has a wide ranging effect on the industry as a whole. Tax Branch would need to seek additional assistance within EDD to provide global data by industry.

Number of New Employer Registrations as a result of an EEEC on-site inspections
During the on-site inspections when EEEC staff identify a non-registered employer they inform the employer that he/she is in fact a subject employer and that their workers are subject employees. Staff then assist the employer in completing a DE-1 Registration Form and provide them with the necessary tax publications and reporting forms.

Number of New Employer Registrations within all of the EEEC seven industries
Develop a method of tracking the number of new employer registrations within all of the EEEC focus industries. This measurement may indicate whether EEEC visibility in the field and publicity has a wide ranging effect on the industry as a whole. Tax Branch would need to seek the assistance of the Department's Labor Market Information Division (LMID), who might be able to provide global data by industry.

Attachment C—Letter from Assemblymember Juan Arambula to Keven Star, Court Administrator, Department of Industrial Relations, Division of Workers' Compensation

March 19, 2008

Mr. Kevan Star, Court Administrator
Department of Industrial Relations
Division of Workers' Compensation
1515 Clay Street, 17th Floor
Oakland, CA. 94612-1402

Dear Mr. Star:

It has come to my attention that the Department of Industrial Relations (DIR), Division of Workers' Compensation (DWC), is in the midst of developing an Electronic Adjudication Management System (EAMS). Further, the Department plans to begin training DWC employees on the use of the new system this Summer, and to allow external access to the system around November of this year.

As Chairman of Assembly Budget Subcommittee-4 on State Administration, which has jurisdiction of DIR's budget, I am concerned about funding implications associated with this automated system, in terms of both the sufficiency of financial resources needed to implement EAMS and permit full access by all parties to the Workers' Compensation system, as well as maintaining an effective adjudicatory process during EAMS' rollout period.

Last week I asked my Budget Consultant, Mr. Les Spahnn to meet with your staff and other interests to ascertain whether there are potential problems to the effective and efficient implementation of EAMS. Based on his discussions with your staff and others, Mr. Spahnn has reported to me that the potential for problems exist, and should be explored further by my Subcommittee.

It is my intention to review the status of the EAMS project when DIR's budget is taken up by my Subcommittee on April 8th. In order to have a thorough discussion at the hearing, I am requesting that you provide to me, in writing, answers to the questions listed below, by April 1st. It is my intent to identify and explore whether there may be any problems to system implementation on the horizon, and determine how they may be addressed, and the resources that are needed to ensure that those problems do not come to fruition.

Please answer the following questions:

1. Explain in detail your time line for fully implementing EAMS, including access by all potential external users, the rationale for the time line, the current status of implementation and any impediments encountered, your contingency plans for addressing future delays, and complications relating to full implementation of EAMS, including the period during which external access will be limited..

   A. Did you consult with other court systems that used the same vendor to see what problems or system limitations they experienced or what successes they had, either before deciding on a vendor or during the design and implementation period? If not, why not?

   B. When is the Go Live Date for external users? When can they use the system fully as it was designed and advertised to operate? When will all the users who need a license receive a license and what is the process to decide the priority of receiving a license to use the system?

   C. What is the process for requesting a license to use EAMS and the process for deciding who receives a license and when?

2. Explain with specificity, the nature, extent, and need for closing down local board offices during training, and your plan for preventing delays in proceedings and other activities at the local boards related to delivering benefits, including medical benefits, expeditiously to injured workers.

   A. How many judges will be taken out of each board and for how long to obtain the "training judges." How long will these judges be off the trial calendar and what provisions are being made to ensure that the cases that are set for trial or hearing are actually heard on the date set? What assurance that all cases which have statutory priority are heard on the date given, including cases for Expedited Hearing, out of town witnesses and trials that are continued after testimony is already taken and need additional days to complete the trial?

   B. What procedures will be in place to ensure that the Constitutional and statutory deadlines for trials and hearings will be met during the "training" period and implementation period for EAMS?

   C. What provisions for Information and Assistance Officers are being made to assure equal access and time lines for unrepresented workers?

   D. What, if any, reduction or statutory changes in the authority of Workers' Compensation Judges, including their ability to render final decisions and review of their opinions is being required under the EAMS system.

3. Explain with specificity how previously appropriated funds have been expended, what additional funding is – or may be – required for what purposes, the steps you

have taken to obtain – and the current status of – additional funding, and your contingency plan if additional funding is not forthcoming.

A. What staffing needs are required so that the scanning of all the documents received after the internal "GO LIVE" date in August 2008 are entered timely into the system and are available at the time of hearing or other matter as required? What provisions do you have to ensure that documents electronically filed (or which are in system electronically) are correctly named and can be retrieved without extraordinary searches? Or that the data on the forms is correctly picked up by the Optical Character Reader (OCR) as they are being scanned?

B. What provisions are being made so that old documents are accepted for filing and requests for hearing and other matters are not rejected or set aside due to the fact someone did not know of the new documents and/or could not access them?

C. What provisions are being made to integrate open, ongoing paper files that also have electronic requirements after the "Go Live Date?

Your prompt attention to this request is most appreciated. If you have any questions, please contact Mr. Les Spahnn on my staff at 916-319-2031 or by e-mail at Leslie.Spahnn@asm.ca.gov.

Respectfully

JUAN ARAMBULA
Chairman, Assembly Budget Subcommittee on State Administration

Cc. The Honorable John Laird; Chairman, Assembly Committee on Budget
The Honorable Joe Coto; Chairman, Assembly Committee on Insurance
Chris Wood; Chief Consultant, Assembly Committee on Budget
Mark Rakich; Chief Consultant, Assembly Committee on Insurance
Mr. John Duncan; Director, Department of Industrial Relations
Ms. Carrie Nevans; Administrative Director, Division of Workers' Compensation.
Mr. Joseph Miller; Chairman, Workers' Compensation Appeals Board

Senate Budget & Fiscal Review Committee
Bryan Ehlers 651-4103

Hearing Outcomes: Agenda Part B

Subcommittee No. 3
10:30 am, Monday, April 7, 2008

Vote-Only Agenda

0559 Labor & Workforce Development Agency

- Vote-Only Item 1: BBR—Eliminate One Agency Position
  Action: Approved the reduction.
  Vote: 3-0

- Vote-Only Item 2: BCP-1—Agency Information Officer and On-going Operational Costs
  Action: Approved the request.
  Vote: 3-0

7100 Employment Development Department

- Vote-Only Item 3: BBR—Reduce Unemployment Insurance Appeals Board
  Action: Approved the reduction.
  Vote: 3-0

- Vote-Only Item 4: BBR—Reduce Administrative Support
  Action: Approved the reduction.
  Vote: 3-0

- Vote-Only Item 5: BCP-5—Heroes at Home
  Action: Approved the request.
  Vote: 3-0

7120 California Workforce Investment Board

- Vote-Only Item 6: BCP-1—SB 293 Workload
  Action: Approved the request.
  Vote: 3-0

7350 Department of Industrial Relations

- Vote-Only Item 7: BBR—Reduce Self-Insurance Plans Operating Expenses and Equipment
  Action: Approved the reduction.
  Vote: 3-0

  Vote-Only Item 8: BBR—Reduce Division of Labor Statistics and Research
  Action: Approved the reduction.
  Vote: 3-0

- Vote-Only Issue 9: BBR—Reduce Administrative Support
  Action: Approved the reduction.
  Vote: 3-0

- Vote-Only Issue 10: BCP-6—Network Security and Project Management
  Action: Approved the request.
  Vote: 3-0

- Vote-Only Issue 11: BCP-10—Limited-Term Conversion in Legal Unit
  Action: Approved the request.
  Vote: 3-0

- Vote-Only Issue 12: BCP-14—Effective Injury and Illness Prevention Programs
  Action: Approved the request.
  Vote: 3-0

- Vote-Only Issue 13: BCP-16—Workers' Compensation Insurance Coverage Program—SB 869
  Action: Approved the request.
  Vote: 3-0

- Vote-Only Issue 14: BCP-17—Implement Amusement Ride Safety Law Revisions—SB 783
  Action: Pulled off of vote-only and held open per DOF request.

Discussion Agenda

7100 Employment Development Department (EDD)

- EDD Item 1: BCP-1—Automated Collection Enhancement System (ACES)
  Action: Approved the request including the proposed provisional language (the version in the agenda was incomplete).
  Vote: 3-0

- EDD Item 2: BCP-2—Disability Insurance Automation (DIA) Project
  Action: Approved the request.
  Vote: 3-0

- EDD Item 3: BCP-3—Economic and Employment Enforcement Coalition (EEEC)
  Action: Approved the request and established expectation that the EDD include proposed performance measures in future reporting on EEEC efforts.
  Vote: 3-0

- EDD Item 4: Workforce Investment Act (WIA) Discretionary Funds
  Action: Held Open.

7350 Department of Industrial Relations (DIR)

- DIR Item 1: BBR—Reduce State Mediation and Conciliation Services
  Action: Approved the reduction.
  Vote: 3-0

- DIR Item 2: BBR—Reduce Division of Occupational Safety and Health Staff
  Action: Held Open.

- DIR Item 3: BCP-1—California Occupational Safety and Health Act (Cal/OSHA) Program Fund Shift (Including TBL)
  Action: Approved the request and the accompanying TBL.
  Vote: 2-1 (Wyland)

- DIR Item 4: BCP-19—Targeted Inspection & Consultation Fee Restructuring to Fund Loan Repayment (Including TBL)
  Action: Approved the request and the accompanying TBL.
  Vote: 2-1 (Wyland)

- DIR Item 5: BCP-2—Economic and Employment Enforcement Coalition (EEEC)
  Action: Approved the request and established expectation that the EDD include proposed performance measures in future reporting on EEEC efforts.
  Vote: 2-0 (Wyland absent)

- DIR Item 6: BCP-8—Security Upgrades for District Offices
  Action: Held Open

- DIR Item 7: BCP-9—Redirect Rehabilitation Unit Personnel to New Return-to-Work Unit with TBL

Action: Held Open. Requested the DIR provide a "modified" report on activities/achievements of the Return-to-Work Unit to date (in order to provide a basis for any future decision to extend the current sunset).

- DIR Item 8: BCP-12—Statewide Facilities—Additional Space for District Offices
- **Action:** Denied. The DIR was offered the opportunity for reconsideration if and when additional information can be provided to justify the request (or portions of the request) on a health/safety or cost/benefit basis.
  Vote: 3-0

- DIR Item 9: BCP-13—Relocate DIR's San Francisco Headquarters
- **Action:** Denied. Reconsideration was offered if and when the Administration can provide a comprehensive plan demonstrating the OAC and DOJ need for additional space that is allegedly driving the proposal.
  Vote: 3-0

- DIR Item 10: Staff Issue—Electronic Adjudication Management Systems (EAMS)
  Action: Requested the DIR to provide the subcommittee with a plan for EAMS implementation that addresses member concerns, including: (1) the ability to maintain access to existing services for all stakeholders during the EAMS training process; (2) an explanation of the "go live" process for internal and external users and the differences, limitations, and challenges for each; and (3) a complete accounting of all dollars spent on the project to-date and the dollars that are anticipated to be expended in completing/implementing the project (including the anticipated need for any additional appropriation(s)).

SUBCOMMITTEE NO. 3 Agenda

Health, Human Services, Labor & Veteran's Affairs

Chair, Senator Elaine K. Alquist
Senator Alex Padilla
Senator Mark Wyland

Agenda

Thursday, April 10, 2008
9:30 a.m. or Upon Adjournment of Session
Room 4203 (John L. Burton Hearing Room)
(Eileen Cubanski, Consultant)

Vote-Only Agenda

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.

Discussion Agenda

Item **Department** **Page**

Vote-Only Agenda

Vote-Only Issue 1: CDA – All Program Support-Administration Budget Balancing Reductions (BBRs)

Description: The Governor's Budget proposes to reduce the Administration funding of the California Department of Aging (CDA) by $203,000 ($57,000 General Fund) and 2.5 positions. Administration includes Business Services, Budgets/Accounting, Human Resources, Information Technology, Community Relations, Public Information, Legislation, and Executive Management. The proposed reductions include: the Community Relations Officer, who also manages the Senior Farmers Market Nutrition Program; a Legislation Analyst; and 0.5 Office Technician in Business Services.

The CDA indicates that, as a result of these reductions, administrative services would be reduced, including the tracking and coordination of legislative bills and hearings, business support for the California Commission on Aging, participation in community outreach events that state departments routinely attend, and special mail processing tasks. Delays will likely occur in contract processing and meeting mandated reporting requirements. Fewer educational materials and brochures will be developed, updated, and distributed and responses to consumer requests for information will likely be delayed.

Staff Recommendation: Approve the proposed administrative reductions.

Vote-Only Issue 2: CDA – Adult Day Health Care BBR

Description: The Governor's Budget proposes to reduce state operations funding within CDA for the Adult Day Health Care (ADHC) Program by $38,000 ($19,000 General Fund) and 0.5 Aging Program Analyst. There are currently 27 budgeted positions in the ADHC Program within CDA. The reduction will require other ADHC staff to perform increased workload associated with mandatory Medi-Cal certification activities, including certification surveys, certification application processing, and certification renewal. The impact on work is as follows: fewer non-required surveys on ADHC centers since all staff time will be needed to complete the mandatory surveys; less non-essential technical assistance and follow-up on corrective actions to ADHC centers or other preventive-type work; and, delayed processing of certification applications and performing necessary on-site monitoring and follow-up.

Background: The ADHC Program is a licensed, community-based day health program. It provides services to frail older persons and adults with disabilities to delay or prevent their institutionalization and to maintain these individuals in their homes and communities for as long as possible. ADHC center services include: skilled nursing, physical, occupational, and speech therapies; psychiatric services; social services; nutrition services; therapeutic activities; and transportation, as needed. Over 92 percent of ADHC Program participants are Medi-Cal beneficiaries. ADHC Program participants have a wide range of diagnoses, including approximately 13 percent who have Alzheimer's disease or other dementias.

The responsibility for administering the ADHC Program and local assistance funding for operation of ADHCs does not reside in the CDA's budget, but is in the Department of Health Care Services (DHCS). The CDA's ADHC Branch is responsible for performing mandated activities associated with the certification of ADHC centers for participation in the Medi-Cal Program. The CDA performs approximately 200 certification renewal and follow-up surveys annually to meet state statutory requirements for performing biannual certification renewal surveys of California's 324 licensed and certified ADHC centers.

The ADHC Program has been undergoing significant reforms over the past couple of years in response to a determination from the federal Centers for Medicare and Medicaid Services (CMS) that ADHC services as designed did not meet the federal requirements. These reforms include the imposition of a moratorium on new ADHC Medi-Cal providers, a substantial increase in enforcement action to remedy fraud and abuse among ADHC providers, and the development of statutory reforms to respond to mandates from CMS. While the bulk of the work associated with implementing these reforms has fallen on DHCS, the ongoing viability of CDA certification activities is critical to ensuring that the reforms are carried out. Failure to successfully implement the ADHC reforms will result in the loss of millions of dollars of federal funds for the ADHC Program.

Staff Recommendation: Reject the proposed reduction of $38,000 ($19,000 General Fund) and 0.5 Aging Program Analyst from the ADHC Program. As an alternative to achieve the General Fund savings, reduce the CDA's Operating Expenses and Equipment budget by $19,000 General Fund.

Vote-Only Issue 3: CDA – Senior Community Employment BBR

Description: The Governor's Budget proposes a $1.5 million General Fund reduction to the Senior Community Services Employment Program (SCSEP). The SCSEP is a federally-funded employment and training program for older, unemployed, low-income persons (125 percent of the federal poverty level), aged 55 years and older. States are required to pay the prevailing state minimum wage to individuals who participate in the program even though the federal funding allocated to states is based on the federal minimum wage.

Because of the recent increase in the federal minimum wage, California received a $1.5 million higher allocation of federal funds, which offsets the General Fund used to cover the difference between the cost of funding the state and federal minimum wages.

Staff Recommendation: Approve the $1.5 million General Fund reduction to the SCSEP.

Vote-Only Issue 4: DSS – Continuing Care Contracts Branch Workload

Description: The Governor's Budget requests $316,000 in special fund authority and three positions to meet the increased volume and complexity of workload in the Department of Social Services' (DSS') Continuing Care Contracts Branch within the Community Care Licensing Division. Funding for these positions would come from the Continuing Care Provider Fee Fund.

Background: The Continuing Care Contracts Branch is responsible for the approval and oversight of Community Care Retirement Communities (CCRCs). CCRC providers offer long-term continuing care contracts that provide for residential, assisted living and skilled nursing services, usually in one location and for a resident's lifetime, to people 60 years of age or older. In exchange for those services, seniors typically pay a substantial entrance fee (usually between $100,000 and $1.5 million or more), as well as monthly care fees (generally ranging between $2,000 and $7,500). California law requires the DSS to evaluate the performance and financial health of all CCRC providers to monitor their financial position and ability to fulfill their contractual obligations to their residents. Currently there are 79 operational CCRCs in California housing in excess of 20,000 residents. Collectively, these communities have more than $7 billion in community assets and earn $1 billion in revenues annually.

In its early stages, continuing care was comprised of generally small, private, non-profit organizations, and their project proposals were typically straightforward and easy to analyze and monitor on an ongoing basis. In the mid-1980s, the industry began evolving and current providers now include large, multi-tiered corporate entities, some of which are for-profit and publicly traded, and all have complex financial structures. At that time, the CCRCs recognized the need for appropriate oversight and voluntarily proposed legislation to assess themselves fees to support that oversight.

The DSS has received between eight and 12 applications for new CCRC facilities, expansion or renovation of facilities, and acquisition of facilities or property in each of the past three fiscal years. There are currently 25 applications in various stages of processing, which can take multiple years given the complexity of the organizations and their proposals. The increase in new facilities each year also leads to an increase in the number of facilities needing annual monitoring. The Continuing Care Contracts Branch currently has six positions to fulfill all these functions.

Funding for these positions would come from the Continuing Care Provider Fee Fund. Revenues to this fund are from fees charged to CCRCs for the services that DSS provides them. Based on the current projection of the fund balance, it looks like the fund will be negative in 2011-12 with approval of this request. However, DSS indicates that they have authority to adjust the fees as necessary to cover the costs associated with their statutory oversight activities. DSS also indicates that with the increased numbers of applications, they do not believe that any fee increases will be necessary.

CCRC providers and advocates support DSS' request for additional positions in this area.

Staff Recommendation: Approve the request.

Vote-Only Issue 5: DSS – AB 949: Relocation of Residents

Description: The Governor's Budget requests $176,000 General Fund and 2 positions (0.5 position limited-term) to implement Assembly Bill (AB) 949. AB 949 requires a Residential Care Facility for the Elderly (RCFE), if seven or more residents of a facility are to be transferred due to forfeiture of the license or a change in the use of the facility, to submit a proposed closure plan for the affected residents to DSS for review. The DSS is required to review and approve or disapprove the plan within 15 working days of receipt and to monitor its implementation. No action by DSS within 20 working days of receipt of the plan means the plan is deemed approved.

There are currently over 1,500 licensed RCFEs with seven or more residents. The DSS estimates that there will be 45 RCFE facility closures per year.

Staff Recommendation: Reject the requested funding and positions. Notwithstanding the value of having the DSS approve and oversee the implementation of closure plans for RCFEs, this is a new function and higher level of service for DSS than the current year. It is difficult to approve in light of the cuts to existing services that are proposed and will be made. RCFEs will still be required, pursuant to AB 949, to prepare and implement the closure plans for the safe transfer of residents in the event of a facility closure.

Vote-Only Issue 6: DSS – Tehama County Caseload Transfer

Description: The DSS submitted a Spring Finance Letter on April 1, 2008, requesting $56,000 General Fund and one-half of a position to manage the increased caseload resulting from the transfer of Tehama County's licensing program for Family Child Care Homes (FCCHs) back to the State.

FCCHs care for infants and very young children who are completely reliant upon providers for long periods of time. These facilities must meet minimum statutory licensing standards. In 2008-09, DSS will license and monitor about 39,467 FCCHs that serve a total of 385,000 children and counties under contract with DSS will license another 3,700 facilities.

Tehama County has responsibility for licensing and overseeing 105 FCCHs. On March 12, 2008, the Tehama County Board of Supervisors took action to terminate their contract with DSS to license and monitor FCCHs effective June 30, 2008. To absorb the increased workload, DSS needs one-half of a position. The funding for the position will be transferred from local assistance funding provided to Tehama County for licensing and monitoring of FCCHs, resulting in no net General Fund increase to the budget.

Staff Recommendation: Approve the requested funding and position.

Discussion Agenda

4170 California Department of Aging (CDA)

CDA Issue 1: Senior Nutrition Programs Budget Balancing Reductions (BBRs)

Description: The Governor's Budget proposes a reduction of $1.420 million ($759,000 General Fund) to senior nutrition programs including the following:

- Home-Delivered Meals – Reduce by $316,000 General Fund
- Congregate Nutrition – Reduce by $253,000 General Fund
- Brown Bag Program – Reduce by $60,000 General Fund
- Seniors Farmers Market Program/Public Outreach – Eliminate the program for a $791,000 ($130,000 General Fund) savings

A description of each of these programs and the anticipated impacts of the proposed reductions are provided below.

Background: The California Department of Aging (CDA) promotes the independence and well-being of older adults, adults with disabilities, and families through access to information and services to improve the quality of their lives, opportunities for community involvement, and support for family members providing care. As the designated State Unit on Aging, CDA administers federal Older American Act (OAA) programs that provide a vide variety of community-based supportive services, as well as congregate and home-delivered meals. It also administers the Older Californians Act programs, including the Linkages program and the Alzheimer's Day Care Resource Center program. The CDA also contracts directly with agencies that operate the Multipurpose Senior Services Program and certifies Adult Day Health Care centers for the Medi-Cal program.

The CDA administers most of these programs through contracts with the state's 33 local Area Agencies on Aging (AAAs). At the local level, AAAs contract for and coordinate this array of community-based services to older adults, adults with disabilities, family caregivers, and residents of long-term care. Pursuant to the state Community-Based Services Program (CBSP) and federal OAA statutes and regulations, AAAs may shift funding allocated by the State for a particular program to other CBSP and OAA programs with the approval of the local AAA governing board. The CDA only tracks the allocations made by the State to each AAA for each program, but does not track how the funds are actually allocated and used by the AAAs among the programs. Therefore, determining the impact of any of the proposed local assistance reductions described in this agenda will not be precise, as AAAs will ultimately make allocation decisions among programs based on their own local priorities.

Furthermore, although most AAAs operate most programs, not all operate every program. Therefore, a proposed reduction to a particular program, such as one of the senior nutrition programs described in this issue, will only affect those AAAs that actually operate that program.

The reductions to senior nutrition programs included in this issue affect the following programs:

- **Home-Delivered Meals.** This program provides nutritious meals, nutrition education, and nutrition risk screening to individuals 60 years of age or older who are homebound by reason of illness or disability or who are otherwise isolated. The program targets low-income, minority seniors. Most home-delivered meal programs provide their clients with a hot meal five days a week delivered by staff or volunteer drivers. For seniors most in need, six or seven meals a week are provided. There are currently more than 59,000 older adults receiving home delivered meals.

  There is $4.936 million General Fund in the budget for Home-Delivered Meals in 2007-08. The proposed reduction would leave $4.620 million for 2008-09. The Administration states that the reduction will be allocated statewide across the 33 AAAs based on existing funding formulas and will likely result in 240 older adults not receiving meals.

- **Congregate Nutrition.** This program provides nutritionally balanced meals, nutrition education, and nutrition risk screening to Californians 60 years and older. The program targets low-income, minority elderly Californians and provides socialization, disease prevention, and health promotion activities. The program encourages the use of volunteers and gives all participants the opportunity to contribute to the cost of the meal. The program is largely funded by federal dollars. The program currently serves more than eight million meals to more than 145,000 individuals aged 60 and older.

  There is $3.939 million General Fund in the budget for Congregate Nutrition in 2007-08. The proposed reduction would leave $3.686 million for 2008-09. The Administration states that the reduction will likely result in 380 older persons no longer receiving meals.

- **Brown Bag Program.** This is a state-funded program that provides surplus and donated edible fruits, vegetables and other food products to low income individuals 60 years of age and older. The food is distributed to help supplement the nutritional needs of these older individuals. There is no fee charged to participants, although voluntary contributions can be made. Approximately 29,000 seniors are served annually in this program.

  There is $789,000 General Fund in the budget for the Brown Bag Program in 2007-08. The proposed reduction would leave $729,000 in 2008-09. Approximately 25 providers in California, including food banks and other community agencies, provide services at over 600 sites. The reduction of $60,104 will be spread equally across all 600 Brown Bag sites, resulting in a loss of approximately $100 per site. Currently, each provider receives an average of $23,000 General Fund per year to operate the program.

- **Senior Farmers Market Elimination/Public Outreach.** This is a discretionary program (i.e., not required by the Older Americans Act) funded through an annual grant from the U.S. Department of Agriculture. This annual grant of approximately $661,000 provides $20 coupon booklets to 30,000 low income seniors that can only be spent at certified farmers markets. To be eligible for the grant, states are required to submit a Senior Farmers Market State Plan and the federal grant awards are made in March for the following fiscal year. Although the CDA states that it did submit the required Senior Farmers Market State Plan for 2008, they indicate that they have also already informed the federal government that California will not be participating in the program and, therefore, California will not be receiving these funds. Although CDA had authority to make this decision administratively, this reduction was not proposed for the special session and the BBR description did not mention that a decision would need to be made regarding accepting the grant prior to the end of the current fiscal year. Therefore, the Legislature had no opportunity to weigh in on this proposed cut.

  As a result, approximately 30,000 seniors will not receive $20 worth of produce annually from farmers markets. Translation of more CDA materials into other languages and reprinting brochures and tip sheets will only be done in years when expenditures result in available funds for these activities. Updates in English will continue to occur on the website. The CDA will also need to reduce its attendance at community outreach events that state departments routinely attend.

Advocates have argued that in recent years, senior nutrition programs received approximately $71 million in state and federal pass-through funds, which equates to approximately $3.86 per meal served in the state. Participant donations, corporate gifts and monies raised through local fund raising are used to leverage these funds. However, funding through the state budget is the cornerstone of their operations. Nutrition programs and senior advocates have urged the State to supplement public spending in the past, stating that there are few other nutritional resources for seniors.

Questions:

1. CDA, describe each of the senior nutrition programs, the proposed reductions, and the expected impacts.
2. CDA, why did you make the administrative decision to reject the federal Senior Farmers Market funds prior to this issue being heard by the Legislature?

Staff Recommendation: Hold open.

CDA Issue 2: Linkages Program and Multipurpose Senior Services Program (MSSP) BBRs

Description: The Governor's Budget proposes a reduction of $544,000 General Fund to the Linkages Program and $5.052 million ($2.526 million General Fund) to the MSSP. A description of each of these programs and the anticipated impacts of the proposed reductions are provided below.

Background:

Linkages Program. The Linkages Program provides care management services to elderly and younger adults aged 18 and older with functional impairments who are at risk of institutionalization. Many of these programs operate at the local level in conjunction with MSSP and other Older Americans Act case management programs, providing referrals and cross-support. Linkages clients do not need to meet income eligibility requirements or be eligible for Medi-Cal, but many of them are or are very close to spending down and may easily become eligible. The Linkages Program is provided through 36 sites throughout the State. In 2005-06, the program served an estimated 5,229 individuals.

There is $8.264 million General Fund for the Linkages Program in 2007-08. The proposed reduction would leave $7.720 million General Fund in 2008-09. The proposed $544,000 reduction would be allocated equally across all sites. This proposal would result in a $15,111 reduction to each of 36 sites and would reduce the number of individuals served statewide by an estimated 335.

Multipurpose Senior Services Program (MSSP). The MSSP is a Medi-Cal home and community-based service (HCBS) waiver administered through an agreement between the Department of Health Care Services (DHCS) and the CDA and operated by 41 MSSP sites statewide. The MSSP's primary objective is to maintain elderly (65 years or older) Medi-Cal individuals, who meet the nursing home level of care, in community settings, thus preventing or delaying inappropriate nursing facility placement. MSSP General Fund expenditures are matched by federal reimbursement. The current federal match rate is 50 percent.

The local assistance budget, although shown residing with CDA in the Governor's Budget, is not administered by the CDA. The funds are automatically transferred to DHCS immediately after the budget is enacted.

There is $50.514 million ($25.257 million General Fund) for the MSSP in 2007-08. The proposed reduction would leave $45.464 million ($22.732 million General Fund) in 2008-09. The proposed cut would be distributed equally among the 41 MSSP sites. This equates to an overall reduction of 1,179 funded client slots. Each slot supports 1.17 individuals. Therefore, 1,380 clients will be reduced from the program statewide. Each of the 41 sites will see a reduction in the number of funded client slots available. These reductions range from 94 to 2 funded slots. The State can not reduce the funding allocated to each slot because the federal HCBS waiver regulations require that all of the clients' needs be met. The proposal also does not eliminate the number of slots authorized in the waiver; however, it would allow sites to reduce the number of clients served, leaving some slots empty. The MSSP waiver requires a 40:1 staffing ratio (40 clients per care manager). Each site would have to follow its own human resources policies and procedures if staff reductions are required. The General Fund reduction will have a corresponding reduction in the ability to claim Federal Funds.

The CDA estimates that the proposed reduction could be achieved through client attrition. About 300 clients leave MSSP each month for such reasons as nursing facility placement or death. If local MSSP sites do not add new clients to fill the slots left vacant, the reduction could be achieved in approximately four months.

As components of the HCBS waiver, referrals are frequently received from In-Home Supportive Services (IHSS) and Adult Protective Services (APS) to provide ongoing care management services for disabled adults and seniors in the Linkages Program and MSSP.

Questions:

1. CDA, describe the Linkages Program and MSSP, the proposed reductions to these programs, and the expected impact.
2. CDA, has the acuity of Linkages and MSSP clients changed over time?
3. CDA, what will be the impact on IHSS and APS if these reductions are adopted?

Staff Recommendation: Hold open.

CDA Issue 3: Alzheimer's Day Care Resource Centers, Respite Purchase of Service, and Senior Companion Program BBRs

Description: The Governor's Budget proposes a total of $486,000 General Fund reductions to three programs that provide respite and other day care services to persons with Alzheimer's disease, and seniors with physical, emotional, and mental health limitations. These programs include:

Alzheimer's Day Care Resource Centers – Reduce by $416,000 General Fund
Respite Purchase of Service – Reduce by $35,000 General Fund
Senior Companion Program – Reduce by $35,000 General Fund

A description of each of these programs and the anticipated impacts of the proposed reductions are provided below.

Background:

Alzheimer's Day Care Resource Centers. The Alzheimer's Day Care Resource Center (ADCRC) program provides day care to persons 18 years or older with Alzheimer's disease and other related dementias who are often unable to be served by other programs due to their advanced dementia. The program is not means-tested (i.e., there are no income eligibility requirements for consumers). The ADCRC program is designed to provide facilities with the enhanced infrastructure and specialized staffing, training, education, and support systems needed to meet the needs of persons with moderate to severe levels of dementia.

The proposed reduction would be allocated proportionately across the 33 Area Agencies on Aging (AAA) based upon their existing share of the total program funding. There are a total of 60 ADCRCs throughout the state, with each AAA funding at least one center. The total funding per AAA and per center varies greatly. Each center is required to have at least $80,000 of support from all funding sources (not just General Fund) for each center funded. The range of ADCRC funds each AAA receives is $40,000 to $527,000. Local ADCRCs would have to determine whether to reduce staff (and reduce clients) and/or programs or services such as outreach, transportation, etc., as a result of the reduction.

There is $4.193 million General Fund for the ADCRC program in 2007-08. The proposed reduction would leave $3.777 million General Fund in 2008-09.

Respite Purchase of Service. The Respite Purchase of Service (RPOS) program provides limited funding for the purchase of temporary services for frail elderly or adults with functional impairments. These respite services temporarily relieve family caregivers of their caregiving duties. There are 29 AAAs that administer this program. In 2005-06, approximately 377 families received services through the RPOS program.

There is $426,000 General Fund for the RPOS program in 2007-08. The proposed reduction would leave $391,000 General Fund in 2008-09. The $35,000 reduction would be reduced from each of the 29 respite programs. This means that each program will be reduced by $1,216. Approximately $450 is allocated to each client for services. Therefore, this reduction will result in an estimated 78 fewer clients being served.

Senior Companion Program. The Senior Companion Program (SCP) is a dual purpose program. It provides services to low-income seniors with physical, emotional or mental health limitations, the majority of whom are considered at-risk for placement in a nursing home, and it provides low-income senior volunteers a tax exempt stipend of $2.65 per hour to provide peer support to frail older persons in their local communities. A volunteer must be 60 years of age or older, serve at least five frail senior clients, work between 15 to 40 hours per week, and have an income that does not exceed 125 percent of the poverty level.

There is $398,000 General Fund for the SCP in 2007-08. The proposed reduction would leave $363,000 General Fund in 2008-09. The reduction would be allocated to the each of the 16 funded SCPs statewide. A volunteer position (the Senior Companion) is funded annually at a rate of $4,676 per volunteer. This reduction would result in a reduction of 8 volunteer positions statewide. In order to spread the reduction equally among the 16 programs, each SCP's allocation would be reduced by $2,188 or the approximate equivalent of one-half of a volunteer position.

Questions:

1. CDA, describe the Alzheimer's Day Care Resource Center, Respite, and Senior Companion programs, the proposed reductions to each, and the expected impact of each reduction.

Staff Recommendation: Hold open.

CDA Issue 4: Long-Term Care Ombudsman BBR

Description: The Governor's Budget proposes a reduction of $250,000 General Fund to the Long-Term Care (LTC) Ombudsman program. There is $3.869 million General Fund for the LTC Ombudsman program in 2007-08. The proposed reduction would leave $3.572 million General Fund in 2008-09.

Background: Long-Term Care Ombudsman representatives act as advocates for frail, elderly, and disabled residents who live in more than 9,000 LTC facilities throughout California. There are 35 local programs located within the 33 Area Agencies on Aging, which comprise the Office of the State Long-Term Care Ombudsman. The local LTC Ombudsman programs employ 163 paid staff that supervise 937 part-time LTC Ombudsman volunteers. Staff and volunteers received, investigated, and attempted to resolve more than 46,000 complaints made by or on behalf of residents in 2005-06. The program also receives and investigates reports of suspected elder and dependent adult abuse and neglect in LTC facilities throughout California.

Reductions would be made to all local LTC Ombudsman programs and would be allocated using the statutory LTC Ombudsman funding formula. This formula allocates funding to all 35 local programs based on the percentage of LTC beds, facilities, and square miles in proportion to the total of these factors statewide. To achieve the proposed reductions, reductions would have to occur in staffing and operating expenses. Local program reductions would range from $980 to $33,000 depending upon the size of the program. It is expected that most programs would eliminate part-time staff positions and reduce operating expenses, such as reimbursement to LTC Ombudsman volunteers for mileage and travel expenses.

Questions:

1. CDA, describe the Long-Term Care Ombudsman program. How do these services interact with those provided through Adult Protective Services?
2. CDA, describe the proposed reduction and expected impact of the reduction.

Staff Recommendation: Hold open.

CDA Issue 5: Area Agencies on Aging (AAAs) Administration BBR

Description: The Governor's Budget proposes a reduction of $99,000 General Fund provided to the AAAs for Administration.

Background: General Fund for Administration is provided to AAAs to administer Community-Based Services Programs (CBSP) at the local level. Administration activities include planning, contract administration, financial management, training, and policy development.

The CDA contracts with 33 AAAs to provide the administrative support for these programs. The proposed reduction of $99,000 will be allocated statewide across those AAAs that use a portion of CBSP funds for administration. The proposed reduction will not decrease the workload associated with the administration of the CBSPs. However, each AAA will be allowed to implement the funding reduction based on their local administrative requirements. The overall impact of this reduction on the AAAs will range from about $1,000 to $10,000, depending on the size of the program.

Questions:

1. CDA, describe the proposed reduction and the expected impact on AAAs.
2. How many AAAs currently receive Administration funding and therefore, will be impacted by this reduction?

Staff Recommendation: Hold open.

CDA Issue 6: Senior Legal Hotline BBR

Description: The Governor's Budget proposes to reduce funding for the Senior Legal Hotline (SLH) by $25,000 General Fund, which is 10 percent of the total allocation to the SLH. The CDA has no state operations supporting this program. This is the first fiscal year that this program has received a General Fund appropriation so there is no data available on the known impacts of a reduction. The CDA's current year contract with SLH requires SLH to provide a minimum of 3,000 hours in legal casework, which amounts to approximately 2,500 new cases.

Background: The Senior Legal Hotline (SLH) provides brief telephone services to older Californians age 60 and older who seek legal help with issues including wills, landlord/tenant disputes, social security and health benefits, and scams. It is not a means-tested service (i.e., there are no income eligibility requirements for clients). SLH, a program provided by Legal Services of Northern California, relies on Older Americans Act funds (Title III), private foundation grants, and donations to support its activities. This is the first year the SLH has received state funding. Previously, SLH had received approximately $100,000 annually in federal discretionary grant funds from the Administration on Aging, but that federal grant is now only available to state agencies. The CDA partnered with the SLH in August 2007 to apply for the three-year grant, but was unsuccessful in its effort.

Questions:

1. CDA, describe the current status of the Senior Legal Hotline contract and the proposed reduction.

Staff Recommendation: Hold open.

5180 Department of Social Services (DSS)

DSS Issue 1: Adult Protective Services Program BBR

Description: The Governor's Budget proposes to reduce funding for the Adult Protective Services (APS) Program by $11.4 million ($6.1 million General Fund). This represents a ten percent cut to the total program funding.

Background:

- **Program Description:** The APS Program is a statewide program providing 24-hour emergency response to incidents of abuse and neglect of seniors (persons 65 years of age and older) and dependent adults (defined as persons 18 to 64 years of age with a significant disability that limits their ability to protect or care for themselves). There is no eligibility or means test for APS services and services are provided only with the consent of the client. Each of California's 58 counties is required to investigate, intervene, and provide services to ensure the safety and protection of seniors and dependent adults. The Department of Social Services (DSS) provides policy development and oversees the administration of the APS Program.

- **Program Funding History:** Prior to 1998, the APS Program existed for decades with differing service levels across counties. The State was using County Services Block Grant monies to fund APS services, but there was no mandate for counties to respond to adult abuse on a 24-hour emergency hotline. In 1998, Senate Bill (SB) 2199 (Chapter 946, Statutes of 1998) was enacted to establish statewide standards and uniform administration of the APS Program. The legislation established a uniform process for receiving and immediately responding to referrals from the community and coordinated response from local APS agencies.

  The passage of this bill required the State to begin funding an APS augmentation, which started as an additional $1 million General Fund for 1998-99 and grew to an additional $56.2 million for the program by 2001-02. The original concept for the program envisioned further expansion to a total of $80 million General Fund for APS as counties ramped up their programs. However, the State's poor fiscal condition, beginning in 2001-02, prevented this expansion from occurring. In 2002-03, as part of an overall ten percent reduction to county-administered human services programs, the APS Program was cut by $6 million General Fund. Since 2002-03, the state funding level has been essentially frozen for APS, although there has been a slight increase in federal County Services Block Grant funding devoted to the program. As part of the 2007-08 budget, the Legislature provided a $12 million General Fund augmentation to the APS program; however, the Governor vetoed this additional funding.

  The 2007-08 budget includes $114.3 million ($61.3 million General Fund) for the APS Program. The proposed 10 percent reduction would result in total funding of $102.9 million in 2008-09.

- **Demand for Program Services:** Recent data for the APS Program provided by DSS illuminate trends in the APS Program. From 2000-01 to 2005-06:
  - > The number of reports of abuse/neglect received by APS each year increased by 24.2 percent, an increase of 19,920 reports.
  - > The number of opened cases increased 21.9 percent, an increase of 15,702 cases.
  - > The number of investigations completed increased by 25.6 percent, an increase of 17,423 investigations.
  - > Information and referral calls made to counties increased by 15.4 percent from 595,015 in 2001-02 to 686,695 in 2005-06, an increase of 91,680 calls.

  The California Welfare Directors Association (CWDA) also provides the following statistics:
  - > There has been a 40 percent increase in "confirmed" and "non-conclusive" reports between January 2004 and June 2006.
  - > Financial abuse cases alone have increased 21 percent since 2001. Counties reported a 32 percent increase in the number of cases alleging financial abuse.
  - > Self-neglect cases have increased by 7 percent since 2001. Neglect by others has increased by 16 percent.
  - > The number of active cases managed by APS social work staff increased by 18 percent between January 2004 and June 2005.
  - > There was a 23 percent increase in the number of cases assigned to APS staff for investigation between 2001 and 2005.
  - > Between 2001 and 2005, county APS staff increased by four percent.

  Over the last five years, the number of mandate reporters has grown, resulting in more APS cases. In addition, APS casework often involves complicated legal and financial elements that require more work than was anticipated when the program was established in 1998. However, counties have been provided essentially flat funding to meet the increasing workload. As a result, the array of services provided has been reduced and counties are pressured to close cases early to keep up with the mandated workload. The CWDA reports that the trend for case increase is 14 percent and that there is a simultaneous 21 percent decrease in the time spent investigating cases.

- **Impact of Proposed Reduction:** According to DSS, many APS agencies have already begun to triage cases based on emergency and to defer other cases. With the reduction, counties may need to set up processes to evaluate and prioritize cases to continue to support and protect seniors and dependent adults. Some services, such as advocacy, counseling, money management, out-of-home placement, and conservatorship may have to be redirected to other agencies (assuming that other agencies could handle the increased workload). Complex cases that involve financial abuse and self neglect more often require diligent research and documentation. The DSS assumes that law enforcement agencies and mental health agencies would likely take the lead in developing these cases in order to ensure a successful outcome (notwithstanding any state and local budget cuts proposed to those programs).

Questions:

1. DSS, describe the APS program, the proposed reduction, and the expected impact of the reduction.

Staff Recommendation: Hold open.

DSS Issue 2: Community Care Licensing Facility Inspections

Description: The Governor's Budget requests an 18-month continuation of 29 limited-term positions set to expire December 31, 2008, so that facilities that have not been visited in over five years can be inspected. The cost of this extension would be $1.1 million ($1.0 million General Fund) for the remaining six months of 2008-09 and $2.1 million ($2.0 million General Fund) for 2009-10.

The Governor's Budget also proposes a ten percent reduction to the Community Care Licensing Division to be phased in beginning July 1, 2008. This will result in a reduction of $2.7 million ($2.3 million General Fund) and 33 positions in 2008-09 (growing to $4.7 million General Fund and 66 positions in 2009-10 and annually thereafter). Trailer bill language is proposed that would reduce the required number of annual random visits from 30 percent of facilities to 14 percent.

Background: The Community Care Licensing (CCL) Division of DSS 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 are currently required to visit a randomly selected 30 percent of facilities annually, and visit all facilities no less than once every five years. At-risk facilities are visited at least annually.

Facility Visits: 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. Upon additional budget reductions, DSS 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.

The 2003-04 Budget Act, and its implementing legislation, eliminated the required annual or triennial visits and instead required DSS to annually visit facilities with specified compliance problems or federally-required annual visits. All other facilities were 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 2003-04 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. However, sufficient resources were not provided 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 2005-06 Budget Act included additional resources to reflect caseload growth in the number of facilities licensed by CCL. In addition, DSS began a series of management and operational reforms to improve the efficiency of the program.

2006-07 Licensing Reforms: The 2006-07 Budget Act included $6.7 million and 80 new positions for the CCL Division to complete required licensing workload and increase visits to facilities. The most significant components included: Increasing the number of random visits from 10 percent of facilities to 20 percent each year; eliminating the significant backlog in licensing visits; operating a training academy for new licensing staff; sharing the DSS database of excluded or abusive employees with other Health and Human Services Agency departments; and appropriate handling of information regarding convictions after arrest provided by the Department of Justice. The 2006-07 budget also included trailer bill language to clarify that the department shall conduct unannounced visits to at least 20 percent of facilities per year.

Bureau of State Audits (BSA) Report: The BSA presented a report with findings and recommendations in May 2006 entitled, *Department of Social Services: In Rebuilding Its Child Care Program, the Department Needs to Improve its Monitoring Efforts and Enforcement Actions*. The report identified many critical licensing findings including missed inspection visits, lack of follow-up to critical deficiencies and enforcement actions, inadequate program oversight and accountability, and inconsistencies in licensing business practices among the 36 offices throughout the State. The BSA made numerous recommendations to ensure that DSS continues to make timely monitoring visits and improves its enforcement actions including: improving reliability of data used; revising and clarifying policies for field staff; improving oversight of regional offices; developing automated management information; and continuing efforts to make all nonconfidential information about monitoring visits more readily available to the public.

2007-08 Budget Act: The 2007-08 Budget Act included $2.5 million ($2.4 million General Fund) and 34.5 positions to increase the number of community care facility inspections and follow-up visits in line with reforms begun in 2006-07 and in response to the BSA audit. The 34.5 positions were provided for the following activities: to increase from 20 percent to 30 percent the number of facilities that are randomly selected for annual visits and to ensure that required follow-up visits are conducted, pursuant to a statutory trigger that the number of facilities visited annually be increased by ten percent if total citations issued by DSS exceed the previous year's total by ten percent; and to ensure that health and safety information is current and available to support field staff; to conduct follow-up visits to facilities when a revocation order, a Temporary Suspension Order, or an exclusion order has been served.

Request for Continuation of Limited-Term Positions: The DSS was originally provided 29 limited-term positions in 2006-07 to complete approximately 25,000 backlogged reviews of facilities that had not been visited in at least five years. Those positions are set to expire December 31, 2008. At that time, DSS estimates that it will still have a backlog of about 4,900 facilities needing five-year visits. While DSS has made significant progress in eliminating the backlog, with experience they have learned that it takes significantly more time to prepare for, conduct, and follow-up on these backlog visits than originally expected. That is because these many of these facilities have not been visited in so long.

The DSS indicates that they will maintain these limited-term positions for 18 more months and clear the backlog of facility visits even with the proposed 10 percent cut to the CCL Division. The cut will come out of ongoing positions dedicated to doing current visits.

Impact of the Proposed 2008-09 Reduction: This proposal would reduce the current statutorily required 30 percent annual random inspection protocol to a 14 percent annual random inspection protocol, while maintaining the statutory requirement that all facilities be visited at least once every five years. The DSS indicates that they would continue to respond to complaints, follow-up on administrative actions and violations, conduct criminal background checks, license new facilities, and administer the complement of inspections and provider and staff supports required for effective program delivery. No reductions would be made to the follow-up inspection schedules for facilities that have previously been found to be out of compliance with licensing standards.

Staff is concerned that the proposed 10 percent reduction will actually be greater than 10 percent in two years when the cut is fully implemented. This is because the amount of the reduction was calculated based on the inclusion of the 29 limited-term positions requested to clear out the backlog. Because the amount needed to achieve a 10 percent cut was calculated on a higher base that included temporary positions and activities, the amount of the reduction is higher than it would have been if DSS had only used permanent, ongoing staff and activities in the calculation. Not only will DSS lose 66 positions when the 10 percent reduction is fully implemented, but they will also lose the 29 limited-term positions, for a total of 95 positions. Although the DSS assumes that once the current backlog in visits is cleared they will be able to keep up with statutorily required five-year visits, it is not clear that the proposed reduced staffing levels can really maintain the current visit protocols.

LAO Analysis and Recommendation: Based on their review of the workload and staffing levels of the CCL Division, the Legislative Analyst's Office (LAO) concludes that the Governor's proposal would result in a maximum of 70 percent of facilities receiving a visit at least once every five years. Therefore, the proposed staffing level with the reductions is sufficient to support one facility visit every seven years. Thus, the proposal does not provide the minimum staffing necessary to meet the statutory requirement that every facility be visited at least once every five years. The LAO projects that CCL would most likely be asking for additional resources again as it approaches 2013, five years from now. (However, this assumes that DSS has caught up with the current backlog in five year visits, which they would need resources to do, based on their request for continued limited-term positions, even without the proposed budget reduction.)

The LAO suggests that the Legislature has two options. First, it could reduce the current 30 percent random inspection level to 14 percent, as the Governor has proposed, and amend the existing five-year statute to a minimum requirement of at least one facility visit every seven years. Alternatively, the Legislature could raise the random inspection level from the Governor's proposed 14 percent to 20 percent to fund CCL at a level that corresponds with the existing five-year statute. This second alternative would reduce the General Fund savings in 2008-09 from $2.3 million to approximately $1.4 million. The LAO did not include either of these alternatives or any reductions to the CCL Division in their alternative budget.

Questions:

1. DSS, provide a status report on current licensing activities.
2. DSS, describe the proposed reduction to the CCL Division and the expected impacts of that reduction. What is the interaction of the requested continuation of the limited-term positions and the proposed permanent cut in positions?
3. LAO, describe your analysis of the proposal and your recommendation.
4. DSS, do you concur with the LAO's assessment of the impact of your proposal?

Staff Recommendation: Approve the request for continuation of 29 limited-term positions. Reject the proposed 10 percent reduction to the CCL Division. Approval of the proposed reduction will slow, if not hinder, DSS' progress in implementing and maintaining the licensing reforms of the past few years and could likely result in a new backlog of facility visits for which additional limited-term positions will be needed. Frequent increases and decreases in overall staff and the reliance on limited-term positions will also hinder the work of the CCL Division, as it takes between 12 and 18 months for a new Licensing Program Analyst to learn the job and be fully productive.

DSS Issue 3: Community Care Licensing Trigger Language

Description: The 2007-08 budget trailer bill (Chapter 177, Statutes of 2007) required the DSS to propose, by February 1, 2008, a new statutory methodology for triggering additional annual random visits to facilities. The DSS submitted a report on March 27, 2008 to the Legislature requesting an additional two-year delay in submitting this language.

Background: The existing statutory trigger language requires annual visits for an additional 10 percent of facilities if citations increase by 10 percent or more. This trigger language was enacted in 2003-04 when the facility visit protocol was changed due to budget constraints and the language intended to be a safeguard to ensure that monitoring visits would increase as violations increased. However, as DSS has increased licensing staff due to budget augmentations in the past two years, the number of monitoring visits has increased, resulting in an increased number of citations, as would be expected. This increase in citations does not necessarily indicate that more violations are occurring at facilities. As a result of the current trigger language, the CCL Division is required to conduct unannounced visits to no less than 30 percent of facilities.

To address this, the Administration proposed trailer bill language for 2007-08 intended to revise the trigger calculation to consider the net increase in citations relative to visits and only trigger an increase in random visits if the net change in citations is over 10 percent. These changes were intended to control for the effect of increasing the number of visits on the increasing number of citations that would trigger more random visits. Although the intent of this change was reasonable, the specific proposed language was vague and did not clearly maintain the original intent of the trigger language.

In response to these concerns with the proposed language, the Legislature enacted trailer bill language that placed a one-year moratorium on the trigger and required DSS to work with interested stakeholders, the LAO, and Legislative staff to develop a more appropriate trigger mechanism. Language implementing the new trigger mechanism was required to be submitted to the Legislature by February 1, 2008, with the rest of the 2008-09 proposed trailer bill language. Instead, the Administration has proposed cutting the random visits from 30 percent to 14 percent as part of their budget balancing reduction proposals and has submitted a request for language that would further delay the trigger for two more years.

In their report to the Legislature, DSS cites the delay in automation improvements (which were due to the Governor’s veto of funds the Administration requested and received for licensing automation), the need to put systems in place to measure and develop alternate triggers, the need to develop and stabilize the CCL Division’s staff skills, and the preference of stakeholders as the reasons for extending the suspension of the trigger for two years and to explain their need for more time to develop a new trigger mechanism.

Questions:

1. DSS, explain the reasons that you could not develop a viable trigger proposal for the 2008-09 fiscal year.
2. DSS, describe the possible trigger options that you developed and why you do not consider any of these appropriate.
3. DSS, why do you need two additional years to develop a new trigger mechanism? Why can't you develop one for the 2009-10 fiscal year?
4. DSS, what work are you doing now to develop a new trigger mechanism?

Staff Recommendation: Hold open.

Senate Budget & Fiscal Review Committee
Eileen Cubanski 651-4103

Hearing Outcomes

Subcommittee No. 3
9:30 a.m., Thursday, April 10, 2008

Vote-Only Agenda

4170 California Department of Aging

- Vote-Only Issue 1: All Program Support-Administration Budget Balancing Reduction
  Action: Approved as budgeted.
  Vote: 2-0

- Vote-Only Issue 2: Adult Day Health Care BBR
  Action: Rejected the proposed reduction. Approved a $19,000 General Fund reduction to OE&E.
  Vote: 2-0

- Vote-Only Issue 3: Senior Community Employment BBR
  Action: Approved as budgeted.
  Vote: 2-0

5180 Department of Social Services

- Vote-Only Issue 4: Continuing Care Contracts Branch Workload
  Action: Motion was to approve as budgeted. No action finalized due to split vote. Item held over.
  Vote: 1-1 (Wyland)

- Vote-Only Issue 5: AB 949 Relocation of Residents
  Action: Rejected the requested funding and postion.
  Vote: 2-0

- Vote-Only Issue 6: Tehama County Caseload Transfer
  Action: Approved as budgeted.
  Vote: 2-0

Discussion Agenda

4170 California Department of Aging

- CDA Issue 1: Senior Nutrition Programs Budget Balancing Reductions (BBRs)
  Action: Held open.

- CDA Issue 2: Linkages Program and Multipurpose Senior Services Program (MSSP) BBRs
  Action: Held open.

- CDA Issue 3: Alzheimer's Day Care Resource Centers, Respite Purchas of Services, and Senior Companion Program BBRs
  Action: Held open.

- CDA Issue 4: Long-Term Care Ombudsman BBR
  Action: Held open.

- CDA Issue 5: Area Agencies on Aging (AAA) Administration BBR
  Action: Held open.

- CDA Issue 6: Senior Legal Hotline BBR
  Action: Held open.

5180 Department of Social Services (DSS)

- DSS Issue 1: Adult Protective Services Program BBR
  Action: Held open.

- DSS Issue 2: Community Care Licensing Facility Inspections
  Action: Approved the request for continuation of 29 limited-term positions and associated funding. Rejected the proposed 10 percent reduction to the CCL Division.
  Vote: 2-0

- DSS Issue 3: Community Care Licensing Trigger Language
  Action: Held open.

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

Chair, Senator Elaine K. Alquist

Senator Alex Padilla
Senator Mark Wyland

April 14, 2008

10:30 AM

Room 2040
(Rose Ann Vuich Hearing Room)

AGENDA "A"

(Diane Van Maren)

Item	Department
4265	**Department of Public Health—*Office of AIDS***
4260	**Department of Health Care Services—*HIV/AIDS Pilot Project***
4440	**Department of Mental Health—*AIDS Counseling***

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.

I. Department of Public Health—Office of AIDS (Background through Page 5)

A. Background on the Office of AIDS & Summary of Funding. The Office of AIDS within the Department of Public Health is the state's lead entity responsible for coordinating state programs, services and activities relating to HIV and AIDS. The mission of the Office of AIDS is to: **(1)** Assess, prevent and interrupt the transmission of HIV and provide for infected Californians by identifying the scope and extent of HIV infection needs and the needs which it creates, and disseminating timely and complete information; **(2)** Assure high-quality preventive, early intervention, and care services that are appropriate, accessible, and cost effective; and **(3)** Provide leadership through a collaborative process of policy and program development, implementation and evaluation.

B. Governor's Proposed Reductions to HIV/AIDS Programs—Totals $11 million. The Governor proposes a total reduction of $11 million (General Fund) to programs administered by the Office of AIDS. This reduction would be achieved by reducing $10.622 million (General Fund) from local assistance for various programs as detailed in the table below, and $400,000 (General Fund) from state support within the Office of AIDS.

Governor's Proposed Reductions to Office of AIDS

	Governor's General Fund Reduction 2008-09	Total Proposed Funding 2008-09
1. HIV/AIDS Education and Prevention	-$1,600,000	$30,412,000 Total ($23,278,000 GF)
2. Epidemiologic Studies and Surveillance	-$400,000	$10,235,000 Total ($8,651,000 GF)
3. Early Intervention	-$200,000	$14,382,000 Total ($7,433,000 GF)
4. Therapeutic Monitoring Program	-$300,000	$3,700,000 Total ($3,700,000 GF)
5. Home and Community-Based Care	-$400,000	$11,869,000 Total ($6,327,000 GF)
6. AIDS Drug Assistance Program (ADAP)	-$7,000,000	$279,959,000 Total ($100,649,000 GF)
7. HIV Counseling and Testing	-$600,000	$9,860,000 Total ($8,225,000 GF)
8. AIDS Housing	-$122,000	$4,805,000 Total ($1,093,000 GF)
9. CARE/Health Insurance Premium	--	$1,700,000 Total
10. Care Services (Consortia)	--	$14,250,000 Total
11. Planning and Technical Assistance	--	$2,122,000 Total
Local Assistance Reduction	**-$10,622,000**	**$383,294,000 Total ($159,356,000 GF)**
State Support Reduction	**-$400,000**	$20,983,000 Total ($6,492,000 GF)
TOTALS	**-$11,022,000**	**$404,277,000 Total ($165,848,000 GF)**

Generally, the Office of AIDS states that the overall $11.022 million General Fund reduction corresponds to an overall 10 percent reduction as directed by the Governor. The AIDS Drug Assistance Program (ADAP) comprises about 63 percent of the reduction amount because it represents that portion of the total General Fund budget within the Office of AIDS.

All of the Governor's proposed reductions are discussed further below.

C. Background—Federal Ryan White Grant Funds. Programs operated by the state Office of AIDS are funded with a blending of federal funds, state General Fund, and drug rebate funds.

Most of the federal funds to support the Office of AIDS programs and activities are received from the federal Ryan White HIV/AIDS Treatment Act (federal Ryan White). Federal Ryan White funds operate as a *grant* to states (Part B), with other grant funds being provided directly to certain cities (Part A).

The state's federal grant funds (i.e., non-entitlement) are primarily used for the AIDS Drug Assistance Program, as well as various education and prevention efforts, including early intervention services.

The table below displays the state's portion of the federal Ryan White grant funds, as well as the amount used to support the AIDS Drug Assistance Program (ADAP). As noted in the table, the federal government has not been providing for any growth in the program.

State Fiscal Year	Ryan White Grant Amount For State	AIDS Drug Assistance Portion of These Funds
2006-07	$122,770,000	$98,639,573
2007-08	$122,745,000	$89,623,287
2008-09	$122,406,000	$89,623,287

The federal government also directly provides federal Ryan White grant funds to local health jurisdictions and to county and community clinics based upon various criteria.

In the current year a total of $95 million (federal funds) is allocated directly to these various entities for their expenditure.

D. Background-- Federal Maintenance of Effort to Receive Ryan White Grant Funds.
Under federal Ryan White, California as well as other states are required to maintain state expenditures for HIV-related activities at a level equal to, or exceeding, the one-year period preceding the fiscal year for which the state (as the grantee) is applying to receive a grant. This is referred to as the federal Maintenance of Effort (MOE) requirement.

The federal MOE requirement is based on HIV-related expenditures for all California state agencies and departments and is not specific to just the Office of AIDS expenditures. The Office of AIDS states that the federal MOE requirement is a "point-in-time" state General Fund expenditure report which is due with the submission of the federal Ryan White grant application—usually done in December of each year.

As such, the Office of AIDS states that when they apply for a federal Ryan White grant in 2007-08 which is to be expended during the state fiscal year 2008-09, the federal MOE report used "point-in-time" expenditures from state fiscal year 2006-07. Therefore, the Office of AIDS states that the Governor's proposed 2008-09 reductions would be reflected in the MOE report that would affect federal Ryan White grant funds awarded to California for expenditure in state fiscal year 2010-2011.

The Office of AIDS notes that federal MOE compliance is based on *expenditure information*, and not budgeted or proposed dollars. *Therefore, the Administration contends it is not possible to know the exact MOE impact of a proposed budget. However, the Administration estimates federal MOE compliance based on certain factors and assumptions, which are updated at the Governor's May Revision.*

The Administration's factors and assumptions included in estimating the federal MOE for Ryan White are shown in the table below.

Office of AIDS—Federal MOE Compliance for Ryan White Considerations

Description of Factors	Description of Assumptions
• MOE balance (expenditure data) from the previous year's MOE report contained in the federal Ryan White grant application.	• Anticipated program expenditures from current year.
• MOE balance (expenditure data) from the current year's MOE report for the grant application.	• Proposed funding reductions to specific programs (variable assumptions).
• Budgeted dollars for current year (all departments) from the AIDS Chart released with the Budget Act (July).	• Anticipated program expenditures for budget year.
• Proposed budget for budget year (all departments) from the AIDS Chart released with the Governor's January proposed budget.	

States must submit an assurance signed *by the Governor* (or designee) that **(1)** testifies the federal MOE has been maintained; **(2)** provides a description of a consistent data set of local government expenditures; **(3)** provides methodologies for calculating federal MOE expenditures; and **(4)** provides assurance that federal MOE expenditures do *not* include *drug rebates*, volunteer services, donations, or *expenditures of a non-recurring nature*.

HIV-related expenditures from the following agencies and departments are included in the federal MOE report which California submits to receive the federal Ryan White grant funds. (See table attached to this Agenda for more detail. This table is also available from the Office of AIDS or the Department of Finance.)

- Office of AIDS within the Department of Public Health
- Department of Health Care Services (Medi-Cal Program)
- Department of Corrections & Rehabilitation (Adult Health Care &Juvenile Facilities)
- Department of Mental Health (AIDS Counseling)
- Department of Social Services (Perinatal Substance Abuse/HIV Infants)
- Department of Education
- University of CA (CA HIV/AIDS Research Program)

E. Federal MOE Requirement for Current Year and Budget Year. As noted above, the Administration contends it is not possible to know the *exact* MOE impact of a proposed budget. However, the Office of AIDS has informed Subcommittee staff that the most recent federal MOE report submitted by California shows we spent *$495.1 million General Fund* in 2006-07; *therefore,* the Office of AIDS says that our federal MOE for 2007-08 (current year) must be at least this amount in order to meet the federal MOE requirement.

Further, the Office of AIDS states that for 2008-09, the federal MOE would be $495.1 million General Fund, assuming the state does not exceed the level of expenditures in 2007-08. Based on the Administration's proposed budget, including the Governor's proposed reductions, the Office of AIDS states that California should meet its federal MOE requirement. To achieve the federal MOE, California would need to spend about 95 percent of the total proposed 2008-09 General Fund expenditures by December 2009 (when the federal MOE report is submitted).

Subcommittee staff notes that a significant portion of California's federal MOE requirement pertains to expenditures for individuals with HIV-infection/AIDS enrolled in the Medi-Cal Program. Specifically, Medi-Cal expenditures comprise about $300 million, or *at least* 58 percent of the expenditures used to calculate California's federal MOE. As such, the Administration needs to closely monitor these expenditures to ensure that California will indeed meet its federal MOE requirement.

The Administration states that the federal MOE computation will be updated with the Governor's May Revision.

II. DISCUSSION ITEMS (By Issue Topic)

1. Office of AIDS—AIDS Drug Assistance Program—Several Issues (Through to Page 10)

Issues. The Administration's budget proposes total expenditures of $279.9 million ($100.6 million General Fund, $90.8 million Drug Rebate Funds, and $88.5 million federal Ryan White Funds) for the AIDS Drug Assistance Program (ADAP).

There are several issues regarding the AIDS Drug Assistance Program (ADAP). These include: (1) the Governor's reduction; (2) ADAP estimate methodology; and (3) AIDS Drug Rebate Funds. Each of these issues is outlined below.

A. Governor's $7 million General Fund Reduction. The budget reflects a net reduction of $7.5 million (total funds) from the current year. This net reduction consists of the Governor's cut of $7 million General Fund and almost $500,000 in less federal Ryan White grant funds. The Department of Finance asserts that the General Fund reduction is intended to be a permanent reduction in the ADAP base budget.

The Administration notes the $7 million General Fund reduction was simply an amount intended to meet the overall Office of AIDS reduction requirement of $11 million (General Fund). Since the ADAP represents about 63 percent of the General Fund within the Office of AIDS programs, it received that percentage of the overall reduction amount.

At the release of the Governor's budget in January, the Office of AIDS stated that to achieve the $7 million (General Fund) proposed reduction, they would need to reduce the ADAP formulary. Specifically, certain medication classes would be removed including wasting medications, hematological agents, anti-convulsants, and anti-psychotics. The Office of AIDS contended that these drug classes proposed for removal were thought to have the least impact on the overall care of ADAP clients.

Since this time, the Administration has consulted with the ADAP Medical Advisory Committee about classes and/or individual drugs to eliminate from the ADAP formulary if this reduction is done. Based on this discussion, the Administration now indicates it may not need to eliminate all of the targeted drug classes to achieve their proposed $7 million reduction. Alternatives may include stricter utilization controls for some drugs, removal of selected drugs within a class, and encouraging the appropriate use of less expensive drugs. The Office of AIDS expects to have a more specific plan in a few weeks and will present this information at the time of the Governor's May Revision.

It should be noted that any General Fund adjustments need to take into consideration funds available from the ADAP Drug Rebate Fund, discussed below, and funds available from the federal Ryan White grant funds (which generally have not grown even though the need has increased).

B. AIDS Drug Assistance Program Rebate Fund. In 2004, the Legislature adopted trailer bill legislation to create a special fund to capture all drug rebates associated with the ADAP formulary and program. The fund condition statement, as contained in the Governor's Budget summary, displays the following key aspects of this rebate fund:

• Beginning Balance from previous year (roll-over)	$68.4 million
• New ADAP Rebate Revenue (estimated for 2008-09)	$100.2 million
• Interest (estimated for 2008-09)	$3.6 million
TOTAL Resources Available	$172.2 million
• Office of AIDS estimated expenditures	($92.1 million)
• Remaining Reserve (estimated for 2008-09)	**$80.1 million**

As noted above, there is $80.1 million in ADAP Rebate Fund support that is presently in *reserve*. The Office of AIDS should explain to the Subcommittee the viability of these rebate reserve funds and why a portion of these funds are not being used to backfill for General Fund support (as long as the federal MOE requirement under the federal Ryan White grant funds would be met for General Fund expenditures).

The Office of AIDS states that a "prudent" level of reserve to offset any unforeseen economic uncertainties since they often project expenditures 15 months in advance is needed to coordinate with the state budget approval process. They note the reserve gives the program time to react to issues such as unforeseen increases in drug prices, new drug approvals, increases in the number of clients, increases in the number of prescriptions per client, changes in prescription practices, and costs associated with Medicare Part D where applicable.

The DOF also contends that ADAP Drug Rebate funds are intended for short term use only, and are not intended to sustain the program over long periods of time.

C. Need for Legislature to Receive ADAP Estimate Package. Last year, the Office of AIDS informed the Subcommittee they were implementing a new model of forecasting referred to as the "New Drug Cost Worksheet Model" for projecting ADAP expenditures. This new forecasting model, which is based on the federal Health Research Services Administration (HRSA) budgeting tool, was to be more accurate than past regression models that were previously used.

Specifically, this new model is to begin with the previous year's local assistance drug costs and identifies factors (or changes to the program) that are likely to have a fiscal impact. For each factor there is a corresponding increase or decrease to the budget.

Unfortunately, the Administration has not provided the Legislature or constituency groups with any details regarding this new model of forecasting, nor has the Administration even provided *any* standard budget package/estimate for the ADAP.

Instead, the Legislature and public have *only* been provided the budgeted dollar amounts with *no* assumptions or context as to what constitutes the logic behind the numbers. As such, appropriate public scrutiny and discussion cannot fully occur.

The ADAP is a core state program whose integrity is vital to the lives of 32,000 people living with HIV/AIDS. It is a complex program with multiple variables and three funding sources. For all of these reasons, consistent information regarding assumptions and data needs to be provided on ADAP.

Therefore, Subcommittee staff recommends adoption of trailer bill legislation to require the Office of AIDS within the Department of Public Health to provide the Legislature with an estimate package on January 10th and at the Governor's May Revision.

Background—ADAP Uses a Pharmacy Benefit Manager. The AIDS Drug Assistance Program was established in 1987 to help ensure that HIV-positive uninsured and under-insured individuals have access to drug therapies.

Beginning in 1997, California contracted with a pharmacy benefit manager (PBM) to centralize the purchase and distribution of drugs under ADAP. Presently, there are over 200 ADAP enrollment sites and over 3,300 pharmacies available to clients located throughout the state. Subcommittee staff notes that use of a state-wide PBM has been a successful endeavor and has been very cost-beneficial to the state (See University of AIDS Research Program analysis of 2004).

The state provides reimbursement for drug therapies listed on the ADAP formulary (over 180 drugs). 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.

According to the Office of AIDS, ADAP served over 31,200 clients in 2006-07 and filled over 860,000 prescriptions for these clients (most recent actual data).

Background—How Does the AIDS Drug Assistance Program Serve Clients? ADAP is a subsidy program for low and moderate income persons with HIV/AIDS. Under the program, eligible individuals receive drug therapies through participating local pharmacies under subcontract with the statewide contractor (i.e., the pharmacy benefit manager).

Individuals are eligible for ADAP if they:

- Are a resident of California;
- Are HIV-infected;
- Are 18 years of age or older;
- Have an adjusted federal income that does not exceed $50,000;
- Have a valid prescription from a licensed CA physician; and
- Lack private insurance that covers the medications or do not qualify for no-cost Medi-Cal.

ADAP clients with incomes between $40,840 (400 percent of poverty) and $50,000 are charged monthly co-pays 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.

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.

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 anti-retroviral drugs (i.e., the most expensive and essential treatment therapies). The Office of AIDS has also begun to negotiate supplemental rebates on non-antiretroviral drugs.

Background—ADAP is the Payer of Last Resort. Both federal and state laws require that ADAP funds be used as the payer of last resort. As such, ADAP is used *only* after all other potential payer options are exhausted. This means that all Medicare eligible ADAP clients are required to utilize the prescription drug benefits available under the Medicare Part D Program. Persons eligible for private insurance coverage are required to access and utilize their prescription drug coverage.

Background—ADAP is Cost-Beneficial to the State. The ADAP is a core state program. Without ADAP assistance to obtain HIV/AIDS drugs, individuals would be forced to: (1) postpone treatment until disabled and Medi-Cal eligible, or (2) spend down their assets to qualify, increasing expenditures under Medi-Cal. According to the Administration, 50 percent of Medi-Cal costs are borne by the state, whereas only 30 percent of ADAP costs are borne by the state.

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 an HIV-infected person's health and productivity.

Subcommittee Staff Comment and Recommendation. *First*, the Office of AIDS needs to provide the Subcommittee with its baseline assumptions of how the $279.9 million (total funds) was fully calculated.

Second, it is recommended to adopt placeholder trailer bill legislation for the Office of AIDS to provide the Legislature with a comprehensive ADAP estimate package that articulates key assumptions and factors on which the budget is based.

Third, it is simply not fiscally sound for the Administration to view the ADAP Drug Rebate Fund for short-term use. Both federal and state laws *require* drug manufacturers to provide a rebate based on the type of drug and volume invoiced. It is cost-beneficial for both the public sector as well as the private sector to rely on the rebate system (drugs get placed on formularies and drug volume and availability increase). Further, the ADAP has been receiving drug rebate funds for the program since 1997.

Though ADAP Drug Rebate revenues can vary from year-to-year, revenues generated from the rebates have been consistent. This factor, coupled with several years of unexpended revenues from prior years (roll-over funds), has indeed left a very prudent reserve of $80.1 million. Clearly a modest portion of these funds could be utilized to backfill for General Fund support and offset the Governor's proposed $7 million General Fund reduction.

Due to the need for the Office of AIDS to update its January estimate for ADAP, it is recommended to defer full action on funding until the May Revision. (A portion of the ADAP may be restored contingent on action taken later in this Agenda.)

Questions. The Subcommittee has requested the Office of AIDS to respond to the following questions.

1. Office of AIDS, Please provide a *brief* description of the Aids Drug Assistance Program (ADAP) and the Governor's proposed reduction. Please describe the potential affect of this reduction.

2. Office of AIDS, Please speak to the $80 million reserve within the ADAP Drug Rebate special fund.

3. Office of AIDS, When will the budget methodology for how the ADAP total amount of $279.9 million ($100.6 million General Fund) was derived be forthcoming?

2. Office of AIDS—AIDS Drug Assistance Program—County Jails

Issue. The Senate Budget and Fiscal Review Committee convened last week and discussed the state and local government relationship, including mandated programs as well as discretionary programs in which the state provides assistance to local government.

As a nexus to this discussion, Subcommittee staff believes a discussion regarding the use of ADAP to provide drug assistance to individuals in County Jails would be informative.

According to the Office of AIDS, for fiscal year 2006-07, the state ADAP provided $5.5 million (General Fund) to counties by providing drugs to incarcerated individuals residing in County Jails. These state services have been provided at no cost to the County Jails.

The Office of AIDS notes that expenditures for County Jail inmates have increased from $3.3 million (General Fund) in 2004-05 to $5.5 million (General Fund) in 2006-07. It is likely that these costs have increased even more since this time but 2006-07 is the most recent data. The Office of AIDS can generally identify ADAP clients in County Jails through certain code identifiers used in the state program; however there are a few small County Jails where this is presently not feasible.

There are 36 local County Jails that participate in ADAP. The largest of these include Los Angeles, San Francisco, and San Diego which account for about 68 percent of ADAP jail expenditures. The 36 participating counties are listed in the table below.

Counties with County Jails Accessing the State's Aids Drug Assistance Program (ADAP)

Amador	Mendocino	Solano	Alameda
Butte	Merced	Sonoma	Los Angeles
Calaveras	Monterey	Stanislaus	Marin
Colusa	Napa	San Joaquin	Riverside
El Dorado	Nevada	San Mateo	Orange
Humboldt	Placer	Santa Clara	San Bernardino
Imperial	Santa Barbara	San Diego	Santa Barbara
King	San Benito	San Francisco	Ventura
Lake	Siskiyou	Contra Costa	Yolo

As noted below, existing state statute provides that counties are to be responsible for County Jail inmates as noted, not the state.

Background—Expenses for Support of Prisoners is County Responsibility. Section 29602 of Government Code states that: "Expenses necessarily incurred in the support of persons charged with or convicted of a crime and committed to the County Jail and the maintenance therein and in other county adult detention facilities of a program of rehabilitative services in the fields of training, employment, recreation, and pre-release activities, and for other services in relation to criminal proceedings for which no specific compensation is prescribed by law are county charges. However, nothing in this section shall preclude or prohibit the county from receiving reimbursement from a provider of medical insurance coverage for the provision of medical services to a prisoner or detainee received by or held in the County Jail or other detention facilities, in those instances where the prisoner or detainee has *private* medical insurance coverage."

Further, Section 4015 of the Penal Code denotes the responsibilities of County Sheriffs regarding food, clothing and minimum standards of care. It does note that costs associated with providing medical care is to be borne by the arrested person's medical insurance or other sources of medical coverage for which the arrested person is eligible (such as County Indigent Health Care).

In addition, as contained in Section 17000 of Welfare and Institutions Code, counties are responsible for indigent health care. County Indigent Health is generally funded with County Realignment Funds and County General Fund, as well as some support from the state (i.e., some state General Fund, Proposition 99 Funds, federal Maternal and Child Health Funds and related areas).

All of the above state law references specifically provide that local health jurisdictions/counties are responsible for inmate care in County Jails.

Background—Federal Ryan White Grant Funds to Locals. The federal government also directly provides federal Ryan White grant funds to local health jurisdictions and to county and community clinics based upon various criteria.

In the current year, a total of $95 million (federal funds) is allocated directly to these various entities for their expenditure. It should be noted that these local funds can be expended on a wide variety of HIV/AIDS services needs, including drugs and medical therapies.

Subcommittee Staff Comment and Recommendation—Savings of $5 million. With the state's fiscal condition, including the Governor's proposed reductions to core state programs such as ADAP, it is only prudent to clarify the role of state and county program relationships.

It is therefore recommended for the Chair to direct the Office of AIDS to report back to the Subcommittee at the May Revision as to how counties may choose to contract with the state to participate in the ADAP and pay for the service. Counties could also choose not to contract with the state and fund ADAP-like services on their own. Funds received from the Counties could be treated as reimbursements to the state ADAP.

Further, the Office of AIDS should also be prepared at the May Revision to provide the Subcommittee with the most recent General Fund amount identified within the ADAP that is being spent on County Jails.

Action from this item could achieve *at least* $5 million in state General Fund savings. It is recommended to hold this issue open pending receipt of additional information as noted.

Questions. The Subcommittee has requested the Office of AIDS to respond to the following questions.

1. Office of AIDS, Please briefly explain how County Jails currently access ADAP.

2. Office of AIDS, Please comment on the Subcommittee staff recommendation.

3. Therapeutic Monitoring Program—Governor's Proposed Reduction

Issue. The Governor proposes to reduce the Therapeutic Monitoring Program by $300,000 (General Fund), or 10 percent. This reduction would leave a total of $3.7 million remaining in the program.

The purpose of this program is to provide therapeutic monitoring assays for HIV positive people who cannot otherwise afford them. Priority for funding under the program is to be given to state-funded Early Intervention Program sites. Coverage awards are to be made to counties on the basis of need. Determination of awards is to be made by the Office of AIDS dependant on availability of state funding, including ADAP Drug Rebate funds, and federal funding for the program.

In addition, state statute notes that counties may cover those assays that are deemed necessary and are not covered under this state program.

Specifically, viral load and resistance testing is done to measure the degree to which an individual's HIV has become resistant or less sensitive to anti-retroviral drugs. About 15,000 clients accessing Therapeutic Monitoring Program services are enrolled in ADAP.

Subcommittee Staff Comment and Recommendation. The Therapeutic Monitoring Program is important in order to ensure that ADAP drugs are used in the most efficient manner. However, existing state statute notes that it is dependent on the availability of state funding as noted, or that counties may cover these services if the state does not.

It should be noted that the Office of AIDS could choose to use ADAP Drug Rebate Funds to supplement the Therapeutic Monitoring Program.

In addition counties could use their County Indigent Health Program funds or where available, federal Ryan White grant funds provided to local entities.

At this time it is recommended to leave this item open pending receipt of the Governor's May Revision and an update on the ADAP Drug Rebate Funds.

Questions. The Subcommittee has requested the Office of AIDS to respond to the following questions.

1. Office of AIDS, Please provide a *brief* description of the program and the Governor's reduction.

2. Office of AIDS, Can ADAP Drug Rebate Funds be used for this purpose? What about county funds if they choose?

4. Governor's Reductions to All Other Office of AIDS Programs

Issue. As noted in the background section of this Agenda, the Governor proposes a total reduction of $11,022,000 in General Fund support, including the ADAP and Therapeutic Monitoring Program as discussed above. The remaining proposed reductions are shown in the table below and will be discussed collectively for the purpose of public testimony.

Governor's Remaining Reductions Office of AIDS Programs	**Governor's General Fund Reduction 2008-09**	**Total Proposed Funding 2008-09**
HIV/AIDS Education and Prevention	-$1,600,000	$30,412,000 Total ($23,278,000 GF)
Epidemiologic Studies and Surveillance	-$400,000	$10,235,000 Total ($8,651,000 GF)
Early Intervention	-$200,000	$14,382,000 Total ($7,433,000 GF)
Home and Community-Based Care	-$400,000	$11,869,000 Total ($6,327,000 GF)
HIV Counseling and Testing	-$600,000	$9,860,000 Total ($8,225,000 GF)
AIDS Housing	-$122,000	$4,805,000 Total ($1,093,000 GF)
Governor's Reductions to Local Assistance	**-$3,322,000**	
Governor's Reduction to State Support	**-$400,000**	
TOTAL	**-$3,722,000**	

- *HIV/AIDS Education and Prevention (-$1.6 million).* A reduction of $1.6 million (General Fund) is proposed by the Governor. The Office of AIDS states that this reduction would reduce the number of face-to-face prevention contacts with high-risk clients by an estimated 20,000 contacts (currently 400,000 contacts are made annually). In addition, it would decrease access to other targeted programs.

  The HIV/AIDS Education and Prevention Program primarily provides funds to the 61 local health jurisdictions, but also to community-based organizations, service providers and others to develop and implement focused HIV education and prevention programs. The program's primary goals are preventing HIV transmission, changing individual attitudes about HIV and risk behaviors, promoting the development of risk-reduction skills and changing community norms that may sanction unsafe sexual and drug-taking behaviors.

- *Epidemiologic Studies and Surveillance (-$400,000).* A reduction of $400,000 (General Fund) is proposed by the Governor. The Office of AIDS states that they would reduce epidemiologic studies and surveillance work currently conducted to collect and analyze data regarding HIV and AIDS. They note that this information is often used to provide data to the federal government for the receipt of federal Ryan White grant funds. In addition, they state that reduced epidemiologic studies will reduce the program's ability to ensure that funding is targeted to the correct geographic regions and demographic populations.

Currently, this area provides support for epidemiologic studies and surveillance program activities including:

- ✓ Providing data to guide resource allocation and program strategies for HIV/AIDS education, prevention, care and treatment;
- ✓ Identifying the scope and extent of HIV infection and the needs which it creates and disseminate timely and complete information;
- ✓ Promoting the effective use of available resources through research, planning, coordination, and evaluation; and
- ✓ Maintaining the HIV/AIDS Case Registry, a confidential, central registry of demographic and clinical information on all reported CA HIV infections and AIDS cases.

- *Early Intervention Program (-$200,000)*. A reduction of $200,000 (General Fund) is proposed by the Governor. The Office of AIDS states that this reduction would result in each contract being reduced by $5,600 each.

  The Early Intervention Program (EIP) sites provide HIV medical care and treatment as well as transmission prevention interventions for HIV-infected persons within the context of their clinical care. There are 36 EIP clinics statewide that serve 8,000 clients. The goals of the program are to interrupt the transmission of HIV. In addition to ongoing medical care, periodic client assessments, case conferencing and individual services plans are used to maximize client outcomes.

- *Home and Community-Based Care (-$400,000).* A reduction of $400,000 (General Fund) is proposed by the Governor. The Office of AIDS states that this reduction would reduce the number of HIV/AIDS clients receiving case management services.

  This area provides comprehensive case management and direct care services to over 1,300 persons with AIDS to allow individuals to remain in their homes. Forty-four agencies receive funding to provide case management services.

- *HIV Counseling and Testing (-$600,000).* A reduction of $600,000 (General Fund) is proposed by the Governor. The Office of AIDS states that this reduction would reduce the contracts with Local Health Jurisdictions. Specifically, the reduction would reduce HIV testing by about 8,060 tests annually and opportunities to provide counseling services to HIV positive or high risk individuals.

- *AIDS Housing (-$122,000).* A reduction of $122,000 (General Fund) is proposed by the Governor. The Office of AIDS states that this reduction would reduce funding for the Fresno and Solano Counties Housing Programs and for seventeen sites receiving funds for Residential AIDS Licensing Facilities.

  AIDS housing assists with the stable housing needs of persons living with HIV/AIDS through the development of rental housing projects and long-term affordable housing units. This program works in conjunction with the federally funded Housing Opportunities for Persons with AIDS Program. The AIDS Housing Program contracts with Fresno and Solano Counties to assist with the stable housing needs of 286 clients and their families.

The Residential AIDS Licensing Facilities Program is designed to address the ongoing operational subsidy of existing facilities for the chronically ill serving clients with HIV disease. Currently, these funds are allocated based on the number of bed nights each facility has available for chronically ill individuals with HIV/AIDS. There are 17 sites in the following areas: Los Angeles, Santa Barbara, San Francisco, Sacramento, Alameda, Riverside, and San Diego. The program serves over 270 clients with 98,550 bed nights per year.

- *Office of AIDS State Support Reduction ($-400,000).* A reduction of $122,000 (General Fund) is proposed by the Governor. The Office of AIDS states that this reduction would reduce a consultant contract with the University of CA system and other general administrative services, such as postage, travel, printing, and related items.

Subcommittee Staff Comment and Recommendation. Due to the fiscal emergency, it is recommended to approve the Governor's proposed reductions for Epidemiologic Studies and Surveillance, and State Support for a total of reduction $800,000 General Fund. These two areas do not directly affect services to individuals living with HIV/AIDS.

In addition, it is recommended to hold open the other program reductions until the May Revision. (A portion of the HIV/AIDS Education and Prevention Program may be restored contingent on action taken later in this Agenda.)

Questions. The Subcommittee has requested the Office of AIDS to respond to the following questions.

1. Office of AIDS, Using the table shown on page 14 above, please provide a brief description of the Governor's proposed reduction and the potential effects if enacted.

5. DHCS Medi-Cal Program—HIV/AIDS Pharmacy Pilot Program

Issue. The Department of Health Care Services (DHCS), Medi-Cal Program, is proposing trailer bill legislation and an *augmentation* of $2.7 million (General Fund) to extend a pilot project within the Medi-Cal Program. This pilot project is *not* eligible to received federal funds because it is a pilot and the federal CMS requires a federal Waiver for this purpose.

This pilot project was originally scheduled to end as of January 1, 2008. However through trailer bill legislation accompanying the Budget Act of 2007, the pilot was extended for one more year (to June 30, 2008).

The DHCS is proposing trailer bill legislation to extend this pilot again, through to June 30, 2009, or for one more year. This extension requires an augmentation of $2.7 million (General Fund) to continue it through 2008-09.

Under the pilot project, 10 pharmacies receive a $9.50 dispensing fee for "medical therapy management services" as defined in the enabling legislation. The total number of claims covered under this program from inception through January 1, 2008 (41 months) was 1,053,747 for an *average* annual expenditure of $2.9 million (General Fund).

Background on AB 1367, Statutes of 2004. This legislation required the DHCS to establish an HIV/AIDS Pharmacy Pilot Program to evaluate the effectiveness of pharmacist care in improving health outcomes for people with HIV/AIDS.

Specifically, it required the DHCS to evaluation the provision of community pharmacy based "medication therapy management services" for patients with HIV/AIDS. The pilot required the Medi-Cal Program to reimburse up to 10 HIV/AIDS specialty pharmacies an additional $9.50 per claim for the "medication therapy management services" they provide to HIV/AIDS Medi-Cal enrollees.

The legislation defined "medication therapy management services" as distinct services, which may be delivered independently or in conjunction with medication dispensing, that optimize the therapeutic outcomes achieved by medication usage for individual patients.

Audit Exceptions Identified in the Pilot Program. The two highest volume pharmacies participating in this pilot program were audited by the DHCS' Audits and Investigations Division and were found be have been overpaid. These pharmacies were notified of this fact in December 2007.

The DHCS' Audits and Investigations found that claims from a pharmacy not selected to be part of the AB 1367 pilot were submitted under a participating pilot's Medi-Cal provider number and were paid the additional $9.50 fee. The DHCS has requested repayment from the pharmacies for this overpayment.

Further, the DHCS states that they intend to perform a follow-up audit in order to ensure the integrity of the pilot program.

Legislative Analyst's Office Recommendation—Deny Extending Pilot. The LAO recommends to deny extension of this pilot project and to instead, redirect the $2.7 million (General Fund) augmentation towards backfilling the Governor's reductions proposed within the Office of AIDS for the ADAP Program.

The LAO notes their recommendation is consistent with the Legislature's intent to sunset the program as of June 30, 2008. Further, since the ADAP is such a critical core program, they recommended directing the $2.7 million towards this purpose.

While the LAO recognizes the merits of having pharmacists coordinate HIV/AIDS patient's therapeutic drug regimens, they believe that the provision of direct services is a higher priority than continuing t fund a pilot project beyond the time period. Therefore, the priority for funding should be the ADAP to ensure that drug treatment is provided.

It should be noted that the LAO continues to stand by this February recommendation even with the recent release of the evaluation of the HIV/AIDS Pilot Project (April 8, 2008).

Subcommittee Staff Comment and Recommendation—Adopt LAO Recommendation and Redirect Funds to AIDS Drug Assistance Program (ADAP). First, though this pilot has provided some benefit, it is time to sunset it. The DHCS has now received an evaluation regarding the merits of the program. As such, there could be some components that may be incorporated into the Medi-Cal Pharmacy Program overall, versus operating as a pilot project. Further, the federal CMS will not provide federal matching funds for the pilot. As such, it becomes a state-only funded program within Medi-Cal.

Second, the LAO recognizes the merit of maintaining the core HIV/AIDS programs as operated by the Office of AIDS. Therefore, it is recommended to adopt their proposal.

Questions. The Subcommittee has requested the Office of AIDS to respond to the following questions.

1. DHCS, Please provide a brief summary of the HIV/AIDS Pilot Project.

2. DHCS, Please explain the audit exceptions and what has been done to obtain repayment from certain pharmacies.

6. Department of Mental Health —AIDS Counseling Program

Issue. The Governor proposes to reduce this Department of Mental Health Program by $150,000 (General Fund), or by 10 percent. The AIDS Counseling Program is presently funded at $1.5 million (General Fund).

According to the DMH, about 3,186 clients received some form of service through this funding. This translates into an average cost of $471 per person served.

The main purpose of this program is to provide counseling and mental health services to support persons at risk of HIV/AIDS, who are HIV/AIDS positive, and partners and; family members needing mental health services, counseling and support for HIV/AIDS and related concerns. The majority of the funds provide individual, group or family counseling services.

Client services may include: information and referral; individual psychotherapy; couple psychotherapy; crisis counseling; psychosocial rehabilitation and support services; psychotropic medication monitoring; psychiatric assessments; services coordination; case management; and education and training.

Another service of this funding is the publication and distribution of a monthly newsletter called "Focus: A Guide to AIDS Research and Counseling".

According to the DMH, the allocation used to distribute these funds to non-profit and county agencies was done through *a competitive process 19 years ago*. Through this process, the DMH selected 14 entities to fund. *The funding for these 14 entities has not changed since inception of the program.*

Department of Mental Health—AIDS Mental Health Project

Contract Provider	Annual Contract Amount (General Fund)
San Diego Lesbian & Gay Center	$65,114
Hemophilia Council	$300,000
Inland AIDS Project	$34,286
Minority AIDS Project	$34,000
Pacific Center for Human Growth	$27,312
University of San Francisco—AIDS Research	$34,288
Los Angeles County	$376,000
Orange County	$85,714
San Diego County	$85,000
San Francisco County	$264,000
San Joaquin County	$34,286
San Mateo County	$60,000
Santa Barbara County	$25,000
Santa Clara County	$75,000
TOTALS	**$1,500,000**

Subcommittee Staff Comment and Recommendation. This program was established in 1985 when the HIV/AIDS Disease was becoming known and well before the establishment of the Office of AIDS and the expansion of HIV/AIDS education and prevention programs, and other services which are now well established.

The primary focal point of the Department of Mental Health is to administer core programs for individuals with serious mental illnesses such as the Early and Periodic Screening, Diagnosis and Treatment (EPSDT) Program and Mental Health Managed Care Program.

As such, it appears that the DMH's AIDS Counseling Program has not received the policy attention of the department. This is evidenced by the lack of not even doing a competitive bid for the dollars since inception of the program.

Further, the Office of AIDS programs focus limited resources towards core concerns and have been response in changing their programs to respond to the movement of HIV/AIDS across various populations and areas of our state.

Due to the fiscal crisis and limited General Fund resources, it is recommended to eliminate the AIDS Counseling Program operated by the DMH and to shift the remaining $1.350 million (General Fund) of the program (after the Governor's reduction of $150,000) to the Office of AIDS. Specifically this $1.350 million would be used to assist in backfilling the $1.6 million General Fund reduction proposed by the Governor.

Questions. The Subcommittee has requested the Office of AIDS to respond to the following questions.

1. DMH, Please provide a brief summary of the program. Why has this program not conducted a competitive contracting process since inception of the program?

END OF THIS AGENDA. GO TO AGENDA "B".

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

Outcomes for Subcommittee No. 3: Monday, April 14th (HIV/AIDS Issues)
(Please use Agenda "A" as a reference to this outcomes listing)

1. Office of AIDS—AIDS Drug Assistance Program—Several Issues (PAGE 6)

- Motion: (1) Kept the funding issue "open" pending receipt of the May Revision, and (2) Adopted placeholder trailer bill language to require the Office of AIDS to provide a budget estimate to the Legislature on January 10th and at May Revision.
- 3-0

2. Office of AIDS—AIDS Drug Assistance Program—County Jails (PAGE 11)

- Held open pending receipt of information from the Office of AIDS.

3. Therapeutic Monitoring Program—Governor's Proposed Reduction (PAGE 13)

- Held open pending May Revision.

4. Governor's Reductions to All Other Office of AIDS Programs (PAGE 14)

- Motion**:** Adopted the Governor's reductions for the Epidemiologic Studies and Surveillance, and State Support for a total reduction of $800,000 General Fund. Remaining items were left open.
- 3-0

5. DHCS Medi-Cal Program—HIV/AIDS Pharmacy Pilot Program (PAGE 17)

- Motion: Adopted the LAO recommendation to deny the extension of the HIV/AIDS Pharmacy Pilot Project and to redirect the $2.7 million (General Fund) to backfill for the AIDS Drug Assistance Program (ADAP).
- 2-0(Senator Wyland abstaining)

6. Department of Mental Health —AIDS Counseling Program (PAGE 19)

- Motion: (1) Eliminated the remaining $1.350 million (General Fund) from the DMH after the Governor's budget balancing reduction of $150,000, and shifted the $1.350 million in funds to the Office of AIDS to the Education and Prevention Program; and (2) adopted Budget Bill Language in Item 4265 regarding the Hemophilia contract (provided at hearing).
- 2-0 (Senator Wyland abstaining)

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

Chair, Senator Elaine K. Alquist
Senator Alex Padilla
Senator Mark Wyland

<u>Agenda – Part B</u>

Monday, April 14, 2008
10:30 a.m.
Room 2040 (Rose Ann Vuich Hearing Room)
(Eileen Cubanski, Consultant)

Vote-Only Agenda

Vote-Only Agenda (continued)

Discussion Agenda

Vote-Only Agenda

Vote-Only Issue 1: OSI – Statewide Automated Welfare System

Description: The budget includes $222.8 million ($85.2 million General Fund) in 2007-08 and $277.7 million ($110.3 million General Fund) in 2008-09 for the Statewide Automated Welfare System (SAWS), which is comprised of five automation systems and a project management office.

Background: The 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)

		2007-08		200-098	
Program	**Region**	**Total Funds**	**General Fund**	**Total Funds**	**General Fund**
LEADER	Los Angeles County (37% of caseload)	$12.3	$2.9	$12.3	$2.9
LEADER Replacement		$2.0	$0.8	$1.4	$0.6
ISAWS	35 counties (13% of caseload)	$36.8	$14.4	$36.8	$14.4
ISAWS Migration	Migration of 35 ISAWS counties to C-IV	$37.2	$16.9	$97.9	$44.0
C-IV	4 counties (13% of caseload)	$48.7	$18.1	$49.7	$18.6
CalWIN	18 counties (36% caseload)	$75.8	$29.3	$69.4	$27.0
WDTIP	Statewide time-on-aid tracking	$3.8	--	$3.8	--
Statewide Project Mgmt	Statewide project management and oversight	$6.4	$2.8	$6.4	$2.8
Total		**$222.8**	**$85.2**	**$277.7**	**$110.3**

Los Angeles Eligibility, Automated Determination, Evaluation and Reporting (LEADER): The Governor's Budget includes a total of $13.7 million ($3.5 million General Fund) for the LEADER system, used by Los Angeles County. Of this, $12.3 million ($2.9 million General Fund) is for maintenance and operations (M&O) of the existing system. LEADER system implementation was completed on April 30, 2001.

The initial contract term for LEADER M&O expired on April 30, 2005. A contract amendment for a 24-month extension was executed, but it expired April 30, 2007. Los Angeles County negotiated another amendment to extend that contract for four years, through April 2011, with three optional one-year extensions.

The remaining $1.4 million ($600,000 General Fund) is to continue planning activities for replacing LEADER. The planning phase for a replacement system began in 2005-06 and had an original completion date of 2006-07. The planning phase was extended last year to 2007-08, but now has an been extended additional 13 months, through 2008-09, to account for more realistic workload in developing the RFP and review time estimates. Los Angeles County also compounded the problem by delaying hires of approved staff for the project. However, with the appointment of a new County Public Social Services Director and Chief Deputy this year, the new executive management team has taken steps to rectify the county's lack of commitment to the project (and all county positions are now filled).

Interim Statewide Automated Welfare System (ISAWS): The Governor's Budget includes $36.8 million ($14.4 million General Fund) for ongoing maintenance and operations of the ISAWS system. The budget also includes $97.9 million ($44.0 million General Fund) to migrate the 35 ISAWS counties to Consortium IV (C-IV). The ISAWS Migration project and funding is discussed in OSI Issue 3 later in this agenda.

Consortium IV (C-IV): The Governor's Budget includes $49.7 million ($18.6 million General Fund) for ongoing maintenance and operations of the C-IV system in 2008-09. C-IV began system development in 2001 and completed implementation in 2004. The budget request for 2007-08 and 2008-09 is essentially flat.

CalWORKs Information Network (CalWIN): The Governor's Budget includes $69.4 million ($27.0 million General Fund) to continue implementation and operations of the CalWIN system in 2008-09. Implementation of this system began in Sacramento County in March 2005 and was completed in July 2006. Budget year funding for CalWIN reflects savings of $6.4 million due largely to reduced contractor and hardware costs.

Staff Recommendation: Approve the requested funding for SAWS, with the exception of ISAWS Migration, which is discussed in OSI Issue 3 later in this agenda.

Vote-Only Issue 2: OSI/DSS – Electronic Benefits Transfer

Description: The Governor's Budget requests the following changes to funding for the Electronic Benefits Transfer (EBT) reprocurement project for 2008-09:

- Office of Systems Integration (OSI): Increase funding for OSI by $2.0 million and for local assistance by $4.7 million ($1.8 million General Fund) to continue implementation activities for EBT reprocurement.

- Department of Social Services (DSS): Continue funding of $178,000 ($66,000 General Fund) and two limited-term positions for an additional two years to support transition to the new EBT system.

Background: The EBT System provides cash and food benefits to CalWORKs and Food Stamp clients via debit card technology and retailer point-of-sale terminals. Implementation of this system began in August 2002 and was completed in May 2005. The original contract with the vendor was to expire in August 2008, with the possibility of two 1-year extensions, which the state exercised last year, extending the current contract until 2010.

In May 2007, OSI released the Request for Proposals to reprocure the EBT System. They received a couple of bids and the contract was awarded to a new vendor that had the most competitive bid. The new contract will be for seven years, with three optional one-year extensions that can be exercised by the State. Implementation activities to transfer to the new EBT System will begin May 2008 and transfer will be completed by the conclusion of the current contract in 2010.

Staff Recommendation: Approve the requested positions and funding for OSI and DSS.

Vote-Only Issue 3: ADP – Women's Treatment Services

Description: The Governor's Budget requests the redirection of $325,000 in federal funds and three positions (one limited-term) to enhance the California alcohol and other drug (AOD) treatment system for women. The budget also proposes redirection of $250,000 in federal local assistance funding per year for three years to evaluate a three-year demonstration project in two counties that are currently providing gender-responsive AOD services.

Background: Pregnant and parenting women in California have access to substance abuse treatment services designed to meet their special needs, and there is evidence that comprehensive services specific to the needs of pregnant and parenting women improved outcomes. However, non-pregnant, non-parenting women have received very limited gender-responsive, trauma informed services. The requested positions would develop women's treatment standards for substance abuse treatment programs and develop a women's treatment specialty for AOD counselor certification. The evaluation would identify evidenced-based treatment practices in existing programs in two counties. The counties will be selected based on criteria to be developed by the Department of Alcohol and Drug Programs (ADP) in conjunction with county alcohol and drug programs.

The total Substance Abuse Prevention Treatment (SAPT) Block Grant is $250 million, which includes $231 million in local assistance funding, which is used by counties to provide prevention, treatment, and recovery services, and county support activities and $19 million in state operations funding, which is used by the ADP to administer the SAPT Block Grant. The $325,000 proposed for redirection results from historical savings in local assistance due to audit findings, unliquidated contract balances, and other operational variances. The $250,000 for the evaluation will be redirected from four to five existing demonstration projects in media being funded with SAPT Block Grant funds.

Counties currently use SAPT funds to provide women's treatment services, although data is not collected to determine how much funding is provided at the local level for these services. There is no additional state funding provided for gender-specific women's treatment services other than the $23.4 million General Fund for perinatal treatment services (which is proposed for a 10 percent reduction in the Governor's Budget).

Staff Recommendation: Reject the requested positions and funding. While the merits of the request are strong and gender-specific treatment standards are needed, this would establish a new state-level program office at the same time as actual evidenced-based, cost-effective treatment services to perinatal women and other populations are proposed to be cut.

Vote-Only Issue 4: ADP – SAPT Block Grant Requirements

Description: The Governor's Budget requests the redirection of $173,000 in federal funds and two permanent positions to address expanded federal planning and reporting requirements for the Substance Abuse Prevention Treatment (SAPT) Block Grant.

Background: Beginning in the 2008 Federal Fiscal Year (FFY), the federal government is changing the SAPT application requirements for states to include more outcome information. The application has been revised to include 23 new performance measurement tables related to treatment and prevention outcomes, and to develop and report on state policies, procedures, and leadership in implementing and using performance measures. The ADP will not be able to complete 12 of those tables because of incomplete or nonexistent data at the state level, and does not have the policies and procedures in place to implement and use performance measures as required. The requested positions will analyze existing business processes, work with counties, and develop policies and procedures to adequately meet the changing SAPT Block Grant application requirements, as well as work with counties to establish performance criteria and monitor progress toward meeting outcome measures on an ongoing basis.

The total SAPT block grant is $250 million, which includes $231 million in local assistance funding, which is used by counties to provide prevention, treatment, and recovery services, and county support activities and $19 million in state operations funding, which is used by the Department of Alcohol and Drug Programs (ADP) to administer the SAPT Block Grant. The $173,000 proposed for redirection results from historical savings in local assistance due to audit findings, unliquidated contract balances, and other operational variances.

Staff Recommendation: Approve the requested positions and redirection of funding. No issues have been raised regarding this request.

Vote-Only Issue 5: ADP – Local Assistance Tracking and Accountability System (LATAS)

Description: The Governor's Budget requests $250,000 in one-time funding for a contract to conduct a baseline business analysis and feasibility study and to prepare a feasibility study report (FSR) to develop a system to track local assistance spending throughout ADP's entire business process and to link cost information to client outcomes. The $250,000 would be redirected from unplanned federal SAPT contract dollars.

Background: The ADP has oversight responsibility for an annual budget of $640 million in state and federal local assistance funding. Currently, ADP relies on several stand-alone systems to track the local assistance funding it secures and distributes to counties and providers. The current systems have significant limitations and result in cumbersome and complicated billing and reporting. They cannot link cost and outcome information, which will be required in the near future by the federal Substance Abuse and Mental Health Services Administration. Furthermore, some of the systems themselves are becoming technologically outdated.

While there is no question that eventually these fiscal systems will need to be updated, there is not a compelling case for the replacement process to begin next fiscal year. Although funding and completing this FSR would not mean that the State would have to immediately continue to fund the new system, it is not known at what point the State's fiscal situation will improve. Therefore, there is the risk of having to redo the FSR at some point in the future when we can afford to procure a new system.

Staff Recommendation: Reject the requested funding for 2008-09.

Vote-Only Issue 6: ADP – California Access to Recovery Effort (CARE) Program

Description: The Governor's Budget requests increased federal fund expenditure authority of $4.83 million and four, three-year limited-term positions to maintain and expand the existing CARE program. Of the total funding, $930,000 will be for state support and $3.9 million will be for local assistance.

Background: On August 1, 2004, ADP received $7.6 million in federal Access to Recover (ATR) grant funds over three years to provide vouchers to individuals seeking alcohol and other drug treatment services. California's ATR program, called CARE, provided these vouchers to substance abusing 12- to 20-year olds in Los Angeles and Sacramento counties for treatment and recovery support services. Eligible youth were able to choose from an expanded network of 250 providers, including faith-based and other nontraditional providers. The CARE program has provided services to over 10,000 youth who otherwise would not have been served, increased the quantity and type of providers, improved outcomes among clients, and decreased substance abuse and criminal involvement and increased social connectedness among clients.

In October 2007, California was awarded a second, three-year ATR grant of $14.3 million ($4.8 million in 2008-09). The new grant will expand the current grant into a new region (Butte, Shasta, and Tehama counties) and will target youth with methamphetamine problems in all participating counties. The four requested positions (two more than were provided for the original ATR award), will implement the grant in the new counties, expand the treatment network in the two existing counties, and conduct other grant oversight activities. In addition, $450,000 of the requested funds for state operations will be for the contract to manage the voucher system and call center.

Staff Recommendation: Approve the requested funding authority and limited-term positions.

Vote-Only Issue 7: ADP – Indian Health Clinics

Description: The Governor's Budget proposes to shift $2.1 million General Fund and one position from ADP to the Department of Social Services (DSS) to transfer responsibility for the administration and oversight of the Indian Health Clinic (IHC) program back to DSS. See Vote-Only Issue 17 for the corresponding increase in DSS. The dual responsibility between ADP and DSS for the administration and oversight of the IHC program has become a barrier to prompt payment to the clinics and has caused unintended challenges for some clinics to continue to provide services. The proposed shift will streamline the administrative process by having only one department approve and submit claims for payment, issue instructions to the clinics, and provide technical assistance.

Background: Beginning in 2001-02, as part of the California Work Opportunity and Responsibility to Kids (CalWORKs) program, a clinician is funded in each of the 36 Indian Health Clinics to assist CalWORKs clients who are eligible and applying for CalWORKs assistance or Tribal Temporary Assistance for Needy Families who need mental health or substance abuse services in order to obtain or retain employment or to participate in welfare-to-work activities. The DSS originally contracted with ADP to administer the program because ADP had authority to have a contractual relationship with the IHCs for service, while DSS did not have clear authority to pay the clinics for any services provided to CalWORKs recipients. The DSS has proposed trailer bill language to provide them this authority once program administration transfers back.

Staff Recommendation: Approve the shift in $2.1 million General Fund and one position from ADP to DSS.

Vote-Only Issue 8: ADP – Substance Abuse and Crime Prevention Act (SACPA) and Substance Abuse Offender Treatment Program (OTP) Budget Balancing Reductions

Description: The Governor's Budget proposed to cut funding for SACPA and OTP by by ten percent each effective March 1, 2008. This issue was heard by the full Senate Committee on Budget and Fiscal Review on January 30, 2008, and the current year reduction was ultimately rejected by the Legislature in the special session. At issue is whether to cut funding for SACPA and OTP by 10 percent, $12 million General Fund, commencing in 2008-09.

Background: SACPA and the OTP were cut from their original funding levels in the 2007-08 budget. SACPA was cut from $120 million to $100 million and the OTP was cut from $25 million to $20 million.

The Administration indicates the impacts of the additional proposed reductions are likely to be similar to those resulting from the 2007-08 reductions: less residential treatment availability; shorter treatment periods per client; and longer waiting lists for services.

The April 2007 UCLA cost-benefit study of SACPA found that it reduced prison and jail costs as a result of fewer incarcerations, resulting in net savings beyond the costs. The UCLA study concluded that for every $1 spent on SACPA, the aggregate savings are $2.50.

Staff Recommendation: Reject the proposed reduction. These programs result in cost savings in other areas of the budget. The Administration's proposed budget does not reflect the cost increases in the other areas of the budget that will result from these proposed cuts.

Vote-Only Issue 9: ADP – Drug Court Programs Budget Balancing Reductions

Description: The Governor's Budget proposed to cut funding for the three drug court programs (the Comprehensive Drug Court Implementation (CDCI), Drug Court Partnership (DCP), and Dependency Drug Court) by 10 percent effective March 1, 2008. This issue was heard by the full Senate Committee on Budget and Fiscal Review on January 30, 2008, and the current year reduction was ultimately rejected by the

Legislature in the special session. At issue is whether to cut funding for drug court programs by 10 percent, $3.1 million General Fund, commencing in 2008-09.

Background: Drug courts 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. Drug courts serve adult and juvenile offenders.

The Administration indicates that the proposed reduction will lead to fewer clients being served, more clients serving jail or prison terms and an increase in associated costs, and increased recidivism.

Recent studies of the various drug court programs have found in general that they result in savings in prison costs that outweigh the program costs, as well as reduced homelessness, increased employment, school attendance and grades, and drug-free births, reduced time to family reunification, and increased reunification rates. Data provided by the Administration indicates that the CDCI program saved $3.10 for every $1 spent and avoided over $35 million in prison costs in 2006-07. The DCP program saved $3.54 for every $1 spent and avoided almost $27 million in prison costs in 2006-07. For DDC programs, more than 21,000 days were saved in foster care and more than 98 percent of the babies born to female participants were drug free in 2006-07.

Staff Recommendation: Reject the proposed reduction. These programs result in cost savings in other areas of the budget. The Administration's proposed budget does not reflect the cost increases in the other areas of the budget that will result from these proposed cuts.

Vote-Only Issue 10: ADP – Non-Drug Medi-Cal Regular and Perinatal Programs Budget Balancing Reductions

Description: The Administration proposed a 10 percent cut to Non-Drug Medi-Cal Regular and Perinatal programs effective March 1, 2008. These issues were heard by the full Senate Committee on Budget and Fiscal Review on January 30, 2008, and the current year reductions were ultimately rejected by the Legislature in the special session. At issue is whether to cut funding for Non-Drug Medi-Cal Regular and Perinatal programs by 10 percent, $3.1 million General Fund, commencing in 2008-09 ($733,000 General Fund to Non-Drug Medi-Cal Regular programs and $2.3 million General Fund to Non-Drug Medi-Cal Perinatal programs).

Background:

- **Non-Drug Medi-Cal Regular** – These funds provide counties the flexibility to meet local alcohol and other drug (AOD) needs and can be used for all AOD activities and ancillary services. Funds can be used to serve men, women, and youth who are not in the criminal justice system, court-referred, or a Medi-Cal beneficiary.

The Administration indicates that the proposed cuts will result in less funding to counties and fewer persons served; however, the Department has been unable to provide more specific impacts.

- **Non-Drug Medi-Cal Perinatal** – These funds provide AOD treatment and ancillary services to pregnant and parenting women with children up to age 18 years.

  The Administration indicates that the proposed cuts will result in less funding to counties and fewer persons served; however, the Department has been unable to provide more specific impacts.

  Research overseen by the Department, provided evidence that comprehensive services specific to the needs of pregnant and parenting women improves outcomes, including recovery, parenting skills, school attendance by children, and lower costs to the child welfare system due to drug-free births.

Staff Recommendation: Reject the proposed reductions. These programs result in cost savings in other areas of the budget. The Administration's proposed budget does not reflect the cost increases in the other areas of the budget that will result from these proposed cuts.

Vote-Only Issue 11: ADP – California Methamphetamine Initiative Budget Balancing Reduction

Description: The Governor's Budget proposed to cut funding for the California Methamphetamine Initiative (CMI) by 10 percent effective March 1, 2008. This issue was heard by the full Senate Committee on Budget and Fiscal Review on January 30, 2008, and the current year reduction of $360,000 General Fund was ultimately approved by the Legislature in the special session. At issue is whether to cut funding for the CMI by 10 percent, $1.0 million General Fund, commencing in 2008-09.

Background: The CMI is a statewide campaign to reduce and prevent abuse of methamphetamine among gay men and men who have sex with men, women of childbearing years, and teens. Components of the CMI include a social marketing campaign, a toolkit to educate treatment practitioners on effective treatment practices, and an educational/informational DVD series for treatment providers, families, and county administrators. The CMI is a three-year, $10 million per year project ending in 2008-09.

The Administration indicates that the $1 million reduction will be to the social marketing component of the CMI, including elimination of "collateral" materials such as coasters, bar napkins, stall advertisements, etc.

Staff Recommendation: Eliminate the $10 million General Fund for the CMI in 2008-09. These are funds largely for media activities and not for direct drug treatment services. While the activities under the CMI are good to do if funding is available, in this fiscal environment, it is more critical to protect direct services.

Vote-Only Issue 12: ADP – Narcotic Treatment Program Trailer Bill Language

Description: The Governor's Budget proposes trailer bill language that would change the Drug Medi-Cal monthly reimbursement rate for Narcotic Treatment Programs to a daily reimbursement rate. Current law requires the proration of the monthly reimbursement rate to a daily rate if the patient receives less than a full month of service. The reconciliation of the daily and monthly rates drives workload at ADP to make sure that the rates are reconciled. Elimination of the use of a monthly rate and only using a daily rate will eliminate the reconciliation process and result in savings of $25,000 General Fund. There will be virtually no impact to rates paid to providers as a result of the change. The trailer bill language has been reviewed by Drug Medi-Cal provider representatives who concur with the proposed change.

Staff Recommendation: Approve the requested trailer bill language.

Vote-Only Issue 13: ADP – Transfer of the Governor's Mentoring Partnership Spring Finance Letter

Description: The ADP submitted a spring finance letter on April 1 requesting the transfer of $107,000 General Fund and one position to move the Governor's Mentoring Partnership resources to the CaliforniaVolunteers within the Office of Planning and Research pursuant to Executive Order S-02-08. Executive Order S-02-08, signed on February 26, 2008, created a Secretary of Service and Volunteering in the Governor's Cabinet and established CaliforniaVolunteers to serve as the state service commission supporting the expansion of service and volunteering in California. It also required that GMP be relocated to CaliforniaVolunteers.

Staff Recommendation: Approve the requested transfer.

Vote-Only Issue 14: DOR – Electronic Records System

Description: The Governor's Budget requests an increase of $1.1 million in federal fund authority to support the second year procurement, system development, and system integration activities related to the Electronic Records System (ERS) project.

Background: The 2007-08 Budget Act provided $466,000 of increased federal fund authority to begin the initial development and procurement process for a new ERS to replace the existing, obsolete Field Computer System. The ERS will be a commercial off-the-shelf (COTS) product. The new system will allow DOR to comply with federal reporting requirements as well as fully automate consumer and vendor financial data and payments. The project is scheduled to be completed in 2010-11 at a total cost of $15.8 million.

Staff Recommendation: Approve as budgeted. No issues have been raised regarding this request.

Vote-Only Issue 15: DOR – Case Services Budget Balancing Reductions

Description: The Governor's Budget proposes a reduction of $1.1 million General Fund in 2008-09 ($3.1 million annualized beginning in 2009-10) to the following the case services:

- Base program case services – Reduce by $416,000 General Fund in 2008-09 ($1.7 million General Fund annualized). Consumers will be shifted to cooperative programs for services.

- Statewide contracts – Reduce by $350,000 General Fund in 2008-09 ($700,000 General Fund annualized) in contract funding to service providers by shifting services to a fee-for-service basis.

- Case services purchased – Reduce by $350,000 General Fund in 2008-09 ($700,000 General Fund annualized) case services expenditures by eliminating the purchase of non-federally mandated services and reducing expenditures for other services by using comparable and no cost services.

The $4.1 million in federal funds in 2008-09 associated with these General Fund cuts ($11.5 million annualized beginning in 2009-10) will be redirected to cooperative programs where the partner agencies will provide the state match. The Department of Rehabilitation (DOR) estimates that it will take up to 16 months to get cooperative agreements in place, which is why the General Fund savings will be lower in 2008-09.

The DOR works with school districts, state and community colleges, county mental health programs, and county welfare departments to develop cooperative agreements to provide rehabilitation programs to individuals mutually served by these agencies. The school or agency provides the match and the department provides the federal funds. The DOR's cooperative programs are a component of the Vocational Rehabilitation Services program and the services include job skills training, job placement services, and other services, which will assist consumers in obtaining appropriate employment outcomes.

Staff Recommendation: Approve the proposed reductions to case services. There is still capacity for DOR to continue to establish cooperative agreements. However, it is not known whether additional capacity will exist beyond these proposed shifts, particularly in light of budget constraints in the other agencies with whom DOR partners.

Vote-Only Issue 16: DOR – Independent Living Centers Budget Balancing Reduction

Description: The Governor's Budget proposes to reduce the Independent Living Centers by $40,000 and one-half of a staff position with associated operating expenses beginning July 1, 2008. The position is currently vacant and would otherwise support the 29 non-profit independent living centers in communities located throughout California.

Each independent living center provides services necessary to assist consumers to live independently and be productive in their community. Core services consist of information and referral, peer counseling, benefits advocacy, independent living skills development, housing assistance, personal assistance services, and personal and systems change advocacy.

Staff Recommendation: Approve the proposed reduction.

Vote-Only Issue 17: DSS – Indian Health Clinics

Description: The Governor's Budget proposes to shift $2.1 million General Fund and one position from the Department of Alcohol and Drug Programs (ADP) to the Department of Social Services (DSS) to transfer responsibility for the administration and oversight of the Indian Health Clinic (IHC) program back to DSS. See Vote-Only Issue 7 for the corresponding decrease in ADP. In addition, the budget proposes trailer bill language to give DSS specific authority to provide funding directly to IHCs for substance abuse services, mental health treatment, and other related services authorized under the CalWORKs program. The dual responsibility between ADP and DSS for the administration and oversight of the IHC program has become a barrier to prompt payment to the clinics and has caused unintended challenges for some clinics to continue to provide services. The proposed shift will streamline the administrative process by having only one department approve and submit claims for payment, issue instructions to the clinics, and provide technical assistance.

Background: Beginning in 2001-02, as part of the California Work Opportunity and Responsibility to Kids (CalWORKs) program, a clinician is funded in each of the 36 Indian Health Clinics to assist CalWORKs clients who are eligible and applying for CalWORKs assistance or Tribal Temporary Assistance for Needy Families who need mental health or substance abuse services in order to obtain or retain employment or to participate in welfare-to-work activities. The DSS originally contracted with ADP to administer the program because ADP had authority to have a contractual relationship with the IHCs for service, while DSS did not have clear authority to pay the clinics for any services provided to CalWORKs recipients. The DSS has proposed trailer bill language to provide them this authority once program administration transfers back.

Staff Recommendation: Approve the shift in $2.1 million General Fund and one position to DSS from ADP, and the related trailer bill language.

Discussion Agenda

5180 Department of Social Services (DSS)

DSS Issue 1: Deaf Access Program Budget Balancing Reduction

Description: The Governor's Budget proposes a $581,000 ($281,000 General Fund) reduction to the Deaf Access Program (DAP), which is a 10 percent cut to the program.

Background: The Deaf Access Program (DAP) was statutorily established in 1980 to ensure that public programs and services are adapted to meet the needs of deaf and hard of hearing individuals and their families so that they may receive the public services to which they are entitled, achieve economic independence, and fully participate in mainstream society. This is done through contracts with local, non-profit agencies that specialize in providing services to deaf and hard of hearing individuals. The DAP is required to provide seven mandated basic services, which include: communication services, including 24-hour emergency assistance for medical, law enforcement, and mental health situations; counseling; advocacy services involving access to healthcare, education, employment, legal/justice system, mental health counseling, housing assistance, and other services; independent living skills instruction; job development and placement; information and referral; and community education. There are eight DAP service regions throughout the State with between 15 and 20 district offices to serve over 3.8 million deaf and hard of hearing California citizens.

Funding for the DAP started in 1981-82 with $1.3 million and grew to $5.8 million by 1998-99 when the program went statewide. Funding has remained at the 1998-99 level ever since. There are no statutory requirements for growth or a cost-of-living adjustment for the program.

Reductions to the DAP would significantly affect the ability of the contracted, non-profit agencies to provide the mandated DAP services. The DAP links deaf and heard of hearing individuals with a wide variety of county and state programs (i.e., not just human services programs) and assists county and state programs with compliance issues, specifically to meet the communications needs of the deaf and hard of hearing consumers. There is a concern about diminished accessibility of services and compliance with the federal Americans with Disabilities Act (ADA). Providers have indicated that offices in seven counties (Shasta, Tehama, Butte, San Jose, Visalia, Kern, and Imperial) will close as a result of the proposed cut.

Questions:

1. DSS, describe the DAP and the proposed reduction. What do you anticipate the effect on accessibility to services will be? Do you anticipate compliance problems with the federal ADA?

Staff Recommendation: Reject the proposed reduction. This will ensure that the DAP can continue to operate in all counties. In addition, the program maintains access to a wide variety of state services beyond just human services programs. The benefits of this relatively small investment in DSS accrue to a number of other state departments.

DSS Issue 2: Reduce State Hearings Workforce

Description: The Governor's Budget proposes to reduce the State Hearings Division (SHD) within DSS by $913,000 ($337,000 General Fund) and 18 positions in 2008-09. When fully implemented, the amount of the reduction would be $2.1 million ($780,000 General Fund) in 2009-10 and annually thereafter. The savings are intended to be achieved by reducing travel time and decision-writing time and by conducting nearly all hearings via telephone or videoconferencing. There is also trailer bill language proposed to implement this reduction.

Background: The SHD is responsible for conducting quasi-judicial hearings on behalf of the Director of DSS on cases in the California Work Opportunity and Responsibility to Kids (CalWORKs), Food Stamp, Refugee Cash Assistance, Adult Services, Social Services, and Department of Health Care Services' Medi-Cal programs, and for child support cases for the Department of Child Support Services. Current state law and the Constitution afford an individual the right to request and receive a state hearing before an Administrative Law Judge (ALJ) if an individual disputes a state or county action concerning eligibility for or the amount of aid or services available in those programs. In 2006-07, the SHD processed 75,000 requests for hearings.

SHD Current Year Budget: The SHD has operated at an internal budget deficit of $1.2 million annually for the past two years. This internal deficit was covered within DSS' overall budget to enable the SHD to avoid fiscal penalties related to the timeliness of decisions. For 2007-08, the DSS is requiring SHD to make budget reductions to live within their means. The $1.2 million reduction is on top of the proposed $2.1 million budget balancing reduction.

As technology has allowed ALJs to be more independent and mobile, the SHD had been planning over the next three to five years to consolidate existing regional offices into a northern and a southern office. The immediate need to live within their current budget caused SHD to move more quickly toward their goal of office consolidation. To that end, SHD is working to close three regional offices in Oakland, Los Angeles, and Fresno and two state-funded hearing locations in San Francisco and Stockton for a savings of about $614,000. As of the writing of this agenda, the Fresno office had been closed (the ALJs working out of that office are now home-based and the support staff have been absorbed elsewhere) and DSS is still in discussions in Oakland and Los Angeles to identify alternative hearing sites prior to closing those offices. The remaining $600,000 needed to balance SHD's budget is expected to be achieved through not filling vacant positions as they arise and other efficiencies, such as expanding the use of situations in which voluntary telephone hearings would be held.

Proposed Budget Year Reductions: To achieve an additional $2.1 million in annual savings, DSS is proposing to eliminate 13 ALJs and six support staff positions. A 1994 ALJ time study found that 50 percent of ALJ time was spent on decision-writing, 17 percent on hearing time, 10 percent on travel time, and 23 percent on training and administrative matters. The current proposal would reduce decision writing, administrative, and travel time, and focus ALJ time on conducting hearings and writing decisions. Individual ALJs would hear more cases and would have more support in writing decisions. ALJs would work from home, rather than an office, and support functions, such as scheduling, compliance, and decision releasing would be centralized.

The biggest change necessary to achieve the proposed savings would be the shift from in-person hearings to having nearly all hearings conducted by telephone or videoconference. In many smaller, remote counties, an ALJ already conducts hearings by telephone. Telephone hearings are also currently offered to claimants with health issues or who are remote from a hearing location. The DSS estimates that about four percent of all hearings are currently conducted by telephone or videoconference, and most of this amount is by telephone. Most counties currently lack the technological capacity to hold videoconference hearings. The DSS has proposed trailer bill language that would allow them to determine whether a hearing is conducted via telephone, videoconference, or in-person, and would eliminate the statutory right to an in-person hearing.

Another major change included in the proposal would be to change the content of decisions. ALJs would issue decisions containing a brief summary of the findings of fact and the legal conclusions. The DSS has not determined the actual format and content that would be used for decisions, but indicates that they will be working with all stakeholders before making any decisions.

Impact of the Proposed Budget Year Reductions: There are concerns with the potential legal and practical impacts of the proposed reductions. Federal law and case law requires the option for an in-person hearing for federal programs, such as the Food Stamp Program and SSI/SSP. Based on state case law, there is also a state constitutional standard for in-person hearings. Although DSS states that even with the proposed changes their preference would still be to conduct in-person hearings and that they would not deviate from in-person hearings in situations when federal law prohibits it, even DSS acknowledges that there is no way that the savings could be achieved without the significant majority of the hearings being conducted via telephone. This practical reality in conjunction with the proposed language that would permit DSS, rather than the individual, to determine how the hearing is held, pose significant potential state and federal statutory and constitutional due process violations. In addition, to the extent that DSS can not significantly increase the use of telephonic hearings to achieve efficiencies in the process, then the proposed reduction in staffing will negatively impact the penalties that the State must pay due to delayed decisions, because a hearing backlog will develop.

Furthermore, there are concerns that switching to telephonic or videoconferencing hearings could add time and workload to the hearing process to the extent that documents have to be faxed or emailed during a hearing or that not all parties have all necessary documents or copies are not clear and a hearing has to be rescheduled. There are also concerns that telephonic hearings do not allow for the face-to-face contact that can be important, for example, for individuals for whom English is not their primary language. Although these difficulties are offset somewhat by videoconferencing, most counties do not have the technical capacity (or the funds to develop the capacity) to have videoconferencing.

Finally, there are concerns around what the modified written hearing decisions would contain and whether those modifications would continue to provide sufficient legal justification for the decision being rendered. Since DSS has not determined yet specifically how decisions would be changed, it is impossible to know whether these concerns are founded.

Questions:

1. DSS, describe the role of the State Hearing Division, the office's current budget shortfall, and the status of your efforts to address that shortfall.
2. DSS, describe your proposed budget year reduction and how that would be achieved.
3. DSS, have you determined which federal programs require an in-person hearing and if so, which ones are they?
4. DSS, why do you think this proposal does not pose statutory and constitutional due process problems?

Staff Recommendation: Reject the proposed budget year reduction and trailer bill language. Achieving the savings in this proposal is completely dependent on switching to telephone versus in-person hearings. Yet not having in-person hearings as the statutory default appears to pose significant statutory and constitutional due process problems. It is not clear whether the proposed level of savings will actually occur as in light of these problems, and to the extent that a backlog of cases develops, there would also be erosion of the projected savings because of penalties. The DSS should continue to pursue office closures and consolidations and expand the use of voluntary telephone hearings as appropriate to achieve efficiencies.

5160 Department of Rehabilitation (DOR)

DOR Issue 1: District Offices Closures

Description: The Governor's Budget proposes to reduce the Department of Rehabiliations's (DOR's) operating expenses by $4.2 million ($638,000 General Fund) in 2008-09 and $4.8 million ($1.0 million General Fund) in 2009-10 and annually thereafter by closing 10 to 15 district offices that provide direct services to consumers.

Background: The DOR administers the largest vocational rehabilitation program in the country. Employment services are provided annually to approximately 120,000 individuals with significant physical and mental disabilities to assist them to prepare for and obtain competitive employment in integrated work settings. Approximately 750 vocational rehabilitation counselors in over 85 district and branch offices throughout California provide direct services to individuals requiring multiple services over an extended period of time. Services include consumer assessment, counseling and guidance, purchase of individualized rehabilitation services and job placement. The program serves individuals with a full range of physical and mental disabilities, pursuant to federal law.

Information provided by DOR, with the release of the budget on January 10, indicates that the primary office closures would be those locations that are in soft-term leases and would likely be smaller rural offices. However, DOR does not have a specific list of offices that are under consideration for closure. Rather, they have convened an internal workgroup to determine which offices to close. In response to staff inquiries on which district offices would be closed and concerns about the impact on accessibility to services, DOR provided the following timeline for their facilities workgroup:

- 3/28/08 Review existing leases and categorize by type (state lease, private facility, co-location facility).
- 5/15/08 Develop list of potential office closures – based on strategic review of consumer data, population data.
- 7/15/08 Workgroup finalize list of office closures for 2008-09.
- 7/22/08 Final DOR approval for office closures.
- 7/23/08 Begin reduction of facilities.
- 6/30/09 Facility reduction process complete.

Unfortunately, this timeline will not allow for the Legislature to have meaningful information on what the actual impact of district closures will be prior to making decisions for the 2008-09 budget. While the closure of district offices may be a reasonable way to reduce DOR's operating expenses, particularly in light of technological and automation changes that make it easier for counselors to work in the field, without any information about which offices may be impacted it is impossible to ensure that access to services will be maintained. Although DOR has stated that maintaining access to services and maximizing the use of technology will be key in determining which offices they will close, their written justification for the closures indicates that they will simply close those offices whose leases will be easiest to terminate.

In the Assembly Budget Subcommittee #1 hearing on this issue on April 2, 2008, Subcommittee #1 requested an update by April 31, 2008 on the plan for the closure of district offices, including timelines, specific offices identified, and expected impact on service-delivery.

Questions:

1. DOR, describe the function of the district offices and proposed reduction.
2. DOR, will you have meaningful information to respond to the Assembly Budget Subcommittee #1 request on time?
3. DOR, why will it take so long between the development of the list of offices for potential closure and finalization of that list? If the proposal to close offices was made in January, why does it take until July to figure out which offices should be closed?

Staff Recommendation: Hold open pending information provided by DOR on specific office closures as requested by the Assembly.

DOR Issue 2: Selected Provider Rate Reductions

Description: The Governor's Budget proposes to reduce the rates of Community Rehabilitation, Individual Service, and contract providers by 10 percent, resulting in a savings of $884,000 General Fund beginning in 2008-09. The savings associated with each provider type is as follows:

- Community Rehabilitation Providers - $639,000 General Fund
- Individual Service Providers - $58,000 General Fund
- Contract Providers - $187,000 General Fund

(The Governor's Budget has also proposed a 10 percent rate reduction to the Supported Employment Program, which would result in savings of $728,000 General Fund in DOR's budget. This issue will be heard with the Department of Developmental Services' budget in Subcommittee #3 on April 17, 2008.)

Background: The DOR purchases vocational rehabilitation services for its consumers from Community Rehabilitation, Individual Service, and contract providers. Community Rehabilitation Providers are paid according to a fee based on costs for an individual service. Individual Service Provider rates are set based on general requirements related to experience and education for limited categories of service provided. There are currently about 25 statewide contracts with local non-profit agencies to provide vocational rehabilitation services. The majority of these providers have not had rate increases in six years.

The DOR has not been tracking the actual costs that have been foregone in the past six years by not providing any rate increases to these providers. However, based on the Consumer Price Index over that time, the cost avoidance associated with not providing any rate increases has been $5 million General Fund. The DOR indicates that they do not anticipate consumers being unable to receive services because of the rate cut, but this assessment is not based on data from the providers.

Questions:

1. DOR, describe the proposed reductions and the expected impact of those reductions on services to consumers.
2. LAO, what is your recommendation on the rate reductions?

Staff Recommendation: Reject the proposed rate reductions to Community Rehabilitation, Individual Service, and contract providers. These providers have been flat funded for the past six years. In light of the reductions made to case services and potentially to district offices, it will be important to maintain as much of the provider network as possible to just maintain current levels of service.

DOR Issue 3: Vocational Rehabilitation Supported Employment and Work Activity Program Caseload

Description: The Governor's Budget requests an increase of $5.7 million ($1.2 million General Fund) to fund increased caseload and costs in the Vocational Rehabilitation Supported Employment Program (VR/SEP). The caseload for the Vocational Rehabilitation Work Activity Program (VR/WAP) is currently projected to be flat.

Background: VR/SEP provides an opportunity for individuals with developmental disabilities who are Regional Center consumers to work in their communities, in integrated settings alongside other employees, and to be compensated with customary wages and benefits. In order to attain the desired employment outcomes, the VR/SEP program provides training and ancillary support services to the consumers to enable them to learn job skills and maintain employment. VR/SEP services are provided in individual or group settings, and include situational assessment, specialized job placement services, and job coaching services. The DOR typically funds up to 10 months of intensive services for consumers in individual placement. The intensive services decrease over time as the consumer becomes increasingly stable on the job.

VR/WAP provides work experience and ancillary work-related services in a non-integrated setting to individuals with developmental disabilities who are Regional Center consumers. Attaining supported employment is the goal of VR/WAP consumers. The scope of services provided to enhance skills necessary for successful employment include interpersonal and communicative skills development, work habits development, and development of vocationally appropriate dress and grooming, etc. Additional support and training services are also provided to the consumers on an as-needed basis, such as external situational assessments, personal vocational social adjustments, and work adjustments.

The DOR and the Department of Developmental Services (DDS) work in partnership to provide necessary VR services through VR/SEP and VR/WAP to consumers with developmental disabilities. However, unlike DDS, DOR is not an entitlement program and the VR services provided to eligible consumers are time-limited. The consumers with developmental disabilities who receive VR/SEP and VR/WAP services are referred back to DDS at the completion of their services. DOR is not automatically budgeted for caseload increases, as DDS is.

In 2006-07, the Supported Employment Program was provided a 24 percent rate increase. Although this rate increase was anticipated to increase costs due to the higher costs of providing the services and due to increased caseload as more programs could afford to be developed, the 2007-08 budget did not include any additional funding. At the time, the Administration stated that it did not have any basis for assuming that costs would increase. To address concerns that the Administration was artificially deflating caseload and costs, the Legislature required, as part of the 2007-08 budget trailer bill (Chapter 177, Statutes of 2007), that DOR report on the actual caseload and cost data for the VR/SEP and VR/WAP programs on January 10, 2008 and May 14, 2008. The Legislature also required that DOR submit a proposed methodology for projecting caseload and funding growth in the VR/SEP and VR/WAP programs by April 1, 2008.

According to the DOR report on actual caseload and costs, the 2007-08 budget did underfund the VR/SEP program by $4.2 million. Instead of submitting a deficiency request to obtain adequate funding, DOR identified internal funding to redirect on a one-time basis. This funding includes $2.5 million from Personal Services, $1 million in federal carryover funding, and $700,000 in operating expenses. The DOR indicates that the Personal Services funding will be achieved by only filling the most critical vacant positions for the remainder of the fiscal year and limiting the use of temporary help, and the operating expense funding will be achieved by limiting travel, training, and the purchase of supplies and equipment for the remainder of the fiscal year. The DOR indicates that services to consumers will not be interrupted. However, the resources being redirected are intended to support other DOR consumers and any ongoing shifts of this nature in the future will result in a reduction in services to other DOR consumers.

As required, DOR also submitted a methodology for projecting caseload and funding growth in the VR/SEP and VR/WAP programs by the April 1 deadline. Essentially, DOR estimates an average cost for each program for each month, based on actual expenditures and historical expenditure fluctuation patterns, and calculates a monthly caseload count based on actual caseload activity adjusted for historical seasonal variation. There is greater weight given to the data from July 2006 forward to account for the effect of the 24 percent rate increase on caseload and costs. The cost and caseload estimates are combined to arrive at the total funding need projected for the fiscal year.

Questions:

1. DOR, describe the factors leading to the increased costs in the VR/SEP program estimated for 2008-09. Why aren't costs in VR/WAP projected to increase?
2. DOR, describe the methodology you use to calculate VR/SEP and VR/WAP funding. If you had used this methodology when building the 2007-08 budget, would the program have been underfunded?

Staff Recommendation: Hold open pending May Revision when VR/SEP and VR/WAP caseloads and funding levels will be adjusted.

0530 Health and Human Services Agency-Office of Systems Integration (OSI)
5180 Department of Social Services

OSI Issue 1: Child Welfare System/Case Management System (CWS/CMS)

Description: The Governor's Budget requests the following changes to funding for the Child Welfare System/Case Management System (CWS/CMS) for 2008-09:

- Maintenance and Operation for Current CWS/CMS: Reduce by $301,000 ($166,000 General Fund). The reduction is comprised of a $1.9 million decrease for the prime vendor and technical assistance, and a $1.6 million increase for data center services.

- CWS/CMS New System Project (NSP): Increase by $3.8 million. This increase is comprised of a $1.3 million increase and the conversion of five limited-term positions to permanent for the Office of System Integration (OSI) and a $2.5 million ($1.1 million General Fund) increase in local assistance.

- NSP Staff for the Department of Social Services (DSS): Increase by $202,000 ($92,000 General Fund) and two, two-year positions to support activities associated with the planning, vendor selection, detailed system design, implementation, and transition to the new CWS/CMS.

Background: The CWS/CMS application provides case management capability for local child welfare services (CWS) agencies, including the ability to generate referrals, county documents, and statistical and case management reports. The system was implemented statewide in 1997 and is now in the maintenance and operations (M&O) phase.

CWS/CMS's current technical architecture is comprised of technologies and concepts that were common for large, mission-critical systems in the mid-1990s. However, the current system has limitations in today's technology environment:

- It depends on technologies that are expensive to maintain and update.

- It does not lend itself to enhancement using emerging technologies.

- It does not meet the federal Administration for Children and Families (ACF) functionality requirements for Statewide Automated Child Welfare Information Systems (SACWIS) including: Adoptions Case Management; Automated Title IV-E Eligibility Determination; Interfaces to Title IV-A (CalWORKs), Title IV-D (Child Support), IV-E (Foster Care), and Title XIX (Medi-Cal) systems; Financial Management for Out-of-Home Care and Adoptions Assistance Payments.

- It was developed, built, and is maintained by IBM. While it is not a proprietary system, OSI and DSS are not able to generate sufficient competition when they go out to bid for reprocurement of M&O due to its size and complexity. This lack of competition is also of significant concern to the ACF.

- Caseworkers complain that they spend too much time on data entry and maintenance, which is taking time away from their casework.

In light of the current system's limitations, the ACF discontinued federal funding for the project for two years. To restore funding, OSI and DSS conducted an analysis of the system's architecture. That analysis concluded that it would be more cost effective to build a new system than to modify the existing CWS/CMS. OSI received approval of a feasibility study report (FSR) from the Department of Finance in April 2006 and from the ACF in July 2006. In the current year, OSI and DSS are in the planning phase of the new project. In 2008-09, the NSP will move into the implementation phase. The Governor's budget proposes to spend $247 million ($112 million General Fund) over the next seven years to complete the development of the New System.

LAO Recommendation: As part of their analysis of the 2008-09 Governor's Budget, the Legislative Analyst's Office (LAO) examined the study of the system architecture that the Administration conducted in 2005 in response to ACF concerns and as a condition of restored federal funding. The LAO concluded that the study was constrained in that the instructions given to the contractor conducting the analysis were that the system should be moved off the large, mainframe computer and onto servers. This precluded the possibility of updating the current system from being considered.

The LAO analysis notes that the CWS/CMS is built on software products currently under vendor support and that there is no reason to abandon the existing CWS/CMS if it can play a role in meeting the additional SACWIS and county requirements. County requirements not met by the current system can be accommodated by making the system more modular and accessible from the web. Therefore, the LAO recommends NSP be cancelled, that the current system be updated, and that the missing SACWIS requirements be added. They estimate this will significantly decrease the risk associated with data conversion activities to the new system, take less time to get an updated system, and result in savings of $184 million (compared to the proposed $247 million cost of the new system) over the next seven years. They propose to fund their alternative by applying $8 million of the existing CWS/CMS baseline budget to cover the system programming. The increased state and county staff needed to help design and test the system changes could be covered by redirecting funding from the NSP for 2008-09 and 2008-09. Thus, through these redirections, there would be no net new cost under the LAO alternative for these years.

Reaction to the LAO Recommendation: The Administration has expressed several concerns with the LAO proposal. They state that the 2005 study did examine all alternatives, including updating the existing system, and that the resulting analysis rejected that recommendation as not viable. The current system architecture cannot be modified to support all of the counties needs and to be SACWIS compliant. Furthermore, they believe that the changes the LAO is proposing to the existing system go well beyond the existing contract with IBM, and therefore, a new procurement process would need to be undertaken, adding time and cost to the LAO alternative. They also argue that the current CWS/CMS is, in effect, a proprietary system and that the federal ACF will not allow for continued federal funding of such a system.

Significant Questions Remain About the LAO Alternative: It is still unclear whether the LAO alternative will achieve the system improvements needed and the cost savings claimed. It is not known whether the ACF will approve an augmentation to the current IBM contract without another full analysis comparing that alternative to the others previously studied. If the ACF does not approve and/or concludes that an augmentation to the current contract violates their requirements for competitive procurement, California risks loss of future federal funding in development and maintenance of the new system. We may also be required to repay all federal funds already received for development of the NSP. Therefore, it is not clear whether the LAO alternative would really be less costly than the NSP if all federal funding support is lost.

It is also not clear whether modification of the existing system as proposed by the LAO could really be done under the current IBM contract or would require a reprocurement. If it is the latter, then that will add time to the LAO alternative. Furthermore, it is not clear how long the existing system with modifications would be viable before a new system would be have to be developed anyway.

IBM has submitted a proposal in response to the LAO recommendation with the estimated costs of implementing the LAO alternative. A workgroup consisting of the LAO, OSI, and county representatives has been convened to analyze the IBM proposal and whether that proposal meets the needs of the counties.

Questions:

1. OSI, briefly describe the purpose of the CWS/CMS and the history to date regarding development of the NSP.
2. LAO, describe your analysis of the NSP and your proposed recommendation.
3. LAO, summarize the IBM proposal. What system improvements will be made and what are the cost estimates?
4. OSI, what is your response to the LAO recommendation and the IBM proposal?
5. OSI, how much federal funding is in jeopardy for the continued development of the NSP and ongoing maintenance once we have a new system? How much federal funding have we already received for development of the NSP?
6. DSS, describe your budget request. Why can’t these activities be supported internally with existing resources?

Staff Recommendation: Hold open pending additional analysis and review of the IBM and LAO proposals.

OSI Issue 2: Case Management Information and Payrolling System Replacement (CMIPS II) Project

Description: The Governor's Budget requests the following changes to funding for the Case Management Information and Payrolling System Replacement (CMIPS II) project:

- Current Year Adjustment: Reduce by $7.8 million. This reduction is comprised of a $7.7 million reduction in OSI and a $136,000 reduction in DSS as a result of a delayed start of state staff and related operating expenses and equipment, and contract negotiations resulting in a net decrease for software purchase and customization.

- Implementation Phase of CMIPS II: Increase by $89.6 million ($48.1 million General Fund), which includes $2.8 million in local assistance costs for counties, and 14 positions for implementation activities.

- CMIPS II Staff for DSS: Increase by $1.3 million ($671,000 General Fund), convert four existing limited-term positions to permanent, and add 10 additional three-year limited-term positions to support CMIPS II activities including design, development, and implementation efforts.

Background:

Existing CMIPS: The existing CMIPS provides client case management and provider payrolling functions for the In-Home Supportive Services (IHSS) program. CMIPS is a 20-year old system. Maintenance and operating (M&O) costs for CMIPS are $11.9 million ($4.1 million General Fund) annually. The current CMIPS M&O contract with EDS extends through June 30, 2008. The CMIPS II project has negotiated a three-year extension of the current contract with EDS through June 2011, with four optional one-year extensions.

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, 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, OSI indicates that CMIPS II will improve the efficiency of state and county IHSS business processes.

Finally, the federal government has indicated concerns in 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.

Status of CMIPS II: Contract development and procurement for CMIPS II began in fiscal year 1999-00. Procurement had 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 request for proposals (RFP) was finally released and final proposals from bidders were received on August 28, 2006. The incumbent contractor was the sole bidder. The contract award was supposed to be made on July 1, 2007, but contract negotiations took longer than anticipated. As a result, the start of the implementation phase was delayed from July 1, 2007 to April 1, 2008.

Costs and Funding for CMIPS II: Based on the original OSI cost models, the total estimated cost for the development of CMIPS II was to be $98 million over three years, and for maintenance and operations is $129 million over seven years. Actual costs for the development of CMIPS II have come in at $165.9 million and for maintenance and operations have come in at $112.2 million, a total of $51.1 million more than originally estimated.

OSI 2008-09 Budget Request: OSI is requesting $89.6 million ($48.1 million General Fund), which includes $2.8 million in local assistance costs for counties, conversion of six existing limited-term positions to permanent, and eight additional staff for implementation activities for CMIPS II. The staff will provide administrative and technical oversight of the state and vendor business functions throughout the life of the project. In addition, OSI is seeking enhanced federal funding for specified elements of the CMIPS II design, development, and ongoing maintenance costs.

DSS 2008-09 Budget Request: DSS is requesting $1.3 million ($671,000 General Fund), conversion of four existing limited-term positions to permanent, and addition of 10 new three-year limited-term positions to support CMIPS II activities. As the owner of the CMIPS II system, DSS is responsible for defining the business requirements, resolving program issues related to the CMIPS II project, negotiating issues with stakeholders, and actively supporting the requirements of the CMIPS II contract award and subsequent implementation. The required activities for project design, development, and implementation over the next three years represent a significant increase in workload for DSS. A recent independent consultant study of DSS staff assigned to CMIPS II revealed that four staff will, within a short timeframe, become overwhelmed with the responsibilities of CMIPS II, eventually causing delays to the project. DSS indicates that it can not redirect staff for these activities due to position reductions received in recent fiscal years due to the budget crisis.

Questions:

1. OSI, describe the components of your budget request. What will the state staff be doing and why is permanent staff needed?
2. OSI, what was the response from the federal government regarding the enhanced federal funding? How much additional federal funding can we get for this project?

3. DSS, describe your budget request and provide justification for the 14 positions requested and how their programmatic workload relates to CMIPS II implementation.

Staff Recommendation: Hold open.

OSI Issue 3: Interim Statewide Automated Welfare System (ISAWS) Migration Project

Description: The Governor's Budget requests a decrease of $853,000 in 2007-08 and an increase of $59.8 million ($27.2 million General Fund) in 2008-09 for the Interim Statewide Automated Welfare System (ISAWS) Migration project.

As part of the special session, the Administration proposed to eliminate the ISAWS Migration project completely for a savings of $97.7 million ($44.0 million General Fund). Rather than eliminate the project, the Legislature chose to delay implementation of ISAWS by one month, leaving the issue open for discussion in the spring budget process, rather than forego the benefit of prior progress and investment.

Background: The ISAWS is one of four automated systems used by counties to administer California's human services programs. The ISAWS was designed in the late 1980s and uses hardware and software that is nearing the end of vendor support. The programmers needed to support the software are not readily available because the programming language is not commonly used today. Therefore, programmers must be trained specifically for this purpose. In addition, the software must reside on hardware that is available from only one vendor and so it cannot be competitively replaced. The state enters into "sole source" contracts for this ISAWS support. The ISAWS is used by 35 counties with 166,097 cases, approximately 16 percent of the statewide caseload.

With respect to the 35 ISAWS counties, the Legislature concluded that it was more efficient to consolidate ISAWS counties into the existing C-IV system, rather than procure a new system. This consolidation, approved by the Legislature in 2006, is known as the ISAWS Migration project and has an estimated cost of $245 million over four years. In light of California's budget deficit, the Administration proposed a budget balancing reduction to cancel the ISAWS Migration project. The Administration has stated that it plans to resume this project when it can be accommodated within the state budget.

The proposal to cancel the ISAWS Migration project was heard in the Senate Committee on Budget and Fiscal Review on January 31, 2008. During that hearing, members expressed concerns about canceling the project now and losing the investment already made, particularly in light of uncertain ongoing federal support for the existing system. It was also not clear exactly when the Administration would need to begin procuring a new system anyway. Furthermore, it was revealed that the General Fund savings from cancellation of the project would actually be $13.9 million less because the State would have to repay the federal government for federal funding already received for migration. As a result, the Legislature acted to delay implementation of the ISAWS Migration project by one month, resulting in savings of $3.5 million General Fund, and requested technical assistance from the Administration to develop alternatives to canceling the project that might also result in additional General Fund savings.

In response that that request, OSI worked with the vendor and counties and developed an option that would allow the project to continue without incurring additional General Fund costs in 2008-09. That option consists of redirection of M&O savings in the existing ISAWS system and in the existing CWS/CMS system, redirection of savings in the CMIPS II project resulting from the receipt of enhanced federal funding for that project, and negotiated savings in the ISAWS Migration project contract. There would also be a three-month delay in implementation activities, but this delay would not impact the overall timeline for completion of the project. The Administration notes, however, that the viability of this alternative is contingent on receipt of the enhanced federal funding for CMIPS II and whether the LAO proposal for cancellation of the new CWS/CMS project is enacted.

Questions:

1. OSI, describe the options you have identified to continue the ISAWS Migration project.
2. OSI, describe the components of your budget request should ISAWS Migration continue. Does your request change in light of the three-month delay that will occur if the option you have identified is adopted?

Staff Recommendation: Hold open pending further analysis of the options for continuing the ISAWS Migration project.

4200 Department of Alcohol and Drug Programs (ADP)

ADP Issue 1: Drug Medi-Cal

Description: The Governor's Budget includes $148.9 million ($76.1 million General Fund) for Drug Medi-Cal (DMC) in 2008-09, a decrease of 10.4 percent from the 2007-08 Budget Act due to a proposed 10 percent cut to DMC rates, a caseload increase of two percent, and utilization changes. The savings associated with the proposed 10 percent rate reduction is $17.3 million ($8.8 million General Fund). Trailer bill language is also proposed to implement the proposed reduction.

Background: The DMC program is jointly funded by the federal and state government to provide drug and alcohol treatment services to persons lacking health insurance and with incomes up to 250 percent of the federal poverty level. 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 persons who are opiate addicted and have a 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 a 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.

In 2004-05, DMC rates were rolled back to the 2002-03 approved levels. Regular Medi-Cal rates were also cut by five percent in 2004-05. Although the five percent reduction to Medi-Cal rates was subsequently restored, DMC rates were frozen until 2007-08, when they were calculated according to the statutory methodology.

The Administration indicates that the proposed reduction may reduce the scope of DMC services available to eligible individuals, but they do not anticipate that fewer individuals will be served. However, ADP cannot determine how many providers may withdraw completely from the DMC program, which would impact client access to services. In addition to the General Fund savings, there will be foregone federal funds resulting from this proposal of $8.5 million in the 2008-09.

The proposed trailer bill to implement the 10 percent DMC rate cut would require that in 2009-10 the DMC rates be the lower of either the statutorily calculated rates or the 2008-09 DMC rate increased for the California Necessities Index (CNI). It is unclear whether this method of implementing the rate cut on an ongoing basis would effectively change the rate calculating methodology from a cost-based system to one that is depended on a cost-of-living adjustment that has nothing to do with the price of medical services. Proposed trailer bill language would also give ADP authority to implement DMC rates through all-county letters and exempt them from the rulemaking process.

Questions:

1. ADP, describe the proposed reduction to the Drug Medi-Cal Program, including the proposed trailer bill language.
2. ADP, why did you choose to implement the reduction in the trailer bill as you did? Why did you choose the CNI?
3. ADP, why do you want an exemption from the rulemaking process?
4. LAO, what is your reaction to the proposed DMC Program reduction and the trailer bill language?

Staff Recommendation: Hold open.

ADP Issue 2: Provider Licensing Fees

Description: This is an informational item to obtain an update from ADP on their implementation of licensing fees authorized as part of the 2007-08 Budget Act.

Background: The Administration requested, and the Legislature approved as part of the 2007-08 human services budget trailer bill (Chapter 177, Statutes of 2007) authorization for ADP to collect fees from all providers to fund ADP's licensing and certification activities and established a new fund for the fee revenues. Prior to the trailer bill changes, only for-profit providers were charged these fees. The trailer bill language requires that ADP's Licensing and Certification Division be fully supported by federal funds, special funds, and fee revenues, unless General Fund is specifically appropriated to support the division. In addition, the Legislature added language that requires that any proposed fee increases or changes be submitted to the Legislature no later than April 1 of each year as part of the spring finance letter process and be approved by the Legislature before taking effect. The ADP did not submit a spring finance letter as of April 1, 2008, to further increase the fee.

The proposal to give the authority to ADP to charge licensing and certification fees to providers was heard in subcommittee last year and there was no public testimony in opposition to charging fees, although the amount of the fee now being charged was not known then. At the time that the trailer bill language was approved by the subcommittee, ADP indicated that the fees would initially be set at $2,150 biennially (which is what current law at that time required for-profit providers be charged). The ADP was to convene a stakeholder group to determine a permanent fee schedule. Between the time the trailer bill language was approved by both the Senate and Assembly budget subcommittees and the enactment of the budget, ADP conducted a stakeholder process and set the fee at $147 per bed for all providers. In October 2007, ADP sent a letter to providers informing them of the fee and began billing those providers whose licenses and certifications were due for renewal as of enactment of the 2007-08 Budget Act on August 24, 2007.

In the fall, a number of providers began contacting Legislative members and staff that they were unaware of the fee until the notice went out in October and that many could not afford to immediately pay the fee as required by ADP as their budgets were already developed for the current year. Many non-profit providers were concerned that they would not be able to raise additional funding to pay for the fee in the short or long run. The Administration's proposed 10 percent budget cuts are also compounding the problem for providers in finding funding to pay the fee.

In response to provider concerns, ADP established a process by which providers facing immediate payment could apply for and obtain an extension to pay their fees up to but not past June 30, 2008. Providers choosing to exercise this option would need to provide: 1) documentation that the fee(s) exceed 25 percent of the net income, surplus, or difference between total revenues and total expenses for the last business year of the provider; 2) documentation to verify financial records; and 3) a written justification of no more than two pages explaining how and why the fee payment would be a hardship. To date, ADP has received 54 requests from providers to delay the fee payment and all 54 have been approved.

As of the end of 2006-07, there were 616 residential providers with a license and certification, 294 residential providers with a license only, and 1,059 certified outpatient facilities. Through the end of February 2008, 667 residential and outpatient facilities have been mailed a fee notice for renewal of their licensing and/or certification. Of these, 408 facilities have paid the fee, 54 requested and were granted the extension, and 205 have neither paid the fee nor requested the extension. The ADP indicates that they will be contacting each of the 205 providers that have not paid the fee or requested the extension to ensure they are aware of the fee and to determine whether the extension of time to pay the fee would be appropriate. To date, no providers have closed their doors because of an inability to pay the fee. However, as stated previously, the proposed 10 percent cuts in combination with the new fees have left many providers in a precarious fiscal situation.

Questions:

1. ADP, describe the process you used to establish the fee.

2. ADP, update the statistics on the number of facilities that have paid the fee, requested the extension to pay, and been granted the extension. Have any facilities closed due to the fee?
3. ADP, what is the status of your efforts to contact the 205 providers who have neither paid the fee nor requested the extension?

Staff Recommendation: No action is required on this informational item. However, the subcommittee may wish to consider, at a future time, repealing the 2010-11 date by which ADP's Licensing and Certification Division must rely on funding other than General Fund.

Senate Budget & Fiscal Review Committee
Eileen Cubanski 651-4103

Hearing Outcomes – Agenda Part B

Subcommittee No. 3
10:30 a.m., Monday, April 14, 2008

Vote-Only Agenda

0530 Health and Human Services Agency – Office of System Integration (OSI)
5180 Department of Social Service (DSS)

- Vote-Only Issue 1: Statewide Automated Welfare System
  Action: Approved as budgeted, except for the ISAWS Migration component.
  Vote: 3-0

- Vote-Only Issue 2: Electronic Benefits Transfer
  Action: Approved as budgeted.
  Vote: 3-0

4200 Department of Alcohol and Drug Programs (ADP)

- Vote-Only Issue 3: Women's Treatment Services
  Action: Rejected the requested positions and funding.
  Vote: 3-0

- Vote-Only Issue 4: SAPT Block Grant Requirements
  Action: Approved as budgeted.
  Vote: 2-1 (Wyland)

- Vote-Only Issue 5: Local Assistance Tracking and Accountability System (LATAS)
  Action: Rejected the requested funding.
  Vote: 3-0

- Vote-Only Issue 6: California Access to Recovery Effort (CARE) Program
  Action: Approved as budgeted.
  Vote: 3-0

  Vote-Only Issue 7: Indian Health Clinics
  Action: Approved as budgeted.
  Vote: 3-0

- Vote-Only Issue 8: Substance Abuse and Crime Prevention Act (SACPA) and Substance Abuse Offender Treatment Program (OTP) Budget Balancing Reductions
  Action: Rejected the proposed reductions.
  Vote: 2-1 (Wyland)

- Vote-Only Issue 9: Drug Court Programs Budget Balancing Reductions
  Action: Rejected the proposed reductions.
  Vote: 2-1 (Wyland)

- Vote-Only Issue 10: Non-Drug Medi-Cal Regular and Perinatal Programs Budget Balancing Reductions
  Action: Rejected the proposed reductions.
  Vote: 2-1 (Wyland)

- Vote-Only Issue 11: California Methamphetamine Initiative Budget Balancing Reduction
  Action: Eliminated the $10 million GF for the CMI in 2008-09.
  Vote: 3-0

- Vote-Only Issue 12: Narcotic Treatment Program Trailer Bill Language
  Action: Approved the proposed trailer bill language.
  Vote: 3-0

- Vote-Only Issue 13: Transfer of Governor's Mentoring Partnership Spring Finance Letter
  Action: Approved as budgeted.
  Vote: 3-0

5160 Department of Rehabilitation (DOR)

- Vote-Only Issue 14: Electronic Records System
  Action: Approved as budgeted.
  Vote: 3-0

- Vote-Only Issue 15: Case Services Budget Balancing Reductions
  Action: Approved as budgeted the reductions to specified case services.
  Vote: 3-0

- Vote-Only Issue 16: Independent Living Centers Budget Balancing Reduction
  Action: Approved as budgeted.
  Vote: 3-0

5180 Department of Social Services (DSS)

- Vote-Only Issue 17: Indian Health Clinics
  Action: Approved as budgeted.
  Vote: 3-0

Discussion Agenda

5180 Department of Social Services (DSS)

- DSS Issue 1: Deaf Access Program Budget Balancing Reduction
  Action: Rejected the proposed reduction.
  Vote: 2-1 (Wyland)

- DSS Issue 2: Reduce State Hearings Workforce
  Action: Rejected the proposed reduction and trailer bill language.
  Vote: 2-1 (Wyland)

5160 Department of Rehabilitation (DOR)

- DOR Issue 1: District Office Closures
  Action: Held open pending information from DOR on specific office closures by the end of April.

- DOR Issue 2: Selected Provider Rate Reductions
  Action: Rejected the proposed reductions.
  Vote: 3-0

- DOR Issue 3: Vocational Rehabilitation Supported Employment and Work Activity Program Caseload
  Action: Held open pending May Revision.

0530 Health and Human Services Agency – Office of System Integration (OSI)
5180 Department of Social Service (DSS)

- OSI Issue 1: Child Welfare System/Case Management System (CWS/CMS)
  Action: Held open.

- OSI Issue 2: Case Management Information and Payrolling System Replacement (CMIPS II) Project
  Action: Held open.

- OSI Issue 3: Interim Statewide Automated Welfare System (ISAWS) Migration Project
  Action: Held open.

4200 Department of Alcohol and Drug Programs (ADP)

- ADP Issue 1: Drug Medi-Cal
  Action: Held open.

- ADP Issue 2: Provider Licensing Fees
  Action: No action needed on this informational item.

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

Chair, Senator Elaine K. Alquist

Senator Alex Padilla
Senator Mark Wyland

April 17, 2008

9:30 AM or
Upon Adjournment of Session

Room 4203
(John L. Burton Hearing Room)

(Diane Van Maren)

Item	**Department**
4300	**Department of Developmental Services**

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 (Through Page 5)

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. Almost 99 percent of consumers live in the community, and slightly more than one percent live in a state-operated Developmental Center.

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 (November 2005 edition) which contains pertinent data about persons served by the department. As noted below, individuals with developmental disabilities have a number of residential options. Almost 99 percent receive community-based services and live with their parents or other relatives, in their own houses or apartments, or in group homes (various models) that are designed to meet their medical and behavioral needs.

Department of Developmental Services—Demographics Data from 2008

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.	26,559	12.4	Own Home-Parent	156,204	72.6
3 to 13 Yrs.	59,643	27.7	Community Care	26,744	12.4
14 to 21 Yrs.	36,989	17.2	Independent Living /Supported Living	18,802	8.7
22 to 31 Yrs.	30,716	14.3	Skilled Nursing/ICF	8,811	4.1
32 to 41 Yrs.	22,163	10.3	Developmental Center	2,891	1.3
42 to 51 Yrs.	21,229	9.9	Other	1,594	0.7
52 to 61 Yrs.	12,157	5.7			
62 and Older	5,590	2.6			
Totals	***215,046***	***100.0***	***Totals***	***215,046***	***100.0***

Summary of Funding for the Department. The budget proposes total expenditures of $4.5 billion ($2.7 billion General Fund), for a *net* overall increase of $53.4 million ($59.8 million General Fund) over the revised current year for the developmental services system. The proposed augmentation represents an increase of 1.2 percent over the revised current year.

Summary of Department of Developmental Services—Governor's Budget

	2007-08 Estimated Total Funds	2008-09 Proposed Total Funds	Difference
Regional Centers			
Operations	$502,714,000	$524,983,000	$141,591,000
Purchase of Services	$3,133,956,000	$3,253,278,000	$22,269,000
Early Intervention Services	$20,095,000	$20,095,000	$119,322,000
Subtotal	**$3,656,765,000**	**$3,798,356,000**	**$141,591,000**
Funding:			
General Fund	$2,222,421,000	$2,342,220,000	$119,799,000
Public Transportation Fund	$128,806,000	$140,899,000	$12,093,000
Program Development Funds	$1,075,000	$1,147,000	$72,000
Federal Funds	$52,584,000	$75,076,000	$22,492,000
Reimbursements	$1,251,879,000	$1,238,274,000	-$13,605,000
Mental Health Services Fund	0	$740,000	$740,000
Developmental Center Program			
Personal Services	$596,349,000	$536,962,000	-$59,387,000
Operating Expenses	$158,425,000	$130,200,000	-$28,225,000
Subtotal	**$754,774,000**	**$667,162,000**	**-$87,612,000**
Funding:			
General Fund	$414,607,000	$354,836,000	-$59,771,000
Federal Funds	$620,000	$554,000	-$66,000
Lottery Education Fund	$563,000	$563,000	0
Reimbursements	$338,985,000	$311,209,000	-$27,776,000
Headquarters Support			
Personal Services	$32,918,000	$31,991,000	-$927,000
Operating Expenses	$7,782,000	$8,106,000	$324,000
Subtotal	**$40,700,000**	**$40,097,000**	**-$603,000**
Funding:			
General Fund	$26,757,000	$26,532,000	-$225,000
Federal Funds	$2,345,000	$2,351,000	6,000
Program Development Funds	$280,000	$280,000	0
Reimbursements	$11,319,000	$10,557,000	-$762,000
Mental Health Services Fund	0	$378,000	$378,000
TOTAL	**$4,452,239,000**	**$4,505,615,000**	**$53,376,000**

Governor's Proposed Reductions for Department of Developmental Services. The Governor declared a fiscal emergency on January 10th, utilizing the authority provided within the State Constitution as provided for under Proposition 58 of 2004. Under this authority, the Governor can call the Legislature into Special Session to deal with substantial revenue declines or expenditure increases, and to address the fiscal emergency. Other than utilizing remaining bond financing, the Governor has generally proposed a 10 percent across-the-board reduction approach to the fiscal emergency.

With respect to the Department of Developmental Services (DDS), the Governor has proposed a reduction of almost $1.8 million (General Fund) in the current year and $286.4 million (General Fund) in the budget year. Each of the individual proposals are listed below.

Governor's Proposed "General Fund" Reductions to Department of Developmental Services

Program Area	Governor's Proposed 2007-08 Reduction	Governor's Proposed 2008-09 Reduction
Community-Based Programs		
1. Roll back Devereux Supplemental Rate		-$1,185,000
2. Family Cost Participation Expansion		-$773,000
3. Cost Containment for Purchase of Services		-$228,822,000
4. Ten Percent Reduction to Supported Employment		-$7,740,000
5. Reduce by Ten Percent Clients' Rights Advocacy		-$512,000
6. Regional Center Operations for Community Placement		-$2,000,000
7. Cost Containment for Regional Center Operations	-$660,000	-$20,496,000
8. Reduce Regional Center Operations--HIPAA	-$23,000	-$71,000
Subtotal	**-$683,000**	**-$261,599,000**
Developmental Centers		
1. Defer expansion at Porterville of 96-beds		-$11,700,000
2. Consolidate Regional Resource Development Projects		-$663,000
3. Advocacy Services Agreements	-$39,000	-$119,000
4. Adjust Quality Assurance Fees for Closure of Agnews	-$755,000	-$2,288,000
5. Adjust Porterville Protective Services	-$181,000	-$547,000
6. Reduce Developmental Centers Operating Expenses		-$5,871,000
Subtotal	**-$975,000**	**$21,188,000**
Developmental Centers Education Services	**--**	**-$913,000**
Headquarters		
1. Reduce Information Systems Positions		-$540,000
2. Reduce Developmental Centers Positions		-$148,000
3. Reduce Clinical Staff at Headquarters		-$128,000
4. Reduce Support for Community Placement Plan		-$80,000
5. Reduce Fiscal Audit Appeals Staff		-$46,000
6. Reduce Operating Expenses of Headquarters		-$1,418,000
7. Reduce Fiscal Audits Program	-$23,000	-$71,000
8. Reduce Vendor Fiscal Audits Program	-$96,000	-$291,000
Subtotal	**-$119,000**	**-$2,722,000**
Governor's Proposed Reductions Total for DDS	**-$1,777,000**	**-$286,422,000**

Legislature's Special Session Actions. After numerous hearings convened by both the Senate and Assembly, the Legislature took action to reduce the current-year shortfall of $3.3 billion and converted it into a little over $1 billion in General Fund reserve.

In addition, the resulting projected budget year deficiency was reduced by $7 billion, leaving an estimated shortfall of almost $8 billion at this time. In addition, the actions of the Legislature provided $8.6 billion in cash management solutions to enable the state to maintain its ability to pay its bills.

With respect to actions taken regarding the DDS budget, the Legislature adopted the following reduction proposals of the Governor as noted in the table below.

Governor's Reductions Adopted by Legislature in Special Session

Department of Developmental Services	Reduction for 2007-08 (General Fund)	Reduction for 2008-09 (General Fund)
Community-Based Services		
Governor's Cost Containment Measures for POS		-$228,800,000
Governor's Cost Containment for Regional Center Operations		-$20,500,000
Governor's Expansion of Family Cost Participation Fee		-$773,000
Governor's Reduction: Community Placement Operations by 10%	-$660,000	-$2,000,000
Governor's Reduction: Regional Center Operations for HIPAA	-$23,000	-$71,000
SUBTOTAL	**-$683,000**	**-$252,144,000**
Developmental Centers		
Governor's Reduction: Reduced ICF-DD Quality Assurance Fee	-$755,000	-$2,300,000
Governor's Reduction: Reduce Client's Rights Advocacy Agreements	-$39,000	-$119,000
Governor's Reduction: Reduce Porterville Office of Protective Services	-$181,000	-$547,000
Governor's Reduction: Reduce Regional Resource Projects		-$663,000
SUBTOTAL	**-$975,000**	**-$3,629,000**
State Support		
Governor's Reduction: Reduce Fiscal Audits Program	-$23,000	-$23,000
Governor's Reduction: Reduce Vendor Audits	-$96,000	-$291,000
SUBTOTAL	**-$119,000**	**-$314,000**
TOTALS	**-$1,777,000**	**-$256,087,000**

In addition, as requested by the Governor, the Legislature also adopted $400 million (General Fund) in *cash management* solutions regarding the Regional Centers. Specifically, the DDS will be delaying the two-month advance of $400 million (General Fund) traditionally provided to the Regional Centers. This is a one-time only adjustment and means that the advance will be received in late September instead of earlier in August.

The Legislature adopted the Governor's statutory changes as requested for the reductions specified in the table above. These statutory changes are contained in Assembly Bill 5 XXX, Statutes of 2008.

B. ISSUES FOR "Vote Only" (Through Page 8)

1. Governor's Proposal to Delete Supplemental Rate for Devereux

Issue. The Governor is proposing to eliminate the supplemental rate for the Devereux facility, located in Santa Barbara, which was provided by the Legislation in the Budget Act of 2000. The DDS states that eliminating this supplemental rate will save $1.185 million (General Fund).

The DDS notes that Devereux has gradually reduced its services to consumers and the supplemental rate can no longer be justified. Further, due to audit concerns of the program at Devereux, the DDS states that the contract with Devereux was not executed in 2007-08.

Subcommittee Staff Recommendation—Adopt Governor's Proposal. No issues have been raised.

2. Governor's Proposal to Reduce DDS Headquarters Staff

Issue. The Governor is proposing a reduction of $255,000 ($128,000General Fund) by eliminating a Psychologist and a Physician from the DDS headquarters office.

Subcommittee Staff Recommendation—Adopt Governor's Proposal. No issues have been raised. The DDS had choices to make as to how they would address their headquarters reductions, and this is what was selected.

3. Governor's Proposal to Reduce DDS Headquarters Staff

Issue. The Governor is proposing a reduction of $158,000 ($80,000General Fund) by eliminating two positions—Community Program Specialist II's-- that provide support to the Regional Centers for the development of an annual Community Placement Plan. This proposal is the companion piece to the Regional Center reduction for administrative staff for the Community Placement Plan process which was done in Special Session as requested by the Governor.

Subcommittee Staff Recommendation—Adopt Governor's Proposal. No issues have been raised. The DDS had choices to make as to how they would address their headquarters reductions, and this is what was selected.

(Vote-Only continued)

<u>4. Governor's Proposal to Reduce DDS Headquarters Staff</u>

<u>Issue.</u> The Governor is proposing a reduction of $88,000 ($46,000General Fund) by deleting one position and re-designing the administrative appeals process. The workload would be absorbed by other positions within the section.

<u>Subcommittee Staff Recommendation—Adopt Governor's Proposal.</u> No issues have been raised. The DDS had choices to make as to how they would address their headquarters reductions, and this is what was selected.

<u>5. Governor's Proposal to Reduce Operating Expenses at DDS Headquarters</u>

<u>Issue.</u> The Governor is proposing a reduction of $1.418 million (General Fund) by reducing operating expenses, such as printing, general expense, communication and other expenses.

<u>Subcommittee Staff Recommendation—Adopt Governor's Proposal.</u> No issues have been raised. The DDS had choices to make as to how they would address their headquarters reductions, and this is what was selected.

<u>6. Governor's Proposal to Reduce Developmental Centers Funding</u>

<u>Issue.</u> The Governor is proposing a reduction of $913,000 (Proposition 98/General Fund) by reducing certain contract expenditures. The DDS states that most of this reduction will occur on the natural with the closure of Agnews Developmental Center. Another piece of the reduction pertains to some classes received by residents of Sonoma Developmental Center.

The DDS has informed Subcommittee staff that this reduction will not in any way adversely affect any individual's right to a free and appropriate education. Instead there will be some restructuring of some educational offerings.

<u>Subcommittee Staff Recommendation—Adopt Governor's Proposal.</u> No issues have been raised.

7. Governor's Proposal to Reduce Operating Expenses at DCs

Issue. The Governor proposes a reduction of $10.2 million ($5.9 million General Fund) from the operating expenses and equipment area of the Developmental Center's budget, including the two community facilities operated by the DDS.

Other than personal services, the Developmental Center budget consists of operating expenses and equipment, which includes items such as utilities, food, drugs, clothing, general expenses, staff travel, data processing, special repairs, communications, data processing, and legal settlements. These expenditures are essential for supporting operations and maintaining facilities.

The DDS states that their proposed reduction of $10.2 million ($5.9 million General Fund) would be achieved as follows:

- Reduce staff travel, contracts and equipment;
- Eliminate funds for an analysis to procure a health information system for the Developmental Centers;
- Eliminate the price increase of 2.4 percent for the operating expense base;
- Reduce other non-critical operating expenses through deferred purchasing, preventive maintenance and repairs.

DDS notes that these reductions in operating expenses will need to be assertively managed and will present some challenges. However, the challenges are more feasible to accomplish than affecting the direct care of consumers through staffing reductions.

Subcommittee Staff Comment and Recommendation——Adopt Governor's Proposal. Subcommittee recommends approval of the proposal. In order to mitigate reductions in direct services, it is recommended to adopt the Governor's proposal.

8. Eliminate Funding in Special Contract Arrangement

Issue. In the Budget Act of 2000, an augmentation of $1 million General Fund was provided for the Best Buddies Program. This augmentation was originally provided as a special request when General Fund revenues were robust. Since this time, an additional $500,000 (General Fund) was provided in the Budget Act of 2006 for a total annual appropriation of $1.5 million (General Fund).

This program provides opportunities for socialization and social integration for persons with developmental disabilities. This is achieved by pairing high school and college students with individuals with developmental disabilities.

Subcommittee staff notes that the DDS program has no other contractual relationship such as this for the provision of services within the appropriation for community-based, Regional Center services.

Subcommittee Staff Comment and Recommendation—Eliminate $1.5 million. Due to the fiscal crisis, it is recommended to delete this special contract funding in order to maintain core services to persons with developmental disabilities. Regional Centers can purchase services from the Best Buddies Program when appropriate utilizing existing resources.

C. ISSUES FOR DISCUSSION—Developmental Centers

Background on Developmental Centers (DCs). State Developmental Centers (DCs) are licensed and federally certified as Medicaid providers via the Department of Health Care 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 of these facilities provide services to individuals with severe behavioral challenges.

Background--Summary of Funding and Enrollment. The budget proposes expenditures of $669.4 million ($357 million General Fund), excluding state support, to serve *an average of* 2,449 residents who reside in the state DC system. This reflects a caseload decrease of 171 residents or 6.5 percent, as noted in the table below.

The most significant change in population is due to the DDS' closure of Agnews Developmental Center by June 30, 2008.

Table: Summary of Developmental Center Budget Year Population (Average)

Facility	Current Year 2008-09	Budget Year 2008-09	Difference
Agnews DC	121	0	-121
Canyon Springs (community-based)	52	52	0
Fairview DC	560	527	-33
Lanterman DC	485	442	-43
Porterville DC	666	703	37
Sierra Vista (community-based)	51	50	-1
Sonoma DC	685	675	-10
Total	**2,620 people**	**2,449 people**	**-171 people**

Background—Transitioning to Community Services. The population of California's Developmental Centers has decreased over time. The development of community services as an alternative to institutional care in California mirrors national trends that support the development of integrated services and the reduced reliance on state institutions.

The implementation of the Coffelt Settlement agreement resulted in a reduction of California's Developmental Center population by more than 2,320 persons between 1993 and 1998. This was accomplished by creating new community living arrangements, developing new assessment and individual service planning procedures and quality assurance systems.

The United States Supreme Court decision in *Olmstead v L.C., et al (1999)* stated that services should be provided in community settings when treatment professionals have determined that community placement is appropriate, when the individual does not object to community placement, and when the placement can reasonably be accommodated.

1. Governor's Proposal to Defer Expansion at Porterville DC

Issue. The Governor proposes to defer any population expansion at Porterville DC for the "Secure Treatment Program" beyond the existing 300 beds for savings of $11.7 million General Fund in 2008-09. The DDS is also proposing trailer bill language for this purpose.

The DDS' proposed savings comes from *not* utilizing the 96-bed residential expansion (6 units with 16-beds each) which is scheduled for completion in October 2008. Therefore, if the population of the Secure Treatment Program at Porterville is not increased, the DDS will not need to hire staff to provide for the active treatment and care of the population that would be needed if the population were increased.

The DDS trailer bill language is as follows:

> *Add Section 7502.5. "The total number of developmental center residents in the secure treatment facility at Porterville Developmental Center shall not exceed 297.*

The DDS notes that no existing services to individuals residing at the Developmental Centers would be affected by this reduction proposal.

Background—Porterville Secure Treatment Program. Through legislation enacted in 1999, Porterville is the designated DC for admissions of individuals with forensic and penal-code related offenses. A specific program—Secure Treatment—was established for this population at the facility.

There are presently about 300 residents in the Secure Treatment Program. Residents are usually court-ordered to the Secure Treatment Program.

The 96-bed expansion project is lease revenue bond funded by the state and managed by the Department of General Services. The state will be required to begin scheduled payments on the bond funding after construction is completed, the Fire Marshal has signed off and the bonds are sold. The DDS budget includes funding for the bond payments.

Subcommittee Staff Comment and Recommendation—Approve Governor's Proposal. Due to the severe fiscal situation, it is recommended to approve the Governor's proposal. The Administration's proposal would defer new caseload at the Porterville Secure Treatment Program for at least one-year and potentially longer. As such forensic individuals would need to continue to receive assistance through County Jails and other facilities for the incarcerated.

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

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

2. DDS Request for Augmentation for Security on 96-Bed Expansion

Issue. The DDS is requesting an increase of $600,000 (General Fund) in one-time funding to acquire external perimeter security cameras for the Secure Treatment Program and the 96-bed expansion.

The DDS states that the proposed external perimeter security cameras would work in conjunction with a security system that has already been approved as part of the construction design for the 96-bed expansion project.

Subcommittee Staff Comment and Recommendation—Deny Request. Subcommittee staff recommends denying the $600,000 General Fund request at this time.

First, the 96-bed expansion will have a security system as part of its construction design. Second, the DDS is deferring usage of the residential aspect of the expansion as noted under issue 1 of this Agenda. As such, given the severe fiscal situation, it is recommended to deny this augmentation. This should be done in order to mitigate direct service reductions in other areas of the budget.

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

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

3. Porterville Capital Outlay Project for 24 Satellite Kitchens/Dinning Rooms

Issue. The DDS is requesting an augmentation of $18.3 million General Fund for the construction phase of renovating 24 satellite kitchens/dining rooms at Porterville Developmental Center.

The DDS states that this construction phase will accomplish needed renovations for Porterville bring them up to code compliance. The 24 satellite kitchens/dinning rooms do not presently meet all health and safety standards for serving food. The satellite kitchen equipment is 22 years old and some of it is not fully operational.

All food is first prepared in the Main Kitchen and is then transported cold to the satellite kitchens for refrigeration until needed. The satellite kitchens are then used to warm, hold and serve the food. Tray and container storage, rethermalization ovens, holding and warming tables and other equipment in the satellite kitchens need to work in tandem with the Main Kitchen.

The Main Kitchen is being rebuilt using lease-revenue funds of $25.4 million and has already been approved by the Legislature.

DDS states that lease-revenue bonds cannot be used to fund the 24 satellite kitchens/dining rooms. This is because only one source of lease bond authority at a time can be used on any given structure. As such, only a small part of the building—the satellite kitchen/dining room—would actually be improved by these projects and thus preventing lease-revenue funded improvements to the rest of the structure while such bonds were being paid off.

Subcommittee Staff Comment and Recommendation—Reject Augmentation and Defer Project. As noted, the Legislature did approve funding for the construction of the Main Kitchen at Porterville using lease-revenue bonds of $25.4 million (lease revenue bonds). As such, work is continuing on completion of the Main Kitchen where food is first prepared and packaged.

The Legislature also approved the preliminary plans and working drawings for the 24 satellite kitchens/dining rooms at Porterville. According to an updated schedule, the construction start date would begin May 2009 with the project being completed by May 2011, assuming the appropriation of the $18 million General Fund in this budget.

However, though the Legislature approved the preliminary plans and working drawings for the 24 satellite kitchens/dining rooms at Porterville, Subcommittee staff is recommending to defer the $18 million (General Fund) construction costs until 2009-2010.

Due to the severe fiscal crisis this level of General Fund expenditure should be deferred until 2009-2010. This should be done in order to mitigate direct service reductions in other areas of the budget.

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

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

D. ISSUES FOR DISCUSSION-- COMMUNITY-BASED SERVICES

Background on Regional Centers (RCs). 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. The budget provides funding for these administrative services through the "Operations" subcategory provided to Regional Centers.

RCs also purchase services for consumers and their families from approved vendors and coordinate consumer services with other public entities. Generally, RCs pay for services only if an individual does not have private insurance or they cannot refer an individual to so-called "generic" services that are provided at the local level by the state, counties, cities, school districts, and other agencies**.** For example, Medi-Cal services and In-Home Supportive Services (IHSS) are "generic" services because the RC does not directly purchase these services.

RCs purchase services such as **(1)** residential care provided by community care facilities; **(2)** support services for individuals living in supported living arrangements; **(3)** Day Programs; **(4)** transportation; **(5)** respite; **(6)** health care; and many other types of services. The budget provides funding for these services through the "Purchase of Services" subcategory provided to Regional Centers.

Services and supports provided for individuals with developmental disabilities are 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. 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),

Background—Summary of Budget Funding & Consumer Population. The budget proposes expenditures of $3.8 billion ($2.3 billion General Fund) for community-based services, provided via the Regional Centers, to serve a total of 220,600 consumers living in the community. This funding level includes $525 million for RC operations and $3.3 billion for the Purchase of Services, including funds for the Early Start Program and habilitation services. The budget assumes a caseload of 232,125 consumers for 2008-09.

1. Funding Associated with the Agnews DC Closure: Issue “A” & Issue “B”

Overall Issue--Closure of Agnews and Proposed Expenditures. The Governor’s budget reflects various adjustments related to the Administration’s closure of the Agnews Developmental Center by June 30, 2008. These adjustments are reflected in both the Developmental Center item *and* Regional Center item of the Budget Bill due to the transitioning of consumers from Agnews to other living arrangements.

Overall, the DDS is proposing total expenditures of $136.4 million ($71.8 million General Fund), along with 76 state positions, related to the closure of Agnews. This expenditure figure includes $31.1 million ($4.2 million General Fund) in expenditures in the Developmental Center item, and $105.3 million ($67.6 million General Fund) in expenditures in the Regional Center item.

The total proposed expenditures of $136.4 million ($71.8 million General Fund) for 2008-09 reflect a *reduction* of $23.8 million ($26.4 million General Fund) as compared to the revised current-year.

Issue “A” of this Agenda will discuss the expenditures relating to the Developmental Center item, and **Issue “B”** will discuss the expenditures relating to the Regional Center item. (These issues are outlined below, after the following background section.)

Additional Background on Agnews. The plan to close Agnews Developmental Center was developed over a three-year period and formally submitted to the Legislature in January 2005. Enabling legislation to support the implementation of critical elements of the plan has been enacted, including Assembly Bill 2100 (Steinberg), Statutes of 2004, Senate Bill 962 (Chesbro), Statutes of 2005, Senate Bill 643 (Chesbro), Statutes of 2005, and Assembly Bill 1378 (Lieber), Statutes of 2005.

The Agnews Developmental Center 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.

Among other things, the DDS proposes to achieve this improved and expanded community service delivery system 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; and
- Implementing a Quality Management System (QMS) that focuses on assuring that quality services and supports are available in the community, including access to health care services.

<u>Issue "A"—Discussion of Agnews Developmental Center Funding for 2008-09.</u> The table below displays the fiscal changes proposed by the DDS regarding expenditures on the *Developmental Center side* of the budget. This assumes closure by June 30, 2008.

DDS' Fiscal Estimate for Developmental Center (Agnews) Changes

Developmental Center Components	Revised CY 2007-08	Budget Year 2008-09	Difference
1. Agnews DC Base Budget			
Total Dollars	**$73.7 million**	**$0**	**-$73.7 million**
General Fund	($39.3 million)	($0)	($39.3 million)
Staff Positions	967 staff	0 staff	-967 staff
Beginning Year Residents	220 people	0 people	-220 people
2. Placements into the Community			
Total Dollars	**-$11.5 million**	**$0**	**$11.5 million**
General Fund	(-$6.1 million)	($0)	($6.1 million)
Staff Positions	-145 staff	0	145 staff
Placements	-204 people	0 people	204 people
Deaths	-6 people	0 people	6 people
3. Consumer Transfers to Other DCs			
Total Dollars	**-$430,000**	**$0**	**$430,000**
General Fund	($-229,000)	0	($229,000)
Transfers	-10 people	0 people	10 people
4. State Employees in the Community			
Total Dollars	**$9.5 million**	**$24.5 million**	**$15.1 million**
Primary Care Clinic & Closure Svs	--	$4 million	$4 million
Clinical Staff	$1.6 million	$2.5 million	989,000
Direct Support Services Staff	$7.7 million	$17.5 million	$9.9 million
Administrative Staff	$242,000	$485,000	$243,000
5. Administrative Staff for Closure			
General Fund	**$0**	**$195,000**	**$195,000**
Staff Positions	0	5.0	5.0
6. Warm Shut Down			
General Fund	**$0**	**$2.8 million**	**$2.8 million**
Staff Positions		25	25
7. Foster Grandparent Program			
General Fund	**$0**	**-$318,000**	**-$318,000**
8 Staff Costs for Closure Plan			
General Fund	**$2.6 million**	**$0**	**-$2.6 million**
9. Facility Preparation of Sonoma DC			
General Fund	**$39,000**	**$0**	**-$39,000**
10. Consumer Relocation Costs			
General Fund	**$56,000**	**$0**	**-$56,000**
11. Regional Resource Development Projects			
General Fund	**$0**	**$863,000**	**$863,000**
Staff Positions		13.0	13.0
12. Agnews Staffing Plan			
General Fund	**$390,000**	**$156,000**	**-$234,000**
Staff Positions	10	3	-7
Total Developmental Center Costs			
Total Dollars	**$77.2 million**	**$31.1 million**	**-$46.1 million**
General Fund	($36.2 million)	($4.2 million)	(-$32.1 million)
Staff Positions	835 staff	76 staff	-759 staff
Year Ending Resident Population	0 people	0 people	0 people

As noted in the above table, total expenditures for the Developmental Center item are $31.1 million ($4.2 million General Fund), including 76 staff positions for 2008-09. This reflects a reduction of $46.1 million ($32.1 million General Fund) and 759 staff from the facility as compared to the revised current-year.

It should be noted that the proposed DDS adjustments are contingent upon the development of resources in the community, including housing, to provide for the transition of the Agnews residents. DDS will be updating these figures at the May Revision to further refine the transition costs.

The *key* adjustments as noted in the table above are discussed below:

- *Agnews Budget Base*. This includes the costs related to the base operations of Agnews DC including personal services to provide care to residents at Agnews, operating expenses for services and equipment costs. As noted in the table, the budget reflects elimination of this funding since the DDS assumes closure by June 30, 2008 and the budget year commences as of July 1, 2008 (for the 2008-09 fiscal year).

  The elimination of funding assumes that all of the residents of Agnews have been appropriately transitioned to community-living arrangements or other Developmental Centers. However, *Subcommittee staff notes that as of March 26, the DDS shows that 162 people are still residing at Agnews. As such, it is unlikely that the DDS will be fully closing Agnews as of June 30, 2008.*

- *Placements into the Community.* This includes the savings resulting from the relocation of Agnews residents into the community. The DDS assumes that of the current-year beginning population of 220 residents will decrease by 204 residents in 2007-08 as people transition into the Bay Area Housing and related community-arrangements.

- Consumer Transfers to Other Developmental Centers. The DDS assumes that 10 people will transition from Agnews to another Developmental Center (such as Sonoma, Fairview or Lanterman).

- State Employees in the Community & Outpatient Clinic. As provided for under existing statute, the DDS will fund certain state staff leaving Agnews in the community to facilitate residents transitioning. This includes funding for clinical staff and direct support staff.

  As noted in the table, a total of $4 million ($192,000 General Fund) is proposed to continue the Primary Care Clinic and Closure Services. Through the leadership of Senator Alquist, trailer bill legislation was adopted in 2007 which requires this outpatient clinic and its related services to be provided.

- Administrative Staff for Closure. The DDS will need staff for a three-month period (25 staff for 3 months equals 5 full-time equivalents) to transfer and store essential records in a confidential manner and chronicle and preserve historical documents after facility closure.

- Warm Shut Down. This primarily includes funds for (1) 25 state staff to maintain the overall facility, (2) certain contracts, and (3) utilities at the facility. The DDS states that these resources are needed to maintain the Agnews facility, including security, utilities and supplies for 2008-09.

- Regional Resource Development Projects. These projects help ensure residents experience a successful transition to community living arrangements and assist transitioned residents already residing in the community to maintain their living arrangements should difficulties arise. This level of funding would provide 13 positions.
- *Agnews Staffing Plan.* This includes costs for non-level-of-care staff in various program areas to ensure adequate staff is maintained during the closure process, as well as maintaining the health and safety of residents.

Agnews Developmental Center Resident Population—Is June 30, 2008 Closure Date Realistic? According to the DDS, as of March 26, 2008, 162 consumers are residing at Agnews Developmental Center. As such, it is very unlikely that the DDS proposed closure date of June 30, 2008 will occur.

As discussed under Issue "B" of this Agenda below, part of this delayed transition is attributable to the Bay Area Housing Plan bringing various living arrangements on board a few months later than anticipated. Other factors may also be contributing to the slower transition.

Existing Budget Bill Language Authority. Within the annual state Budget Act, there is "Budget Bill Language" that provides the Department of Finance (DOF) with authority to require the State Controller to transfer funds across the both the Regional Center item and the Developmental Centers item (both ways).

This Budget Bill Language (under both items) enables the Administration to shift funds across items contingent upon Developmental Center resident population and Regional Center consumer population. This language enables state funding to more appropriately follow the individual needs of the overall population.

Specifically, this Budget Bill Language is under Item 4300-003-001, provision 3 (Developmental Centers), and Item 4300-101-0001, provision 1 (Community-Based, Regional Centers). As currently crafted, the language is as follows:

> Provision 3 (Developmental Centers)
> "Upon order of the Department of Finance, the Controller shall transfer such funds as are necessary between this item and Item 4300-101-0001.
>
> Provision 1 (Community-Based, Regional Centers)
> "Upon order of the Department of Finance, the Controller shall transfer such funds as are necessary between this item and Item 4300-003-0001.

Subcommittee Staff Comment and Recommendation—Take Some Action Now and Wait for May Revision. The proposed adjustments are consistent with the Administration's updated plan provided to the Legislature on January 10, 2008, as required by statute. The Administration will be updating the Agnews plan at the time of the Governor's May Revision.

It should be noted that though the DDS' budget assumes that all residents of Agnews are appropriately transitioned to community-living arrangements or other Developmental

Centers, the actual DDS schedule does not reflect a complete transition by June 30, 2008. Subcommittee staff is not raising any issues with respect to not having a complete transition by this date. *The Legislature has always conveyed that the health and safety of people being transitioned from Agnews would be first and foremost. But the DDS needs to be forthright to the residents of Agnews and their families, the developmental services community, and the Legislature as to any concerns that a later date may pose, if any.*

Since existing Budget Bill Language provides for funding shifts between items, as noted above, it is expected that the DDS will manage within its overall budget to appropriately provide assistance to people as needed while transitioning. The DDS is in charge of administering the program.

It is however, recommended to modify the existing Budget Bill Language to ensure appropriate notification to the Legislature and content as to why the transfers are needed. This language will also provide more oversight of the Agnews Developmental Center closure.

The suggested revised Budget Bill Language would is follows (for <u>both</u> items).

> ""Upon order of the Department of Finance, the Controller shall transfer such funds as are necessary between this item and Item 4300-003-0001 (or 4300-101-0001 as applicable). Within 10 working days after approval of a transfer as authorized by this provision, the Department of Finance shall notify the chairpersons of the fiscal committees of each house of the Legislature and the Chairperson of the Joint Legislative Budget Committee of the transfer, including the amount transferred, how the amount was determined, and how the amount will be utilized."

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

1. DDS, Please briefly discuss *each* of the components of the Agnews DC closure as contained in the table above. (Please follow the table order).

2. DDS, Please briefly discuss the key aspects of the Agnews closure which are to occur over the next few months, including the need to maintain a balance of experienced staff at Agnews until all of the residents are transitioned.

3. DDS, Is it likely that the Administration's proposed Agnews closure date of June 30, 2008 will actually occur sometime during the first quarter of the new fiscal year (i.e., between July 1 and September 30, 2008)? Can a later date pose any concerns?

Issue "B"— Regional Center Expenditures Associated with Agnews DC Closure

Issue. The table below displays the fiscal changes proposed by the DDS regarding expenditures on the *Regional Center side* of the budget due to the Agnews Developmental Center closure. Under this issue, the Subcommittee will discuss the expenditure components as contained in the table below, as well as obtain a Bay Area Housing update, and an update regarding the provision of health care services regarding people transitioning from Agnews.

DDS' Fiscal Estimate for Regional Center Changes Due to Agnews Closure

Regional Center Components	Revised CY 2007-08	Budget Year 2008-09	Difference
1. Community Placement Plan—Operations			
Total Funds	$9.4 million	$8.1 million	-$1.3 million
General Fund	($7.8 million)	($5.8 million)	(-$2.0 million)
Unified RC Operations Costs	$6.8 million	$4.8 million	-$2 million
State Employees in Community	$1.5 million	$2.5 million	$989,000
Consultant—Housing Issues	$280,000	--	-$280,000
Evaluation of Licensing Pilots	$250,000	$200,000	-$50,000
Foster Grandparent Program	$499,000	$499,000	--
2. Community Placement—Purchase of Services			
Total Funds	$40.8 million	$0	-$40.8 million
General Fund	($29.5 million)	0	(-$29.5 million)
Start Ups	$12.4 million	0	-$12.4 million
Assessments	0	0	0
Placements (property management & lease) (204 people placed)	$28.4 million	0	-$28.4 million
3. Placement Continuation—Operations			
Total Funds	$297,000	$587,000	$290,000
General Fund	($121,000)	($206,000)	($85,000)
Client Program Coordinators	$53,000	$58,000	$5,000
Nurse Consultant	$14,000	$297,000	$283,000
Increased Access to Oral Health	$230,000	$232,000	$2,000
4. Placement Continuation—Purchase of Services			
Total Funds	$32,485,000	$96,636,000	$64,151,000
General Fund	($24,502,000)	($61,603,000)	($37,101,000)
Prior Year Placements	70 people	204 people	134 people
Total Regional Center Costs of Agnews Closure			
Total Dollars	$83,013,000	$105,310,000	$22,297,000
General Fund	($61,942,000)	($67,626,000)	($5,684,000)
Prior Year Placements	70 people	204 people	134 people

As noted in the table above, a total increase of $22.3 million ($5.7 million General Fund) for Regional Center expenditures related to the Agnews closure is proposed for 2008-09. The purpose of this proposed increase is to provide for the ongoing housing, services and supports for people transitioning from Agnews. The budget assumes that an additional 134 people will be transitioned and then there will be the ongoing costs for the 70 people who were transitioned in the current-year.

All of the Regional Center expenditures (both operations and the purchase of services) pertain to Community Placement Plans which are developed through discussions between the DDS and each Regional Center (mainly San Andreas, East Bay and Golden Gate here because of their catchment area and Agnews) and are based on individual planning efforts for consumers.

It should be noted that the Operations component includes expenditures for four Health Care Community Specialists who are responsible for the health plan coordination for people moving into the community from Agnews DC as requested by Senator Alquist and approved by this Subcommittee in 2007-08.

Continued Implementation of the Bay Area Housing Plan. One of the foundations of the Agnews closure plan is the development of sufficient community capacity to support the transition of Agnew's consumers into the communities that are close to their families. New service and support options are being created that provide choices for each person and reflect the needs of the individual.

The acquisition and development of housing is a critical element. Over 75 percent of the current Agnew's residents will move into Bay Area Housing Plan (BAHP) homes. According to the DDS' most recent housing development plan, a total of 195 consumers are anticipated to reside in BAHP homes as noted in the table below.

Table: Summary of Bay Area Housing Plan (BAHP) (For all three Regional Centers)

Type of Home	Number of Homes	Number of Residents
"SB 962" Homes	24	87
Specialized Residential Home	24	71
Family Teaching Home	9	25
Residential Care Facility--Elderly	4	12
Total	**61 Homes**	**195 Residents**

Specifically by Regional Center, the following can be noted from the DDS' most recent plan

- *Golden Gate Regional Center.* It is anticipated that a total of 34 consumers will reside in BAHP homes. With **(1)** 11 consumers living in "SB 962" Homes; **(2)** 20 consumers living in Specialized Residential Homes; and **(3)** three consumers living in Residential Care Facility for the Elderly facilities.

- *San Andreas Regional Center.* It is anticipated that a total of 119 consumers will reside in BAHP homes. With **(1)** 56 consumers to be living in "SB 962" Homes; **(2)** 34 consumers living in Specialized Residential Homes; **(3)** 25 consumers to be living in Family Teaching Homes; and **(4)** four consumers in Residential Care Facility for the Elderly.

- *Regional Center of the East Bay.* It is anticipated that a total of 42 consumers will reside in BAHP homes. With **(1)** 20 consumers living in "SB 962" Homes; **(2)** 17 consumers living in Specialized Residential Homes, and **(3)** five consumers living in Residential Care Facility for the Elderly.

There are several critical steps to the BAHP roll-out, including the acquisition of properties, closure of escrow, working with local zoning and building requirements which can vary across the various jurisdictions (i.e., 13 different cities and towns, plus county requirements), obtaining providers to operate the homes and provide services, obtaining licensing approval, and working closely with consumers and their families.

Background— Bay Area Housing Plan (BAHP). The enactment of Assembly Bill 2100 (Steinberg), Statutes of 2004 and Senate Bill 962 (Chesbro), Statutes of 2005, authorized the DDS to approve proposals from the Bay Area Regional Centers (i.e., San Andreas RC, RC of the East Bay, and Golden Gate RC) to provide for, secure, and assure the payment of leases for housing for people with developmental disabilities.

A key component of this plan is a partnership between the DDS, the housing developer—Hallmark Community Services--, the three Bay Area Regional Centers, and the Bay Area non-profit housing development corporations. Through this partnership, they have secured the necessary agreements for bond financing with the California Housing Finance Agency (CalHFA) and construction financing with the Bank of America. These funds are used to acquire properties and either renovate or construct "SB 962" Homes, Family Teaching Homes, and Specialized Residential Homes.

The entire bond package, issued in phases, will total in the aggregate about $120 million. The bonds will fully amortize over 15 years. The purpose of the taxable and tax-exempt bonds is to fund the permanent financing of the BAHP properties upon completion of respective renovation and occupation by consumers.

Background—New Models for Residential Services. To address the needs of Agnew's residents, various new models for community-based residential services have been structured. These are briefly described below.

- *"SB 962" Homes.* Senate Bill 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. Examples of health services that can be provided in this type of home include, but are not limited to, nutritional support; gastrostomy feeding and hydration; renal dialysis; and special medication regimes including injections, intravenous medications, management of insulin, catheterization, and pain management. Nursing staff will be on duty 24-hours per day.

  This pilot is a joint venture with the Department of Social Services (DSS) and will 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.

- *Specialized Residential Homes.* These homes are designed for individuals with behavioral challenges or other specialized needs, and will serve from three to four consumers per home. These homes provide 24-hour on-site staff with specialized expertise to meet the unique needs of the individuals. These homes have the capability for on-site crisis response.

It should be noted that when a majority of the consumers living in this model of home turns age 60, the home will need to be re-licensed as a Residential Care Facility for the Elderly (RCFE) (as required by state statute). Therefore, all BAHP Specialized Residential Homes will be constructed to address the physical plan requirements for an RCFE licensure.

- *Family Teaching Homes.* Among other things, Assembly Bill 2100 (Steinberg), Statutes of 2004, 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 individual’s home and provides direct support when needed. Wrap-around services, such as work and day program supports, are also part of this model.

Background--Individualized Health Plan for Each Consumer. As part of their Individual Program Plan (IPP) process prior to transitioning from Agnews, each Agnews’ resident will receive a comprehensive nursing and risk assessment which is comprised of over 60 health-related items. This assessment is then used to develop a Health Transition Plan that is incorporated into the IPP.

The Health Transition Plan specifically states how each health need will be met following transition from Agnews, as well as the provider of each service.

Background—Consumer “Post-Placement” Monitoring. Upon an individual’s move to a community living arrangement, state staff and Regional Center staff are to closely monitor the placement to ensure a smooth transition. ***Key* monitoring activities include the following:**

- State staff provide follow-up with the consumer at five days, 30 days, six months, and 12 months after the move;
- Regional Center staff conducts face-to-face visit every 30 days for the first 90 days after the move and as determined by the Individual Program Plan thereafter;
- State staff, in coordination with RC staff, provide additional visits, supports and onsite training to the consumer and service provider as needed to address the individual’s service needs;
- For the first year following transition from a Developmental Center, consumers receive enhanced Regional Center case management. For Agnews Developmental Center residents, the enhanced case management is for two years;
- A Quality Assurance Council, consisting of family members, consumers, and providers has been convened to review and monitor the quality of services provided to consumers who have moved from Agnews;
- Medically fragile consumers transitioning from Agnews to homes licensed by the Department of Social Services for consumers with special health care needs will be visited by a nurse at least monthly, or more frequently as appropriate. In addition, these consumers will be seen by a physician at least every 60-days or more frequently if specified in the consumer’s healthcare plan;
- For every individual who has moved from a Developmental Center since April 1995, an independent contractor evaluates the consumer’s quality of care, programs, health and safety, and satisfaction; and

- The Organization of Area Boards conducts a Life Quality Assessment once every three years for every consumer living in an out-of-home community setting. These assessments assist in ensuring that people are receiving the services they need.

Legislature's Actions From Budget Act of 2007. Several actions were taken by the Legislature to strengthen various aspects of the Agnews closure in order to more comprehensively ensure the health and safety of people who are moving, and to assist in ensuring the life quality of people presently living in the community who have already transitioned from Agnews. A summary of these key actions are as follows:

- Augmented by $503,000 ($126,000 General Fund) to provide four new positions at the Regional Centers to serve as Health Care Community Specialists in the surrounding communities of Agnews. (This is funded in the budget.);
- Required the Secretary of the Health and Human Services Agency to verify detailed health care protocols across departments and programs to ensure continuity of consumer's health care and accountability within the Administration, as well as at the community level between Regional Centers and Medi-Cal Managed Care Plans. (These have been completed.)
- Required the Department of Health Care Services to appropriately fund Medi-Cal Managed Care Plans to provide health care services to people transitioning from Agnews;
- Required the DDS to continue operation of the Agnews DC Outpatient Clinic as stated in statute. (DDS is continuing as required.)
- Adopted comprehensive reporting requirements, including having the DDS provide the Legislature with a detailed report on the closure by January 10, 2009. This is in addition to the presently required update at the May Revision (May 15, 2008).

Subcommittee Staff Comment and Recommendation—Wait for May Revision. The proposed adjustments are consistent with the Administration's updated plan provided to the Legislature on January 10, 2008, as required by statute. The Administration will be updating the Agnews plan at the time of the Governor's May Revision. It is recommended to leave this issue open until this time.

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

1. DDS, Using the table as contained in the Agenda, please provide a *brief* description of each expenditure component.
2. DDS, Please provide *brief* update regarding the Bay Area Housing Plan and when **all** of the homes will be ready to receive people transitioning from Agnews.
3. DDS, Please provide a *brief* update regarding the provision of health care services in the community.
4. DDS, Is it likely that the Administration's proposed Agnews closure date of June 30, 2008 will actually occur sometime during the first quarter of the new fiscal year (i.e., between July 1 and September 30, 2008)? Can a later date pose any concerns?

2. Governor's Unallocated Reduction of $192.7 million to Regional Centers

Issue. The Governor's January budget contains an "unallocated" reduction of $192.7 million ($112.7 million General Fund) to the "Purchase of Services" within the Regional Centers budget. This unallocated reduction is *in addition* to the Governor's reduction of $252.1 million (General Fund) as adopted by the Legislature in Special Session.

No clear explanation of this "unallocated" reduction has yet to be provided to Subcommittee staff. The DDS did finally release a report *last week* done by Acumen and Associates regarding Regional Center expenditures from certain prior years (latest being 2005-06). This report was intended to provide data regarding historical expenditures and service areas with increasing costs. However, even with the release of this report, the DDS has not been forthcoming as to how their $192.7 million ($112.7 million General Fund) was derived or the key aspects of this report which were of use to the Administration.

The DDS states that the current estimating model used to project the Purchase of Services expenditures projects significant growth in 2008-09 in certain categories, including (1) Community Care Facilities; (2) Day Programs; (3) Supported Services; (4) In-Home Respite; and (5) Miscellaneous Services. The DDS believes these particular Purchase of Services categories to be projecting cost increases above caseload growth and that utilization of services (i.e., number or frequently of services provided).

Specifically, the DDS assumes that the "unallocated" reduction of $192.7 million ($112.7 million General Fund) comes from the following:

- Support Services $127.9 million
- Community Care Facilities $ 77.9 million
- Miscellaneous Services $ 50.3 million
- Day Programs $ 39.2 million
- In-Home Respite $ 34.3 million

Again however, the DDS has not provided Subcommittee staff with any analysis as how this was derived or what this "unallocated" reduction would mean with respect to Regional Center consumer's health, welfare and safety. Further, this "unallocated" reduction is on top of the Governor's reductions associated with various "cost containment" measures already approved by the Legislature in Special Session.

DDS contends that a number of factors *could be* responsible for increased costs including, *but not limited to*: (1) the transition of children from public school funding to Regional Center funding; (2) aging parents who require increasing support to maintain their adult children at home or who require their children to be placed out-of-home; (3) the increasing longevity of consumers requiring more support services; (4) the movement of consumers from Developmental Centers who require significant community-based services; and (5) the increase in children diagnosed with Autism, who often require specialized, expensive services.

<u>Governor's Reductions Adopted by the Legislature in Special Session—Regional Center.</u> The table below summarizes the Governor's reductions adopted by the Legislature in Special Session that directly affect the Regional Centers budget (both Purchase of Services and Operations).

Most of the adopted reductions are attributable to the Governor's proposal to make *permanent* cost containment measures enacted in prior years regarding Regional Center Purchase of Services funds and Operations funds.

With respect to the Governor's reductions for Purchase of Services funds, these measures included the following: (1) Freezing rates for Non-Community Placement Start-Up; (2) Freezing rates for Day Program, Work Activity, and In-Home Respite services; (3) Freezing rates for Community Care Facilities (CCF) and eliminating the SSI/SSP pass-through to these facilities; (4) Freezing all Regional Center negotiated rates and establishing limits for new negotiated rate programs and services; and (5) Freezing rates for Habilitation Services.

Governor's Reductions Adopted by Legislature in Special Session

Department of Developmental Services **Community Based Services/Regional Centers**	Reduction for 2007-08 (General Fund)	Reduction for 2008-09 (General Fund)
Community-Based Services		
Governor's Cost Containment Measures for Purchase of Services (POS)		-$228,800,000
Governor's Expansion of Family Cost Participation Fee		-$773,000
Subtotal of Purchase of Services Reduction		**-$229,573,000**
Governor's Cost Containment for Regional Center Operations		-$20,500,000
Governor's Reduction: Community Placement Operations by 10%	-$660,000	-$2,000,000
Governor's Reduction: Regional Center Operations for HIPAA	-$23,000	-$71,000
Subtotal of Regional Center's Operations Reduction		**-$22,571,000**
TOTAL General Fund Reduction	**-$683,000**	**-$252,144,000**

The Legislature adopted the Governor's statutory changes as requested for the reductions specified in the table above. These statutory changes are contained in Assembly Bill 5 XXX, Statutes of 2008.

<u>Legislative Analyst's Office Comment.</u> The LAO believes that the Regional Centers are likely under-budgeted due to the DDS' proposed $192.2 million ($112.7 million General Fund) "unallocated" reduction. As such, the LAO recommends for the DDS to report at budget hearings on the *specific causes* for the increased utilization of services and costs.

The LAO states that without accurate information, the Legislature lacks the information it needs to assess the causes of the growth in the program and to determine which policies would be most effective to contain these costs.

<u>Subcommittee Staff Comment and Recommendation—Hold Open.</u> The DDS is *not* providing $192.7 million ($112.7 million General Fund) for the Purchase of Services to recognize growth due to estimated cost and utilization of services. This equates to an "unallocated" reduction on top of the Governor's cost containment proposals adopted by the Legislature.

The DDS has not provided any rational as to how this figure was fully derived, nor have they provided information on how this proposed reduction will directly affect consumers or various provider groups.

It is recommended to leave this issue open until the DDS is forthcoming with specific information.

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

1. DDS, Please describe how the “unallocated” reduction of $192.7 million ($112.7 million General Fund) was derived?

2. DDS, Specifically, how will the Governor’s “unallocated” reduction affect consumers of Regional Center services? How will it affect the specific categories of providers?

3. DDS, When will a comprehensive analysis of the Purchase of Services costs be provided to the Legislature?

4. DDS, Will the Administration be proposing any statutory changes regarding this “unallocated” reduction? If not, how does the Administration expect to achieve the reduction?

3. Governor's Proposal to Reduce Clients' Rights Advocacy

Issue. The Governor has proposed to reduce the contract for Clients' Rights Advocacy services by 10 percent. The current contract cost is projected to be $5.1 million (General Fund). The Governors proposal would reduce this by $512,000 (General Fund) for a total expenditure of $4.6 million for 2008-09.

The DDS states that the reduction would decrease the contractor's ability to provide direct advocacy assistance and consultation to consumers and their families, as well as indirect assistance such as training and educational efforts.

Background—Client's Rights Advocacy Contract. Existing statute requires the DDS to contract with an outside entity for the provision of clients' rights advocacy Section 4433 of Welfare and Institutions Code). This was done to avoid any appearance of a conflict of interest (by the DDS or the Regional Centers).

The DDS contracts with Protection and Advocacy, Incorporated through its Office of Clients' Rights Advocacy for the statewide provision of clients' rights advocacy to consumers served by the 21 Regional Centers.

Subcommittee Staff Recommendation—Adopt the Governor's Reduction. Clearly clients' rights advocacy is an important service for people. However, funding for direct services needs to be the priority. Further the Organization of Area Boards, which is federally funded, also provides some clients' rights advocacy assistance to people with developmental disabilities and their families. As such given the fiscal crisis, it is recommended to adopt the Governor's reduction proposal.

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

1. DDS, Please provide a brief description of the program and the Governor's proposed reduction.

4. Governor's Reduction to Supported Employment Programs

Issue. The Governor is proposing a reduction of $9.6 million ($7.7 million General Fund) to reduce the 24 percent rate increase provided to Supported Employment Programs in the Budget Act of 2006, by 10 percent.

The Governor's proposed 10 percent reduction would reduce the rate for job coach services from $34.24 to $30.82 per hour. Trailer bill language would be needed to implement this reduction. The savings level assumes a July 1, 2008 effective date.

The Budget Act of 2006 provided a 24 percent increase in Supported Employment Programs to assist in the development of employment services for persons with developmental disabilities. Specifically, it was increased from $27.62 per hour to $34.24 per hour. This rate increase was expected to assist in the development of 600 additional new jobs annually.

The DDS rate reduction does not assume any reduction in the number of consumers entering employment services.

Background—Supported Employment Programs. 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.

Supported Employment Programs provide services for individually employed consumers (individual placements), as well as consumers employed in group settings (group employment.)

The caseload is affected by Regional Centers 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.

Legislative Analyst's Office Recommendation—Adopt Governor's Reduction. The LAO recommends adoption of the Governor's 10 percent reduction.

Subcommittee Staff Recommendation—Hold Open Pending May Revision. It is recommended to hold this issue open pending receipt of the May Revision.

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

1. DDS, Please provide a brief description of the program and the Governor's proposed reduction.

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

Outcomes for Subcommittee No. 3: Monday, April 17th (Room 4203)
(Please use with the Agenda for this day)

- Teri Delgadillo is the Director of Dept.

ISSUES FOR "Vote Only" (Page 6 Through Page 8)

- **Action:** Vote Only Calendar adopted.
- **Vote:** 3-0

ISSUES FOR DISCUSSION—Developmental Centers (Page 9)

1. Governor's Proposal to Defer Expansion at Porterville DC (Page 10)

- **Action:** Approved the Governor's reduction.
- **Vote:** 3-0

2. DDS Request for Augmentation for Security on 96-Bed Expansion (Page 11)

- **Action:** Denied the Administration's requested augmentation.
- **Vote:** 2-1 (Senator Wyland)

3. Porterville Capital Outlay for 24 Satellite Kitchens/Dinning Rooms (Page 12)

- **Action:** Deferred this capital outlay project for one year due to the fiscal crisis for savings of $18 million (General Fund). (DOF, please note "deferred for purposes of the pinks please).
- **Vote:** 3-0

ISSUES FOR DISCUSSION-- COMMUNITY-BASED SERVICES (Page 13)

1. Funding Regarding Agnews DC Closure: Issue "A" & Issue "B" (Page 14)

Issue "A"—Discussion of Agnews Developmental Center Funding (Page 15)

- **Action:** Adopted the Budget Bill Language as contained in the Agenda. We will also have an update to this issue at the May Revision.
- **Vote:** 3-0

Issue "B"— Regional Center Expenditures with Agnews DC Closure (Page 19)

- Open pending Governor's May Revision.

2. Governor's Reduction of $192.7 million to Regional Centers (Page 24)

- Open pending Governor's May Revision.

3. Governor's Proposal to Reduce Clients' Rights Advocacy (Page 27)

- **Action:** Approved the Governor's reduction.
- **Vote:** 3-0

4. Governor's Reduction to Supported Employment Programs (Page 28)

- Open pending Governor's May Revision.

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

Chair, Senator Elaine K. Alquist
Senator Alex Padilla
Senator Mark Wyland

Agenda

Monday, April 21, 2008
10:30 a.m.
Room 112
(Eileen Cubanski, Consultant)

Vote-Only Agenda

Discussion Agenda

Item	**Department**	**Page**
5180	Department of Social Services	

Vote-Only Agenda

Vote-Only Issue 1: DSS – Stop Disclosure of Sibling Contact Information (AB 2488)

Description: The Governor's Budget proposes to repeal Assembly Bill (AB) 2488 (Chapter 386, Statutes of 2006) for a savings of $2.1 million ($1.2 million General Fund) and elimination of three positions. Of this, $289,000 ($195,000 General Fund) is for state operations and $1.8 million ($1.1 million) is for local assistance.

AB 2488 reduces the age from 21 years to 18 years that the Department of Social Services (DSS) or an adoption agency may release the names and addresses of siblings to one another. It also permits an adoptee or sibling under 18 years of age, with permission from his or her adoptive parent or legal parent or guardian, to waive confidentiality of contact information for release to a sibling. In cases where there is no waiver on file, AB 2488 authorizes the court to appoint a confidential intermediary, which could be the DSS, to search for one sibling on behalf of the other.

Although funding was requested by the Administration and provided by the Legislature to implement AB 2488 in 2007-08, the Governor vetoed the funds and delayed implementation for one year. Notwithstanding the veto in funding, DSS has already issued an all-county letter, revised the waiver forms, and updated their web site to assist counties in implementing AB 2488. There are also some counties (but not all) that are already implementing AB 2488 at the local level.

Staff Recommendation: Adopt the reduction of $2.1 million ($1.2 million General Fund) and three positions, but delay implementation for two years, rather than repeal AB 2488, by adopting the following trailer bill language:

"The effective date of the provisions of Chapter 386, Statutes of 2006 shall be delayed until July 1, 2010. It is the intent of the Legislature that counties that are already implementing some or all of the provisions of Chapter 386, Statutes of 2006 continue to do so to the extent possible."

Trailer bill language to delay implementation of the bill is necessary to avoid an unfunded state mandate on counties. Notwithstanding the merits of AB 2488, this action is consistent with the goal of delaying funding of new programs in an effort to preserve current direct service levels in other areas of the budget to the extent possible.

Vote-Only Issue 2: DSS – Implementation of the *Conlan v. Shewry* (Conlan II) Court Order

Description: The Governor's Budget requests $85,000 ($42,000 General Fund) and one, two-year limited-term position for continued implementation of the Conlan II court order. This position was administratively established in the current year pursuant to budget bill language that provided DSS authority to shift funding from local assistance to state operations for the purposes of implementing the court order. DSS is requesting continuation of that budget bill language in 2008-09.

On November 16, 2006, the court approved the State's Conlan II implementation plan. Conlan II requires DSS to reimburse In-Home Supportive Services recipients for out-of-pocket, medically necessary expenses for: 1) the three-month period prior to the month the recipient applied for Medi-Cal (the retroactive period); 2) from the date the recipient applied for the Medi-Cal program until their Medi-Cal card is issued (the evaluation period); and 3) excess co-payment and excess share of cost charges after the recipient's Medi-Cal card is issued (the post-approval period). Claims fall into two separate categories: claims for services received June 27, 1997 through November 16, 2006, must be received by the Department of Health Care Services by approximately November 16, 2007; and claims for services received on or after November 16, 2006, must be submitted within approximately one year of receipt of services as part of the permanent IHSS program.

Originally, it was anticipated that the greatest Conlan II workload would result from the claims received June 27, 1997 through November 16, 2006, but the majority of workload DSS is now experiencing is generated from the post November 16, 2006 claims. It is anticipated that there will be ongoing workload resulting from Conlan II, but DSS still does not have enough experience to know how heavy that ongoing workload will be.

Staff Recommendation: Approve the request for funding and a limited-term position. Approve continuation of the budget bill language for one more year.

Vote-Only Issue 3: DSS – Resources for Title IV-E and Higgins Reviews

Description: The Governor's Budget requests $570,000 ($285,000 General Fund) and continuation of six limited-term positions for two additional years to complete the 2004 relative placement and Title IV-E reviews required by the stipulated settlement agreement in the *Higgins v. Saenz* lawsuit.

DSS is required by a corrective compliance plan with the federal Department of Health and Human Services (DHHS) Region IX to complete a review of 2004 Title IV-E relative placement cases to verify the accuracy of the county's claiming. Concurrently, the *Higgins v. Saenz* settlement requires DSS to review a statistically valid sample of each county's 2004 relative and nonrelative extended family members placements to determine compliance with safety rules and regulations. DSS received nine, two-year limited-term positions in 2006-07 to conduct the reviews.

The reviews began in 2006 and were to be completed by June 30, 2008. However, DSS indicates that the reviews have been much more labor intensive than they anticipated. As a result, only 19 counties' reviews are being finalized, 19 counties' are still in process, and the reviews in 20 counties have not begun yet. DSS indicates that they will have completed all remaining reviews within the two-year period. Federal funds were disallowed in 2002 and 2003 for the State's failure to demonstrate compliance with safety standards. Although the federal Administration for Children and Families did not cite this as an issue in our latest Title IV-E review and Child and Family Services Review, they know the State is working toward compliance through the *Higgins v. Saenz* settlement.

Staff Recommendation: Approve the requested funding and positions.

Vote-Only Issue 4: DSS – Payments for For-Profit Foster Care Facilities (AB 1462)

Description: The Governor's Budget requests $99,000 ($63,000 General Fund) and one, two-year limited-term position to implement Assembly Bill (AB) 1462 (Chapter 65, Statutes of 2007). There is no local assistance funding estimated to be needed to implement this bill.

AB 1462 permits counties to use federal foster care funds to pay for the board and care costs in for-profit group home foster care facilities for the care and supervision of children receiving services from both county welfare departments and regional centers. It limits each county to no more than five placements in any one county. Prior to AB 1462, only non-profit foster care group homes were eligible to receive federal funds. The requested position would develop programmatic, fiscal, and audit policies and procedures to implement the bill.

Staff Recommendation: Reject the requested funding and position and adopt the following trailer bill language to delay implementation for two years:

"The effective date of the provisions of Chapter 65, Statutes of 2007 shall be delayed until July 1, 2010."

Notwithstanding the merits of AB 1462, this is consistent with the goal of delaying funding of new programs in an effort to preserve current direct service levels in other areas of the budget to the extent possible.

Vote-Only Issue 5: DSS – Self-Sufficiency for Disabled Emancipating Foster Youth (AB 1331)

Description: The Governor's Budget requests $99,000 ($63,000 General Fund) and one, two-year limited-term position to implement Assembly Bill (AB) 1331 (Chapter 465, Statutes of 2007). There is also $1.5 million ($1.1 million General Fund) in local assistance funding estimated to be needed to implement this bill.

AB 1331 requires counties to screen foster youth between the ages of 16.5 and 17.5 years for potential eligibility for Supplemental Security Income (SSI) upon emancipation, and, if the youth is found potentially eligible, to apply to the federal Social Security Administration (SSA) on the youth's behalf. Counties are required to shift the potentially eligible foster youth to state-only foster care during the period of application to SSA, as current federal requirements do not permit foster youth to apply for federal SSI benefits at the same time as they are receiving federal foster care funding. The DSS is requesting a position to provide state leadership to counties to ensure successful implementation of the bill and to continue to work with the federal government toward allowing foster youth to apply for SSI benefits even while receiving federal foster care benefits. The local assistance funding reflects the costs of the counties in performing the screenings and making the applications to SSA, as well as the state-only grant costs for the foster youth while their application is in process.

Staff Recommendation: Reject the requested funding and position for DSS. Approve the local assistance funding. By ensuring that disabled foster youth are able to obtain SSI benefits as soon as they emancipate from the foster care system, this bill ensures that they are able to live self-sufficiently, which will result in forgone costs in other areas of the budget.

Vote-Only Issue 6: DSS – Foster Care Residentially-Based Services (AB 1453)

Description: The Governor's Budget requests $308,000 ($195,000 General Fund) and three, two-year limited-term positions to implement Assembly Bill (AB) 1453 (Chapter 466, Statutes of 2007). There is no local assistance needed to implement this bill.

AB 1453 requires that a plan for restructuring the current group home foster care system to a residentially based services system be submitted to the Legislature by January 1, 2011. The Casey Family Foundation is contributing $1.9 million and three staff annually for the next three years to support implementation efforts at the state and local levels and to obtain national consultation and evaluation. DSS is requesting three staff to oversee the Casey staff, convene stakeholder workgroups, develop and implement policies and procedures, provide statewide oversight and technical assistance, update the State's Title IV-E plan, and provide status reports to the Legislature.

Staff Recommendation: Reject the requested funding and positions. Notwithstanding the merits of AB 1453, this action is consistent with the goal of delaying funding of new programs in an effort to preserve current direct service levels in other areas of the budget to the extent possible. Funding from the Casey Family Foundation is expected to continue and DSS will have to work within current resources to support those efforts.

Vote-Only Issue 7: DSS – Child Welfare Services: Resources Family Pilot Program (AB 340)

Description: The Governor's Budget requests $440,000 ($278,000 General Fund) and four, two-year limited-term positions to implement Assembly Bill (AB) 340 (Chapter 464, Statutes of 2007). The estimated local assistance funding needed to implement this bill is $870,000 ($377,000 General Fund).

AB 340 establishes a three-year pilot project in up to five counties to test implementation of a strategy developed by DSS and the County Welfare Directors Association (CWDA) over the past three years to consolidate the existing separate and duplicative processes for licensing foster family homes, approving relatives and non-related extended family members, and approving adoptive families. California currently has three separate processes for licensing foster parents, approving relative caregivers, and approving families to adopt children in foster care. These processes are governed by three different statutory codes, sets of regulations, funding streams, and, in some cases, different government entities. As part of the Program Improvement Plan resulting from the 2002 Child and Family Services Review (CFSR), DSS agreed to develop a legislative proposal for a caregiver assessment process that would combine foster care licensing, including relative approvals, and adoption home studies into a single process. AB 340 is the result of that effort.

Staff Recommendation: Reject the requested state operation funding and positions and local assistance funding. Notwithstanding the merits of AB 340 and the potential need to do these efforts that could result from our next CSFR, this action is consistent with the goal of delaying funding of new programs in an effort to preserve current direct service levels in other areas of the budget to the extent possible.

No trailer bill language is needed to delay implementation of this bill because it already contains a provision that would delay the three-year period of the pilot project from commencing until funding is provided. DSS agrees that, based on this provision, without funding being provided, the implementation of the bill is delayed.

Vote-Only Issue 8: DSS – Staff Required for Implementation of State Law Supporting Recent Mandated Changes to Federal Child Welfare Laws (SB 740)

Description: The Governor's Budget requests $2.0 million ($1.3 million General Fund) and 20 permanent positions to implement Senate Bill (SB) 740 (Chapter 583, Statutes of 2007). There is also an estimated $1.4 million ($666,000 General Fund) in local assistance funding needed to implement this bill.

SB 740, an Administration-sponsored bill, conforms state law to recent changes in federal law to enable the State to fully implement the federal Safe and Timely Interstate Placement of Foster Children Act of 2006, the Adam Walsh Child Protection and Safety Act of 2006, the Child and Family Services Improvement Act of 2006, and the Hague Convention on the Protection of Children and Cooperation in Respect of Intercountry Adoptions. During the discussions on SB 740 as the bill moved through both the policy and appropriations committees in both houses through the summer of 2007, DSS estimated the state operations costs of the bill to be about one-half of the request eventually submitted in the 2008-09 budget. The Administration never released a formal bill analysis of SB 740, although they state that the budget request is consistent with the enrolled bill analysis. While it is clear that there is additional workload associated with implementing SB 740 and the many recent changes in federal law, it is unclear what changed in DSS' workload estimation between August 2007, when the bill was passed by the Legislature, and September 2007, when the bill was signed by the Governor. The Legislature voted on SB 740 with an understanding that there would be a certain fiscal impact to doing so.

Staff Recommendation: Approve $657,000 General Fund and associated federal funding, and 10 permanent positions; require DSS to report in writing by May 5, 2008, to the Subcommittee on which positions they will establish and for which activites.

Discussion Agenda

5180 Department of Social Services

DSS Issue 1: Reduce County IHSS Administrative Costs by Ten Percent

Description: The Governor's Budget proposes a $24.4 million ($10.2 million General Fund) reduction to administrative funding for counties for the In-Home Supportive Services (IHSS) Program. This is approximately a 10 percent reduction. There is also trailer bill language proposed that would extend the reassessment period from 12 to 18 months, which is intended to reduce the counties' IHSS administrative workload.

Background: The IHSS Program provides in-home assistance to eligible aged, blind, and disabled individuals with the goals of allowing those individuals to remain in their homes and avoid institutionalization. Services covered by the IHSS Program include domestic and related services, non-medical personal care services, transportation, and paramedical services. The IHSS Program is administered locally by county social services agencies. The Department of Social Services (DSS) provides administrative direction and oversight of the IHSS Program.

As part of the budget balancing reductions proposed for the special session, the Administration proposed to reduce non-medical domestic and related services hours in IHSS by 18 percent, effective July 1, 2008. Hours in the domestic services, meal preparation, meal clean-up, laundry, food shopping, and shopping errands categories were proposed for reduction. The cuts would have resulted in an average reduction of 6.6 hours per client per month and total estimated savings of $336.6 million ($109.4 million General Fund).

The proposed reduction to IHSS hours was heard by the Senate Committee on Budget and Fiscal Review on January 30, 2008, and was not adopted during the special session. As was discussed during the January 30 hearing, it is highly doubtful that the level of savings estimated by the Administration as a result of their proposal would materialize. This is because there would have remained the ability for IHSS recipients to appeal the reduction in hours and to request reassessments, which would have led to the restoration of hours.

2008-09 Proposed 10 Percent Reduction to IHSS Administration: The budget also proposes a $24.4 million ($10.2 million General Fund) reduction to administrative funding for counties for the IHSS Program. To assist counties in achieving this reduction, there is also trailer bill language proposed that would require the reassessment period be extended from 12 to 18 months. Under current law, counties may extend the reassessment period on a case-by-case basis under specified, documented conditions. The proposed change is intended to reduce the counties' IHSS administrative workload.

There is significant concern that the proposed statutory changes will not result in the estimated savings for this IHSS reduction proposal either. With the proposed reduction to IHSS hours, the ability for recipients to both appeal the hours reduction and to request a reassessment will likely result in more IHSS administrative work for the counties even with the proposal to extend the reassessment period to 18 months. As the LAO notes in their analysis, just the passage of more time between assessments may lead to more requests by recipients for reassessments, as recipients may experience changes in their conditions.

Furthermore, although the proposed trailer bill language makes the extension from 12 to 18 months for reassessments mandatory, it does not eliminate or scale back the conditions that must exist and be documented for the 18 month extension to be granted. The County Welfare Directors Association (CWDA) indicates that counties that use the 18 month extension permitted under current law already do so for the majority of IHSS recipients who meet the specified criteria. There are also some counties that do not even bother with the 18 month extension allowed under current law because the documentation required to provide the extension is too burdensome. For those counties, it is less work to do the reassessment every 12 months. Therefore, making the 18-month reassessment period mandatory without removing the specified conditions will either not result in additional administrative savings, because any savings have already been achieved with the current law, or will actually result in increased costs for counties who currently choose not to use the 18-month extension, because they will have to incur the administrative costs to document that the required conditions exist.

Finally, there have been no adjustments to county administrative allocations to account for inflation in any DSS programs since 2001-02. By the Administration's own estimates, the shortfall in the amount of administrative funding needed by the counties and actually provided is over $800 million (over $450 million General Fund) annually. Any additional cuts to county IHSS administrative funding will have to be absorbed on top of the already existing shortfall.

Questions:

1. DSS, describe the proposal to reduce IHSS administrative funding.
2. DSS, do you anticipate that the proposed trailer bill language will really generate a 10 percent reduction in county workload? If not, what do you anticipate the impact of a 10 percent reduction to IHSS administration will be?

Staff Recommendation: Hold open.

DSS Issue 2: IHSS Quality Assurance

Description: The Governor's Budget proposes trailer bill language that would eliminate the existing statutory quality assurance requirements for DSS in the IHSS Program. It would also eliminate provisional budget language that requires DSS to convene periodic meetings during the 2008-09 fiscal year with stakeholders to provide information regarding quality assurance, program integrity, and program consistency efforts in the IHSS Program. Finally, the Governor's Budget requests $439,000 ($220,000 General Fund) to make five positions permanent that are currently limited term. These positions are responsible for the implementation, administration, and monitoring of the IHSS Plus Waiver (IPW).

DSS will also report to the Subcommittee on the impact of the IHSS quality assurance regulations as required by provisional language in the 2007-08 Budget Act.

Background: The IHSS Program relies on county social workers to determine the number of hours for each type of IHSS task that a recipient needs in order to remain safely in his/her own home. Typically, social workers conduct reassessments once every 12 months to determine whether the needs of a recipient have changed. After the social worker has determined the appropriate tasks and time needed for each, a notice of action (NOA) is sent informing the recipient of the number of assigned hours for each task.

Prior to the Quality Assurance (QA) initiative, social workers relied significantly on their own judgment when determining the number of service hours to provide to IHSS recipients. As a result, IHSS recipients with similar disabilities, but residing in different counties, may not have been granted similar hour allocations. Another way to identify social worker variance in assigning hours is to compare the average hour allocations per case among the ten largest counties. Among California's ten largest counties in 2006-07, average hours per case ranged from 69 to 101 hours. The assumption is that these large counties are serving similar populations. Thus, differences in the average hours assigned are likely to be the result of social worker discretion and practice.

Quality Assurance Implementation: The 2004-05 Budget Act established an IHSS QA 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) QA 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.

To meet the requirements of the 2004-05 Budget Act, DSS led a workgroup composed of state representatives, county staff, legislative staff, and advocacy groups. The workgroup collected information from each county on the average number of hours granted per IHSS case. They then considered various levels of IHSS recipient ability, and developed corresponding ranges of times that would be appropriate for 12 of the 15 tasks identified by the workgroup. From this workgroup and after lengthy debate and consultation, hourly task guidelines (HTG) were created to provide social workers with a standardized tool to ensure that service hours are authorized consistently and accurately throughout the State. Due to ongoing concerns that HTG might result in substantial decreases in hours not attributed to a decrease in consumer need, the 2004-05 Budget Act required DSS to assess the initial impact of HTG.

Since September 2006, HTG have been used statewide by social workers during their assessments. The guidelines help social workers to determine a recipient's level of ability to perform each IHSS task. After determining a recipient's level of ability, the social worker decides if the number of hours of assistance needed per week is within the HTG range for a particular task. The HTG do not take away the individualized assessment process, but instead require a social worker to provide a written justification if a recipient is assessed as needing hours that are outside (either above or below) the range established by the HTG. These task guidelines are intended to increase the probability of consistent assessments throughout the State.

In a further effort to achieve uniformity, the IHSS Social Worker Training Academy was developed as a standardized method to educate social workers on the IHSS Program, quality assessment practices, and the proper usage of the HTG tool. Interviews with county workers suggest that HTG and uniform training will likely increase the uniformity of assessments among counties so that IHSS recipients moving from one county to another will not likely experience large increases or decreases in their hour allocations.

Quality Assurance Fiscal Effect: The Governor's Budget for 2007-08 originally estimated savings resulting from QA implementation of $161.8 million ($52.6 million General Fund). These savings were assumed to result from statewide uniformity in needs assessments and service authorizations and the use of uniform assessment guidelines, the hiring of additional county staff, earlier reassessments of IHSS participations, and anti-fraud activities. The Governor's Budget for 2008-09 estimates that those savings have completely eroded and that there are no savings for 2007-08 and 2008-09.

Notwithstanding the lack of direct savings in the budget from the QA initiative, there are other significant fiscal benefits. The QA requirements are critical to ongoing approval of the IHSS Plus Waiver (IPW) (this issue is discussed further below). Through the IPW, the State is able to obtain $140 million in federal funds to provide services to IHSS recipients whose services used to be funded solely with General Fund and county funds.

IHSS Plus Waiver (IPW): In July 2004, the State received a five-year Independence Plus, Section 1115 Demonstration Waiver from the federal Centers for Medicare and Medicaid Services (CMS) (called the IHSS Plus Waiver). This waiver permits the State to provide in-home consumer directed services with federal funds to individuals historically served in the non-federal IHSS Residual program. The individuals covered under the IPW include: 1) recipients whose services are provided by a spouse or parent (if the recipient is a minor child); 2) recipients receiving advance cash payments; and 3) recipients with restaurant meal allowances. There are 26,000 people now covered by the IPW who were formally served through IHSS with state and county funds. Receipt of federal funding for IHSS services for these individuals will enable the State to save an estimated $140 million General Fund in 2008-09.

As a condition of IPW approval and receipt of the additional federal funds, the federal CMS required, and the State agreed on, specific QA components. These include:

- providing mechanisms to assure that the care needs of vulnerable populations participating in this demonstration (i.e., the elderly and disabled) are satisfied;
- assuring that funds provided to these consumers are used appropriately;
- providing for case management staff for purposes of monitoring participant health and welfare with quality monitoring surveys to be conducted, and the monitoring and corrective action plans to be triggered by the surveys;
- procedures for insuring against duplication of payment between the demonstration, fee for service and Home and Community-Based Services programs; and fraud control provisions and monitoring.

The statutory QA requirements embody those components and, therefore, are an integral component of the State's IPW. The DSS has stated in the past that maintaining the QA requirements are critical to meeting the requirements of the IPW. At the end of March, the federal CMS approved the State's QA plan, which included the statutory QA requirements.

2008-09 Budget Requests: The Governor's Budget includes the following requests related to QA and the IPW:

- It would eliminate all statutory state QA requirements. The Administration proposes trailer bill language to do the following:

  - Repeal the requirement for DSS to develop protocols on QA monitoring.
  - Repeal the authorization for counties to consult with DSS.
  - Amend law to provide counties with the sole authority to establish policies, procedures, and timelines for QA activities by deleting the State's role.
  - Eliminate language to remove requirements for stakeholder consultation.

  It also proposes to eliminate provisional budget language that requires DSS to convene periodic meetings during the 2008-09 fiscal year with stakeholders to provide information regarding quality assurance, program integrity, and program consistency efforts in the IHSS Program. This budget language is intended to ensure that the statutorily required consultation with stakeholders occurs annually.

  As a result of elimination of these requirements, DSS gave up $1.6 million ($788,000 General Fund) and 16 limited-term positions that were provided to implement the state QA requirements. There remains $32.6 million ($11.5 million General Fund) in local assistance to fund county QA activities.

- The Administration requests $439,000 ($220,000 General Fund) to make five positions permanent that are currently limited term. These positions are responsible for the implementation, administration, and monitoring of the IPW. The DSS was provided these positions on a limited-term basis beginning in 2004-05 when the State's waiver was approved. Although the current IPW expires on July 31, 2009, DSS believes that the State will continue to receive the waiver. Therefore, they argue that conversion of these limited-term positions is justified.

Comments on the 2008-09 Budget Requests: The proposed elimination of the IHSS QA requirements appears to violate the State's agreement with the federal CMS and could jeopardize continued approval of the IPW and receipt of associated federal funding. Furthermore, while a great deal of work has been accomplished under the QA initiative, there are several projects that have not been completed. For example, there has been a greater consistency in assessments and the service hours provided to recipients with similar circumstances, but it is not known whether it is the HTG or some other aspect of the QA plan is having this impact. There are also regulatory revisions that are not complete. It is important that the stakeholder process established through the QA statutes remain intact while these issues get resolved.

Finally, if continued approval by the federal CMS of the IPW is jeopardized by the elimination of the QA requirements, it is not clear why the requested positions related to the IPW should be continued and made permanent.

Questions:

DSS, what is the impact of the QA regulations to date?
DSS, describe the relationship between the QA requirements in statute and the waiver. Are the QA requirements necessary for the waiver?
DSS, why did you propose to eliminate the QA requirements?
DOF, why did you agree to the elimination of the QA requirements given their importance to maintaining the waiver?

Staff Recommendation: Hold open.

DSS Issue 3: Suspension of the Supplemental Security Income/State Supplementary Payment (SSI/SSP) June 2009 Cost-of-Living Adjustment (COLA)

Description: The Governor's Budget proposes to suspend the June 2009 SSI/SSP COLAs for a savings of $30.3 million General Fund in 2008-09 and $363.9 million in 2009-10 and ongoing. The federal portion of the SSI/SSP COLA of $57.7 million in 2008-09 is proposed to be passed on.

The Governor's Budget also proposed suspending the June 2008 SSI/SSP COLA. During the special session, the Legislature delayed implementation of that COLA until October 2008, which generated General Fund savings of $67.8 million.

Background:

- **Program Description.** The SSI/SSP program provides cash grants to persons who are elderly, blind, and/or too disabled to work and who meet the program's federal income and resource requirements. Beneficiary grants generally reflect the maximum grant less any offsetting personal income. Individuals who receive SSI/SSP are categorically eligible for the Aged, Blind or Disabled Medi-Cal Program with no share of cost, for the In-Home Supportive Services Program, and may be eligible for other programs designed to support individuals living in the community. The SSI/SSP program is administered by the federal Social Security Administration. The Social Security Administration determines eligibility, computes grants, and disburses monthly payments to recipients.

  SSI/SSP grant levels vary based on a recipient's living arrangement, marital status, minor status, and whether she or he is aged, blind, or disabled. There are over twenty different SSI/SSP payment standards. Both the federal and state grant payments for SSI/SSP recipients are adjusted for inflation each January through COLAs. Federal law provides an annual SSI COLA based on the Consumer Price Index, and state law provides an annual SSP COLA based on the California Necessities Index.

  The Cash Assistance Program for Immigrants (CAPI) was established in 1997 to provide cash benefits to aged, blind, and disabled legal immigrants who became ineligible for SSI as a result of welfare reform. This state-funded program is overseen by the Department of Social Services (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.

- **Enrollment Summary.** The budget projects SSI/SSP average monthly enrollment will grow by 2.1 percent, from 1,248,000 in 2007-08 to 1,274,000 in 2008-09. Approximately 29 percent of recipients are aged, 2 percent are blind, and 69 percent are disabled. CAPI caseload is projected to increase by 19.8 percent in 2008-09, to 11,419 average monthly recipients.

- **Funding Summary.** SSI/SSP grants have two components: the SSI component, which is federally funded, and the SSP component, which is state funded. Total funding for SSI/SSP (assuming enactment of the June 2008 and June 2009 COLA suspensions) is estimated to be $9.2 billion ($3.6 billion General Fund) in 2007-08, and $9.4 billion ($3.9 billion General Fund) in 2007-08. General Fund expenditures are projected to increase by 2.9 percent, to reflect the increase in caseload. The federal funds in the SSI portion of the grant are not included in the state budget, as they are federally administered. Total funding for the CAPI program is estimated to be $109.7 million General Fund in 2007-08 and $134.1 million General Fund in 2008-09. In addition to caseload, this 22.8 percent increase is due to the increased caseload resulting from the expiration of the ten-year sponsor deeming period for the first round of CAPI recipients.

- **2009 Federal SSI and State SSP COLAs.** The budget reflects savings of $30.3 million General Fund in 2008-09 due to the elimination of the state SSP COLA of 4.25 percent. At the time the Governor's Budget was released, the California Necessities Index (CNI), upon which the SSP COLA is based, was an estimate. The final CNI is actually 5.26 percent, which results in an estimated additional SSP COLA savings of $5.3 million General Fund in 2008-09. The budget also includes the $57.7 million in additional federal funds to fully fund the federal 1.7 percent COLA for SSI. As a result of elimination of the state SSP COLA and pass-through of the federal SSI COLA, the maximum monthly SSI/SSP grant would increase from $888 to $903 for individuals and $1,558 to $1,581 for couples. Provision of the state SSP COLA would further increase grants to $935 for individuals and $1,640 for couples.

- **LAO Recommendation.** As part of their alternative budget package, the LAO recommends the deletion of the June 2008 and 2009 state statutory COLAs. This is because prior pass-throughs of the federal COLA has kept both individuals and couples above the federal poverty guideline. Moreover, the alternative continues to pass-through the federal COLA in 2009, thus ensuring that SSI/SSP recipients remain above poverty. The LAO additionally recommends reducing SSI/SSP couples grants to 125 percent of the 2008 federal poverty guideline to bring it closer to the standard for individuals, who are at 100 percent of the 2008 federal poverty guideline. The 2008 federal poverty level for one person is $10,400.

Questions:

1. Department, please describe the proposal to eliminate the SSI/SSP COLA.
2. LAO, describe your SSI/SSP recommendation.

Staff Recommendation: Hold open.

DSS Issue 4: Reduction in Child Welfare Services Allocation

Description: The Governor's Budget proposes to reduce the Child Welfare Services (CWS) allocation by $129.6 million ($83.7 million General Fund). This is an 11.4 percent reduction to the General Fund portion of the CWS allocation, excluding funds for the Child Welfare Services Case Management System, the Adoptions Program, and the Child Abuse Prevention Program. The Administration states that counties will have the flexibility to choose how to apportion the reduction to various CWS program expenditures. According to DSS, they will work with the County Welfare Directors

Association (CWDA) to develop an allocation process for apportioning the proposed reduction.

Background: The CWS program provides a variety of services designed to protect children from abuse, neglect, and exploitation. Services include Emergency Response, Family Maintenance, Family Reunification, and Permanent Placement. Through the services, the CWS program provides: 1) immediate social worker response to allegations of child abuse and neglect; 2) ongoing services to children and their families who have been identified as victims, or potential victims, of abuse and neglect; and 3) services to children in foster care who have been temporarily or permanently removed from their family because of abuse or neglect. The CWS program is overseen by the Department of Social Services (DSS), but administered by the counties, which provide the CWS services.

There has been an ongoing effort in the CWS program to determine how many cases a social worker can carry and still effectively do his or her job. In 1984, DSS and the CWDA established an agreed-upon level of cases for each program component of CWS. These 1984 workload standards are still used by DSS to calculate the base level of funding for each county.

In 1998, however, SB 2030 (Chapter 785, Statutes of 1998) required DSS to commission a study of counties' caseloads. At the time, the AB 2030 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.

More recently, DSS consulted with the Center for Public Policy Research at the University of California, Davis, to conduct an independent review of research including other states' caseload standards. The research showed that California's caseloads are higher than most other states, and it found that the SB 2030 study to be the most extensive and highly regarded effort to date to measure appropriate workload in child welfare.

Concerned about large social worker caseloads, over the years the Legislature has added additional funds, known as the "augmentation" and the Outcome Improvement Project (OIP). The Governor's workload budget proposes $187.7 million ($110.5 million General Fund) for these funding streams in 2008-09. These monies, in combination with the "hold harmless" budgeting methodology, whereby a county's funding is maintained at its prior year level when caseload declines, have enabled counties to hire more caseworkers and move toward standards established by the SB 2030 study.

Impact of the Proposed Reduction: As the Legislative Analyst's Office (LAO) points out in their Analysis, social workers and their support costs represent the majority of the CWS budget, which means that the proposed CWS reduction is likely to result in counties substantially reducing the number of social workers. The proposed reduction represents about 87 percent of the CWS augmentation and OIP monies. Therefore, a reversal of some of the progress made by counties to meet the SB 2030 standards may occur. From a statewide perspective, the LAO estimates that the proposed reduction would result in an overall decrease of 522 full-time equivalent (FTE) social workers. As a result, while the total number of FTE social workers in the State is approximately 79 percent of meeting the minimum standards for 2007-08, that figure declines to 73 percent for 2008-09. The LAO is continuing to work with DSS and counties to refine their estimates of the impact of this reduction. Other estimates of the number of social workers that will be lost indicate it is as high as 1,000 workers statewide.

The practical effect of cutting the number of social workers is that child safety and well-being will be jeopardized and systemic improvement efforts will be hampered. Some examples of the services impacts that would result from the loss of 1,000 social workers includes the following:

- In the Emergency Response program, the loss of 1,000 social workers will result in 15,880 reports of abuse and neglect per month, or 190,760 annually, going uninvestigated. This will leave children in potentially life-threatening situations.

- In the Family Maintenance program, the loss of 1,000 social workers will result in 75,350 fewer families per year receiving services to prevent foster care placement and help children remain safely at home with their own families.

- In the Family Reunification program, the loss of 1,000 social workers would result in counties being unable to reunify 27,135 children with their families.

- In the Permanent Placement program, the loss of 1,000 social workers will lead to 54,270 children remaining in long-term foster care. Fewer foster children will find permanency through adoption or legal guardianship, and services for emancipating foster youth will be reduced or eliminated.

County CWS agencies are also monitored and held accountable to state and federally mandated outcome measures. California, like most other states, did not meet all required outcomes under the federal Child and Family Service Review in 2002, but has been able to achieve significant improvement since that time. Still, California is facing an $8.9 million federal fiscal penalty, which DSS is appealing. The State is now undergoing its second federal review and will again be expected to make improvements or face fiscal penalties of approximately $80 million. There are significant concerns that the proposed CWS reduction will make it impossible for counties to meet required outcomes and achieve systemic reforms to avoid federal fiscal penalties.

Finally, there have been no adjustments to county allocations to account for inflation in any DSS programs since 2001-02. By the Administration's own estimates, the shortfall in the amount of administrative funding needed by the counties and actually provided is over $800 million (over $450 million General Fund) annually. In the CWS program alone, CWDA estimates the underfunding to be $228 million ($93.6 million General Fund) between 2001-02 and 2006-07. Counties have partially covered the shortfall by overmatching the State's contribution with local dollars by more than $150 million annually. The proposed CWS reduction will further exacerbate this historic funding shortfall.

Implementation of the Proposed Reduction: It is also unclear how the proposed CWS reduction will be implemented. The DSS indicates that statutory changes are not necessary to implement the reduction and that counties have the "flexibility" to choose how to apportion the reduction to various CWS program expenditures. However, the services provided through the CWS program are mandated by state and federal law and regulation, so it not clear what counties could avoid doing without potentially running afoul of program requirements. Furthermore, CWS program funds are allocated to the counties for specific services and functions. Counties do not have the statutory authority to move monies from one function to another to align with local decisions about where to make the CWS cuts.

LAO Recommendations: In their 2008-09 Analysis, the LAO presents three options for the Legislature's consideration in lieu of the 11.4 percent across-the-board reduction:

- Suspend the hold harmless budgeting methodology for 2008-09 for savings of $17.6 million ($6 million General Fund). This would reduce the funding to the 29 counties with declining caseloads.

- Cap social worker costs at $155,000 per worker in counties with higher than average fully loaded costs for a savings of $5.1 million. The LAO derived the cap by applying the annual California Consumer Price Index to the statewide average fully loaded social work cost of $129,074, which has been frozen since 2001-02. This would reduce the funding to seven counties with social worker costs above the proposed cap.

- Combine the above two approaches with a smaller across-the-board reduction. A three percent reduction to the CWS allocation, combined with suspending the hold harmless and capping social worker costs, would result in General Fund savings of $33.1 million.

The LAO included the suspension of the hold harmless and the capping of the social worker costs in their alternative budget.

Questions:

1. DSS, describe the proposed reduction and how it will be implemented. Why did the Administration not propose which activities should be reduced or eliminated to achieve the savings?
2. DSS, do counties have the authority to move funding among CWS programs at their discretion? If so, what statute provides that authority?
3. LAO, describe your recommendations and what you included in your alternative budget. Why didn't you include an across-the-board reduction in your alternative budget?

Staff Recommendation: Hold open.

DSS Issue 5: Privatization of Independent Adoptions

Description: The Governor's Budget proposes to privatize the Independent Adoptions Program (IAP) by transferring the direct services provision from DSS and three counties to licensed private adoption agencies. This proposal would result in net savings of $1.2 million General Fund and elimination of 18 positions in 2008-09, increasing to $2.5 million and 36 positions in 2009-10 and annually thereafter.

Background: An independent adoption is one in which the birth parent places his or her child directly with the prospective adoptive family. Independent adoptions are investigated on behalf of the court by the Department of Social Services' (DSS') seven district offices (covering 55 counties) and three county adoption agencies (Alameda, Los Angeles, and San Diego). The investigations are required by law to assess the adoptive home and determine whether the child is a proper subject for adoption. The investigation must be completed within 180 days of the filing of the adoption petition and the findings are reported to the court with a recommendation for or against the adoption petition. Current law authorizes the charging of a $2,950 fee, which helps offset the cost of the IAP. Current law also permits DSS and the three counties to defer, reduce, or waive the fee completely for low income prospective adoptive parents. There are approximately 1,000 independent adoptions finalized each year, with approximately 1,500 cases pending each month.

The total annual costs of the IAP are $4.2 million General Fund. These costs are offset by $1.7 million in fees collected annually, leaving net annual costs of $2.5 million General Fund. According to DSS, the district offices collect 60 percent of their total fees and counties collect 52 percent of their total fees. It is not known why there is a discrepancy in the fee collections by the State and counties or why fee collections are not higher.

Impact of the Proposed Reduction: The DSS indicates that an impact of this proposal will be that licensed private adoption agencies could significantly increase the adoption fees charged to prospective adoptive parents currently served by the IAP. The

DSS estimates that, on average, the costs of an independent adoption would range from $10,000 to $20,000 under a private adoption agency. This would make adoptions less affordable and reduce the number of independent adoptions that take place. A reduction in the number of independent adoptions could lead to more children being placed in the foster care system, which is significantly more expensive.

Although the Administration indicated that they did not consider increasing the IAP fees at the time the Governor's Budget was released, when asked what the fee would need to be to fully cover the costs of the IAP, DSS estimated that the fee would have to increase to $5,233. Alternatively, DSS estimated that the fee could remain unchanged if the statutory deferrals, reductions, and eliminations of the fees were eliminated. Since the release of the Governor's Budget, however, the Administration has held discussions with advocates on options for raising fees enough to cover the costs of the program, without eliminating the ability of low income, prospective adoptive parents to adopt, particularly for relative adoptions.

Questions:

1. DSS, describe the proposed reduction.
2. DSS, what is the status of discussions with advocates on alternatives to eliminating the IAP?

Staff Recommendation: Hold open pending ongoing discussions between the Administration and advocates on alternatives to eliminating the IAP.

DSS Issue 6: Foster Family Home and Small Family Home Insurance Fund Reduction

Description: The Governor's Budget proposes a $127,000 General Fund reduction to the Foster Family Home and Small Family Home Insurance Fund. This represents a 10 percent cut to the annual appropriation to the fund.

Background: The Foster Family Home and Small Family Home Insurance Fund is a depository for all funds appropriated for the purpose of paying, on behalf of foster family homes and small family homes, claims ad litem resulting from occurrences peculiar to the foster care relationship and the provision of foster care services. The fund currently contains a balance of $5.8 million in addition to the amount that is appropriated each fiscal year.

The Administration contends that there will be minimal impacts resulting from this reduction to foster family homes and small family homes, as claims paid on an annual basis have not exceeded the amount appropriated each year and the fund currently has an adequate balance to cover potential increases.

Questions:

1. DSS, describe the purpose of the Foster Family Home and Small Family Home Insurance Fund.
2. DSS, how many claims are paid annually on average? How much funding is carried over each year on average?
3. DSS, do you anticipate any increase in claims over the next couple of fiscal years? Why or why not?

Staff Recommendation: Hold open.

Senate Budget & Fiscal Review Committee
Eileen Cubanski 651-4103

Hearing Outcomes

Subcommittee No. 3
10:30 a.m., Monday, April 21, 2008

Vote-Only Agenda

5180 Department of Social Service (DSS)

- Vote-Only Issue 1: Stop Disclosure of Sibling Contact Information (AB 2488)
  Action: Adopted the proposed reduction, but delayed implementation for two years rather than eliminate the program. Adopted the following trailer bill language:

  "The effective date of the provisions of Chapter 386, Statutes of 2006 shall be delayed until July 1, 2010. It is the intent of the Legislature that counties that are already implementing some or all of the provisions of Chapter 386, Statutes of 2006 continue to do so to the extent possible."

  Vote: 3-0

- Vote-Only Issue 2: Implementation of the *Conlan v. Shewry* (Conlan II) Court Order
  Action: Approved as budgeted, including continuation of the budget bill language for one more year.
  Vote: 3-0

- Vote-Only Issue 3: Resources for Title IV-E and Higgins Reviews
  Action: Approved as budgeted.
  Vote: 3-0

- Vote-Only Issue 4: Payments for For-Profit Foster Care Facilities (AB 1462)
  Action: Rejected the requested funding and position and adopted the following trailer bill language to delay implementation for two years:

  "The effective date of the provisions of Chapter 65, Statutes of 2007 shall be delayed until July 1, 2010."

  Vote: 3-0

- Vote-Only Issue 5: Self Sufficiency for Disabled Emancipating Foster Youth (AB 1331)
  Action: Rejected the requested funding and position for DSS; approved the local assistance funding.
  Vote: 3-0 to reject the requested funding and position for DSS
  2-1 (Wyland) to approve the local assistance funding

- Vote-Only Issue 6: Foster Care Residentially-Based Services (AB 1453)
  Action: Rejected the requested funding and positions.
  Vote: 3-0

  Vote-Only Issue 7: Child Welfare Services: Resources Family Pilot Program (AB 340)
  Action: No action taken. This item was held over until May 5 hearing.

- Vote-Only Issue 8: Staff Required for Implementation of State Law Supporting Recent Mandated Changes to Federal Child Welfare Laws (SB 703)
  Action: Approved $657,000 General Fund and associated federal funding and 10 permanent positions; required DSS to report in writing by May 5, 2008, to the Subcommittee on which positions they will establish and for which activities.
  Vote: 3-0

Discussion Agenda

5180 Department of Social Services (DSS)

- DSS Issue 1: Reduce County IHSS Administrative Costs by Ten Percent
  Action: Held open.

- DSS Issue 2: IHSS Quality Assurance
  Action: Held open.

- DSS Issue 3: Suspension of the Supplemental Security Income/State Supplementary Payment (SSI/SSP) June 2009 Cost-of-Living Adjustment (COLA)
  Action: Held open.

- DSS Issue 4: Reduction in Child Welfare Services Allocation
  Action: Held open.

- DSS Issue 5: Privatization of Independent Adoptions
  Action: Held open.

- DSS Issue 6: Foster Family Home and Small Family Home Insurance Fund Reduction
  Action: Held open.

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

Chair, Senator Elaine K. Alquist

Senator Alex Padilla
Senator Mark Wyland

April 28, 2008

10:30 AM

Room 112

AGENDA

(Diane Van Maren)

Item	**Department**
4120	**Emergency Medical Services Authority (Vote Only)**
4260	**Department of Health Care Services**
4265	**Department of Public Health**
4440	**Department of Mental Health**

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.

A. ITEM FOR "VOTE-ONLY"—EMERGENCY MEDICAL SERVICES

1. Pharmaceutical Cache (Stand By) for Mobile Hospital (Finance Letter)

Issue. The Subcommittee is in receipt of a Finance Letter for the Emergency Medical Services Authority (EMSA) requesting an increase of $448,000 (General Fund) to fund pharmaceutical cache for the Mobile Field Hospitals. The EMSA states that this funding would ensure a fresh supply of pharmaceuticals to be on-hand and delivered within 48 hours of the deployment of a Mobile Field Hospital. Pharmaceutical caches consist of medications, treatment kits, intravenous solutions, and other medical supplies.

Subcommittee Staff Recommendation—Deny Augmentation. Due to the fiscal crisis, it is recommended to deny the requested augmentation of $448,000 (General Fund, ongoing).

An allocation of $18 million (General Fund, one-time only) was provided in 2006 for the purchase of pharmaceutical drugs, maintenance, medical supplies and related materials. In addition, $1.7 million (General Fund, ongoing) was provided for pharmaceutical drugs, storage, staff and maintenance.

Increased funding of $242,000 (General Fund) for equipment maintenance of the Mobile Field Hospitals has also been proposed in 2008-09 and was adopted by the Subcommittee (March 10, 2008).

In the event of an emergency, the Governor can authorize increased funding for medical supplies, including pharmaceuticals. Further, the state operates under a "mutual aid" agreement where by local governments also play a significant role in providing assistance, along with the federal government.

Due to the short shelf life of most pharmaceuticals (about 2/3rds have a 12-month shelf life with the remaining 1/3 having about an 18-month shelf like) the EMSA would need on-going support even if no emergency requiring pharmaceuticals occurred. Therefore, in order to more prudently utilize limited General Fund resources, it is recommended to deny this augmentation request.

B. ITEMS FOR “VOTE-ONLY”—DEPARTMENT OF PUBLIC HEALTH

1. Enterprise-Wide Online Licensing Project (Finance Letter)

Issue. The Department of Public Health (DPH) is proposing funds of $439,000 (various special funds) to begin implementation of an “Enterprise-Wide Online Licensing” project.

This information technology project is to replace several small systems and manual processes for license application/approval, inspection, proficiency testing, renewal, inquiry/lookup, maintenance of historical information, complaint investigation, billing and enforcement. Savings of over $900,000 are expected from gained efficiencies which will be applied to ongoing costs of the new system.

The DPH states that this project will benefit regulated entities, the health care community, selected licensing programs, and the general public. The immediate clientele of the licensing activities of the participating programs are the entities that are subject to licensing, enforcement, and billing as follows:

- Food and Drug Program. Medical device manufacturers and retailers; Drug manufacturers; Bottled water facilities; Haulers, distributors and vendors; Food manufacturers, Food and drug exporters.
- Radiation Safety Program. Radiation machines; Radiation machine operators; Radiologic technology schools; Radioactive materials.
- Drinking Water Operator Certification Program. Water treatment and water distribution operators.
- Safe Drinking Water Systems. Small water systems.
- Medical Waste Management Program. Small quantity generators; large quantity generators; storage facilities; Haulers.

This project is to be funded with nine special funds which are all fee supported. All of these special funds have sufficient funds for this purpose. There is no impact to the General Fund.

Subcommittee Staff Comment and Recommendation—Approve Request. The project makes good business sense. No issues have been raised.

2. Fresno County Small Water Systems (Finance Letter)

Issue. The DPH is requesting an increase of $430,000 (Safe Drinking Water) to fund 4 positions, all technical water classifications, to continue oversight and implementation of the small water system program in Fresno County.

The DPH notes that three of the four positions will be supported using *reserves* contained within the Safe Drinking Water Account, with the other position being funded with existing fees. Presently the fees paid by small water systems, such as these in Fresno County, pay *flat fees*. Small water systems regulated by the state with less than 1,000 service connections can only be billed at an annual flat fee that ranges from $259 to $728, depending on the number of service connections. As a result, the revenue generated by the small water system fees is insufficient to operate a minimally acceptable regulatory program.

Existing law allows counties to return small water system programs to the DPH. Due to budget shortfalls, Fresno County has recently decided to return its small water program back to the state. There are 318 small water systems in Fresno County with over 4,000 service connections which provide water to residents, visitors, and businesses. About 75,000 people are served by these service connections. Therefore, the DPH contends that positions are needed to ensure water quality and safety in Fresno County.

The DPH also expresses concern in that without funding specifically targeted to support county small drinking water systems, it is increasingly likely that other counties will return their programs to the state (i.e., DPH). The DPH notes they are currently assessing and evaluating this risk in order to develop potential options for long-term solutions.

Background—DPH and Small Water Systems. The DPH has responsibility for the regulation and permitting of public water systems. Specifically, they provide ongoing surveillance and inspections of public water systems, issue operational permits to the water systems, ensure water quality monitoring, and take enforcement actions when violations occur.

The program oversees the activities of about 8,000 public water systems that serve drinking water to more than 98 percent of the state's population. About 7,000 of these systems are small water systems which have less than 1,000 service connections each and pay flat fees.

Subcommittee Staff Comment and Recommendation—Approve with Limited-Term Positions and Trailer Bill Language. Due to the public health risk, Subcommittee staff concurs with the need for the DPH positions. *However* it is recommended to have three of the positions be two-year limited-term due to the use of reserve funds. In addition, since there are concerns regarding the viability of resources to finance small water system oversight, Subcommittee staff is recommending for the following trailer bill language to be adopted:

" In an effort to more comprehensively clarify issues regarding the state's responsibilities and oversight of small water systems, including the payment structure, the Department of Public Health will provide the fiscal and policy committees of the Legislature with a synopsis of key issues regarding the program and options for addressing the sustainability of the program to meet safe drinking water quality standards."

3. Technical Adjustment to Federal Funds (Finance Letter)

Issue. The Subcommittee is in receipt of a Finance Letter for the Department of Public Health requesting a technical adjustment to decrease by $5.8 million (Federal Trust Funds) in the support item (Item 4265-001-0890) to remove excess federal expenditure authority within several public and environmental health programs, and to adjust for an increase of $315,000 (Federal Trust Funds) in additional authority for the Women, Infants, and Children (WIC) Program.

Subcommittee Staff Comment and Recommendation—Approve Finance Letter. It is recommended to approve this Finance Letter to provide for technical federal funding adjustments. No issues have been raised.

4. Request to Develop an Office of Suicide Prevention at the DPH

Issue. The Subcommittee is in receipt of a Finance Letter for the Department of Public Health (DPH) requesting an increase of $350,000 (Mental Health Services Act Funds) and two positions to establish an Office of Suicide Prevention within the DPH.

The DPH states that it intends to expand collaboration, data collection, epidemiology and surveillance in support of the Office of Suicide Prevention within the Department of Mental Health.

Subcommittee Staff Comment and Recommendation—Deny Augmentation. It is recommended to deny this augmentation for several reasons. *First*, the DPH presently has an "Epidemiology and Prevention for Injury Control Branch which serves as a focal point for the DPH's injury prevention and surveillance efforts. This Branch receives General Fund support (4 positions), various federal grants, special funds and non-profit foundation support. As part of its portfolio, it does provide some information regarding suicide from an epidemiology/surveillance perspective and as part of its prevention program policy.

Second, the lead here is the Department of Mental Health which has already established an Office of Suicide Prevention using Mental Health Services Act Funds (i.e., Proposition 63). The DMH Office of Suicide Prevention will have positions to conduct various functions, including the collection, analysis and dissemination of suicide statistics. (See DMH discussion issues below in this Agenda).

The state should have one office accountable for this area, not multiple entities. Further the DMH, with assistance from the Oversight and Accountability Commission, could contract when needed to obtain data and analysis regarding suicide from numerous entities. The existing Mental Health Planning Council also conducts an analysis of mental health issues, including a needs assessment and could be included in any other special/focused efforts. Expertise from various foundations, the California Institute for Mental Health, the CA State University System and University of CA system could also be used where applicable.

Using the Department of Mental Health for these efforts will enable mental health advocates, the Oversight and Accountability Commission and the Mental Health Planning Council to be more directly involved with data collection and analysis.

Finally, any unspent state support funds within the Mental Health Services Fund can be redirected to local assistance. In fact this was done last year when $64 million (Mental Health Services Act Funds) in unspent funds state administration funds were transferred to local government for their expenditure for mental health services.

C. ITEMS FOR "VOTE-ONLY"-- HEALTH CARE SERVICES

1. CA Discount Prescription Drug Program—Delete Funding and Defer Implementation

Issue. Due to the fiscal crisis, the Senate has prioritized core, direct services programs as being key programs to fund. As such, new programs and pilot programs are being eliminated from the budget.

The Budget Bill of 2007 appropriated a total of $8.8 million to implement AB 2911 (Nunez), Statutes of 2006. However, it was vetoed by the Governor. For 2008-09, the DHCS proposes funding of $5.870 million (General Fund) to proceed with implementation.

Under this new program, the DHCS would conduct drug rebate negotiations, perform drug rebate collection and dispute resolution, and develop program policy, while a contractor would operate and manage the enrollment and claims processing functions.

Overall Background—AB 2911 (Nunez), Statutes of 2006. This legislation created the CA Drug Discount Prescription Drug Program to address concerns regarding the lack of access to affordable prescription drugs by lower-income Californians. This program is a drug discount program, not a benefit. The general structure of the program is for the state to negotiate with drug manufacturers and pharmacies for rebates and discounts to reduce prescription drug prices for uninsured and underinsured lower-income individuals.

Participation in the program is eligible uninsured California residents with incomes below 300 percent of the federal poverty, individuals at or below the median family income with unreimbursed medical expenses equal to or greater than 10 percent of the family's income, share-of-cost Medi-Cal enrollees, and Medicare Part D enrollees that do not have Medicare coverage for a particular drug.

Enrollment in the program is to be simple and most likely will occur through local pharmacies. The only fees charged to individuals will be a $10 enrollment fee for processing the initial program application and an annual $10 re-enrollment fee. The legislation allows pharmacies and providers to keep the $10 enrollment fee as payment for their assistance to enroll clients in the program.

Subcommittee Staff Recommendation—Defer Implementation. Though implementation of this new program has merit, due to the fiscal crisis it is recommended to delay implementation of this program for 2008-09 and to delete the entire 2008-09 funding amount. The state is not in a position to commence with a new program when existing core programs, such as Medi-Cal and Healthy Families are being proposed for reduction. By deferring this program the state will save $5.870 million General Fund. This includes eliminating all applicable funding to the Fiscal Intermediary as well.

This recommendation is proposed without prejudice to funding in the future contingent upon appropriation in the annual Budget Act or other legislation. No statutory changes are proposed.

2. Extend Positions: Health Insurance Portability and Accountability Act

Issue. The DHCS is requesting an increase of $1.550 million ($218,000 General Fund) to extend 11.5 limited-term positions for three years (June 30, 2011) and to make one temporary position permanent.

The DHCS states that all of the positions are filled and are conducting mission critical aspects of meeting requirements as contained in the federal Health Insurance Portability and Accountability Act (HIPAA).

One of the most significant challenges to becoming HIPAA compliant has been transitioning the many local operational codes in the Medi-Cal Program, primarily for medical services, equipment and supplies, to national standards. Prior to HIPAA, the DHCS had nearly 8,500 local codes and modifiers that were not HIPAA-compliant.

The process to define policy, adjust rates, adequately communicate the changes to the provider community, and modify the payment systems t incorporate these changes is complex, resource intensive, and lengthy.

Subcommittee Staff Recommendation--Approve. Subcommittee staff concurs with the request and has raised no issues. The LAO also concurs with the request.

3. State Support—Reduce Primary Care and Rural Health Staff

Issue. As part of his across-the-board 10 percent reduction, the Governor is proposing to reduce the DHCS, Primary Care and Rural Health Branch by $108,000 (General Fund). The DHCS proposes to reduce by 1.5 staff positions to meet this reduction amount. Specifically, an Office Assistant and a part-time Research Program Specialist will be eliminated. The DHCS states that they will shift workload and make reporting adjustments to accommodate the reduction.

Subcommittee Staff Recommendation—Adopt Governor's Reduction. It is recommended to adopt the Governor's reduction. No issues have been raised.

4. CA Working Disabled Program—Proposal to Extend Sunset

Issue. The DHCS proposes to extend this program, which is scheduled to sunset as of September 1, 2008, for only one more year (to September 1, 2009). No funding issues have been raised.

Background on Program. The CA Working Disabled Program provides Medi-Cal eligibility to disabled individuals who are employed with countable income at or below 250 percent of the federal poverty level. It permits these individuals to buy into the Medi-Cal Program through the payment of low monthly premiums.

Prior to the implementation of this program, many disabled individuals wishing to return to work faced losing their medical coverage because of increased income. With enactment of AB 155, Statutes of 1999 and the subsequent implementation of the 250 percent (net countable income below 250 percent) CA Working Disabled Program, individuals were offered to buy into Medi-Cal.

The DHCS notes that the program is cost-beneficial to the state because it allows disabled individuals to remain in community or home-based settings rather than costly institutionalization in nursing facilities or other long-term care facilities. There are about 3,500 individuals currently participating in the program.

Subcommittee Staff Comment and Recommendation—Eliminate Sunset Provision. This program enables working disabled to buy into the Medi-Cal Program in order to receive health care services to maintain their employment. It keeps people working and is cost-beneficial to the state.

There have been numerous sunset extensions on this program which was enacted in 1999. Therefore, it is recommended to delete the sunset provision altogether versus extending it for only one more year. This deletion would permanently establish the program.

5. Medi-Cal for Kinship Guardianship Assistance—Trailer Bill Language

Issue and Background. The DHCS is proposing trailer bill language to conform Medi-Cal statute with KinGAP statute by establishing a state-only Medi-Cal Program for KinGAP children. This statutory change will enable about 200 children to continue to receive needed health care services through Medi-Cal.

The foster care program is administered by the Department of Social Services (DSS). Since foster care workers are authorized to conduct Medi-Cal eligibility determinations as a part of the foster care eligibility determination, foster care children automatically receive no-cost Medi-Cal benefits without a separate Medi-Cal eligibility determination.

When children leave the foster care system for KinGAP due to placement with relatives that have obtained permanent legal guardianship, these KinGAP children currently also automatically receive no-cost, full-scope Medi-Cal benefits. *However,* in order to comply with federal Medicaid law and to quality for federal financial participation, the state must conduct full Medi-Cal eligibility determinations for these KinGAP children.

Since some of the KinGAP children may not meet federal Medicaid requirements, primarily due to their guardian's assets, they will lose their full-scope Medi-Cal benefits and/or be placed in the share-of-cost Medi-Cal program.

The DHCS estimates that in the absence of this proposed legislation approximately 200 children would be determined ineligible for no-cost Medi-Cal. It must be noted that these children are currently receiving no-cost, full-scope Medi-Cal benefits. In some cases, relatives may choose not to obtain legal guardianship of these children in order to continue the child's no-cost Medi-Cal under the foster care program.

Subcommittee Staff Comment and Recommendation—Approve DHCS Language. Legislation is needed so vulnerable KinGAP children can continue to receive no-cost full-scope Medi-Cal health care services through a state-only, no-cost full-scope Medi-Cal program once they transition to a more permanent home environment with their relatives. It is good policy for the following reasons:

- In the KinGAP statutes, the Legislature clearly indicated its intent that KinGAP provide relative caregivers with the financial support they need to properly care for the child and thereby eliminate a significant barrier to creating a guardianship. Continuing to provide no-cost Medi-Cal to children leaving dependency and entering KinGAP conforms to this intent.
- Conforming the Medi-Cal statutes with the intent behind the KinGAP statutes will ensure that KinGAP children who do not meet federal Medi-Cal eligibility requirements would be able to continue ongoing medical treatments with current providers and have a medical home.
- It would encourage relatives to obtain legal guardianship of foster care children if they do not have to worry about medical costs; this would provide the children with a more stable, permanent home environment which may reduce medical costs for these children.

D. ITEMS FOR "VOTE-ONLY"—DEPARTMENT OF MENTAL HEALTH

1. Subcommittee Trailer Bill Language for State Hospitals

Prior Subcommittee Hearing—March 14th. In the March 14th hearing, the Subcommittee adopted placeholder trailer bill language to require the Department of Mental Health (DMH) to provide the Legislature with a comprehensive estimate as of January 10th (release of the Governor's budget) and at the time of the May Revision.

This proposed trailer bill language was in response to the Department of Finance's Office of State Audits and Evaluations (OSAE) report regarding the need for internal controls and fiscal accountability at the DMH, including the State Hospitals.

Subcommittee Staff Recommendation—Adopt Trailer Bill Language. After discussion with the Administration, LAO and Senate Republican Fiscal staff, the following language has been agreed to and is for adoption by the Subcommittee:

Add Section 4100.2 to Welfare and Institutions Code:

> "The Department of Mental Health shall provide the fiscal committees of the Legislature with a fiscal estimate package for the current-year and budget-year for the State Hospitals by January 10 and at the time of the Governor's May Revision commencing as of January 10, 2009 and ongoing thereafter.
>
> At a minimum, this estimate package shall address patient caseload by commitment category, Non-Level-Of-Care and Level-Of-Care staffing requirements, and operating expenses and equipment. Each submitted estimate shall articulate the assumptions and methodologies used for calculating the patient caseload factors, all staffing costs, and operating expenses and equipment. Where applicable, individual policy changes shall contain a narrative and basis for its proposed and estimated costs. Fiscal bridge charts shall be included to provide the basis for the year-to-year changes. The department may provide any additional information as deemed appropriate to provide a comprehensive fiscal perspective to the Legislature for their analysis and deliberations for purposes of appropriation."

(THIS COMPLETES THE "VOTE ONLY" AGENDA.)

ISSUES FOR DISCUSSION –HEALTH CARE SERVICES

1. Governor's Proposed Reductions to Clinic Programs

Issue. The Governor is proposing a *total reduction of $3.5 million* (General Fund) across several clinic programs administered by the Department of Health Care Services (DHCS). The Governor's proposed reduction reflects a 10 percent General Fund reduction.

In addition, the Governor is proposing trailer bill language to state that all of these programs are contingent upon appropriation in the annual Budget Act.

Generally, these clinic programs provide assistance to almost 400 clinics. Some clinics are more reliant on these state-supported funds than others, contingent on the community population whom they serve. All clinics that receive funding provide for some portion of uncompensated care in their communities.

The proposed reductions are as follows:

DHCS Clinic Program Name	Governor's Proposed Reduction	Proposed 2008-09 General Fund (with reduction)	Proposed 2008-09 Total Funds (GF, Prop 99, federal)
1. Seasonal Agricultural Migratory Worker Clinics	-$687,000	$6,184,000	$6,184,000
2. Rural Health Services Development Clinics	-$820,000	$7,383,000	$7,383,000
3. American Indian Health Clinics	-$650,000	$5,817,000	$6,241,000
4. Expanded Access to Primary Care Clinics	-$1,350,000	$12,150,000	$25,666,000
5. Grants-In-Aid	-$44,000	$397,000	$601,000
TOTAL (Rounded)	**-$3.5 million**	**$31,931,000**	**$46,075,000**

According to the DHCS, the reduction would have the following affect on clinic visits:

- 21,750 less clinic visits in the Seasonal Agricultural Migratory Worker Clinics.
- 40,590 less clinic visits in the Rural Health Services Development Clinics.
- 37,100 less clinic visits for medical services, 19,500 less dental visits, and 16,900 less public nurse visits in the American Indian Health Clinics.
- 18,800 less clinic visits in the Expanded Access to Primary Care Clinics.
- 1,700 less clinic visits in the Grants-In-Aid Program.

Background—Seasonal Agricultural Migratory Workers Clinics. Under this program, a total of 79 clinics receive funds to provide comprehensive primary care to uninsured individuals who are seasonal, agricultural, and migrant workers. According to the DHCS, these clinics provided 217,665 medical, dental and health education/nutritionist visits.

Background—Rural Health Services Development Clinics. Under this program, a total of 122 clinics receive funds to provide comprehensive primary medical and dental care to rural populations. According to the DHCS, these clinics provided 405,924 medical, dental and health education visits.

<u>Background—American Indian Health Clinics.</u> Under this program, a total of 75 clinics receive funds to provide comprehensive primary medical and dental care, and public health nurse visits to American Indians. According to the DHCS, these clinics provided 370,912 medical visits, 194,487 dental visits and 169,302 public health nursing visits.

<u>Background—Expanded Access to Primary Care Clinics.</u> Under this program, primary care clinics are reimbursed for uncompensated care provided to uninsured persons with incomes at or below 200 percent of the federal poverty level. Uncompensated care visits are reimbursed at a rate of $71.50. According to the DHCS, 423,160 uncompensated primary care visits were provided at 484 clinics.

<u>Subcommittee Staff Comment and Recommendation—Hold Open.</u> All of these clinic programs are well established and have been operating efficiently and effectively for many, many years. These programs provide assistance to clinics in rural areas and urban areas, and often serve special populations in need of primary care and dental services.

As noted, these program provide core health, dental and public nursing services to many of California's uninsured populations who are in working families not receiving health care coverage from employers, or not eligible for Medi-Cal or Healthy Families.

It is recommended to leave these reductions open pending receipt of the Governor's May Revision and the potential to identify other funding options.

Further, no statutory changes are necessary since all of these programs are contingent upon appropriation in the annual Budget Act and always have been.

<u>Questions.</u> The Subcommittee has requested the DHCS to respond to the following question.

1. **DHCS**, Please provide a *brief* description of each program and how the Governor's reduction would affect said program.

2. Proposed Reduction to Child Health & Disability Prevention Program (CHDP)

Issue. The Governor is proposing a reduction of $1.1 million (General Fund), or a 10 percent reduction, to the funds provided to Local Health Jurisdictions for county case management.

The DHCS states that Medi-Cal provides $37.5 million ($13.2 million General Fund) in funding for support of staff in local Child Health & Disability Prevention Programs (CHDP) which serve Medi-Cal eligible children who receive CHDP screening and immunization services.

County/city local health jurisdictions manage CHDP at the local level working directly with private and public providers of services. Specifically, Local Health Jurisdictions are required to perform care coordination, including approval, enrollment and oversight of providers, and outreach and education.

Background—What is the Child Health & Disability Prevention Program (CHDP)?
The CHDP 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.

CHDP services play a key role in children's readiness for school. All children entering first grade must have a CHDP health exam certificate or equivalent.

This program serves as a principle provider of vaccinations and facilities enrollment into more comprehensive health care coverage, when applicable, via the CHDP gateway.

Subcommittee Staff Comment and Recommendation--Open. CHDP serves as a key program for providing health assessments and immunizations for young children. It was established in 1975 and serves to meet the state's federal requirement of providing health assessments under the federal Medicaid Early and Periodic Screening Diagnosis and Treatment benefit of the Medi-Cal Program.

This reduction could impact children's access to health assessments and immunizations which are necessary for school entry.

It is recommended to leave this issue open until the May Revision.

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

1. DHCS, Since Local Health Jurisdictions are administering a state-program—CHDP--how is the Administration directing the Local Health Jurisdictions to take this reduction?

3A. CA Children's Services Program (CCS): ISSUE "A" Governor's Reductions

Issues. The Governor is proposing various reductions to the CA Children's Services (CCS) Program.

First, the rates paid to all outpatient providers under the CCS Program, including specialty care physician's services, were also reduced through the Medi-Cal 10 percent rate reduction proposed by the Governor and adopted in Special Session by the Legislature. This will take affect as of July 1, 2008. This results in a total reduction of $103.7 million ($46.5 million General Fund), including County Realignment Funds which do not flow through the state's budget but are used to support the CCS Program (i.e., it is a "Realigned" program).

Second, a reduction of $9 million ($3.6 million General Funds) to case management functions provided by County CCS Programs is proposed by the Governor. This would reduce the amount provided to counties for administrative funding in support of case management activities for CCS children enrolled in the Medi-Cal Program. This funding is allocated to individual counties in conjunction with CCS-Only state funding and federal funds provided under the Healthy Families Program (CCS-HFP children).

This case management support funding is used to maintain 1,700 county employees (statewide) who provide assistance at the local level for CCS enrolled children. The DHCS allocates this case management support funding based on state standards and caseload projections.

The DHCS states that this reduction to County CCS Programs will likely affect processing times for eligibility determinations, determining medical necessary services, and authorizing services.

Due to the medical necessity aspect of the CCS Program, counties must conduct a financial eligibility process for the children, as well as make a medical eligibility determination. This *initial* processing of new cases requires a review of financial documentation, reviews of medical charts, identification of service providers and assistance in appointment making.

County staff is also responsible for processing medical service treatment authorizations. As such service delays may result in increased use of emergency rooms for unmet medical needs.

Third, a reduction of $2.5 million ($1.270 million General Fund) within the DHCS—Children's Medical Services Branch—is also proposed. Under this reduction, the state's Children's Medical Services Branch would reduce 23 positions out of 137.5 positions, or 17 percent of the total state positions. Further, certain contracts would also be reduced.

This reduction would affect the CCS Program (mainly), as well as the Child Health and Disability Program (CHDP) and Newborn Hearing Screening Program. Specifically, potential clients of the CCS Program may experience delays in eligibility determination and there would be additional delays in approval of services delivered to clients.

In addition, less technical assistance would be provided to the counties and there would be no health education support of these programs (CCS, CHDP, Newborn Hearing Screening Program and the Newborn Hearing Screening Program).

This reduction would include closure of the San Francisco Office. This office would be consolidated with the Sacramento and Los Angeles offices.

Background—What is the CCS Program. The CA 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 disease 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 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 Realignment Funds.

Subcommittee Staff Comment and Recommendation—Hold Open. The CCS Program is a core program that provides medical treatment to children with involved medical needs. More information is needed to better understand how the DHCS would implement the Governor's proposed reductions and what the potential consequences would be to children seeking medical treatment under the program.

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

1. DHCS, Please provide a brief summary of how the CCS Program operates and *specifically*, how the proposed reductions would be implemented.

2. DHCS, What are the likely consequences with respect to accessing medical treatment for children seeking care under the CCS Program?

3. DHCS, Are there any other options in which reductions or efficiencies could be made in lieu of these proposals to reduce the counties and state staff?

B. CA Children's Services Program (CCS): ISSUE "B"—Ventilator Availability

Issue. In 2007 the Legislature adopted Budget Bill Language to compel the DHCS to convene constituency group meetings, including specialty physicians, Children's Hospitals, durable medical equipment providers, and other health care experts, regarding numerous issues within the CA Children's Services Program (CCS). One of the key concerns of the Legislature in adopting this language was to address issues for transitioning medically involved children enrolled in the CCS Program from hospital to home to progress their recovery and wellness.

Though this language was vetoed by the Governor, the DHCS did convene this stakeholder group and has met on several occasions. Through these discussions a number of procedural reforms to promote more timely discharge of children from the hospital to the home were developed.

However, an impediment regarding access to medical equipment and supplies for these children making this transition continues to be a barrier. This is particularly true for ventilator dependent children. There is, and continues to be, a lack of providers to supply the equipment and services often dictated by low reimbursement for these complex services. Specifically, the following should be noted:

- The complexity of the equipment has evolved with rental rate, including supplies and accessories that can cost the providers $3.500 for initial patient set-up on two ventilators; one is a mandatory life support back-up ventilator. These accessories include items like humidifiers, battery charger and breathing circuits. However, the Medi-Cal/CCS rate for the rental of ventilators has not been adjusted for over a decade.

- A Home Health Provider must both train and monitor patient and caregivers on the use of the ventilator. Typically the average patient requires 50 hours of transition care by a Respiratory Care Practitioner over the initial 6 months after hospital discharge.

  Respiratory Care Practitioners can bill for these services under the Medi-Cal Program, but a Home Health Provider *cannot* bill for these services.

- The Home Health Provider of the ventilator must certain maintenance, including an annual biomedical maintenance by the manufacturer of the ventilator which is not reimbursed by the DHCS. The cost for just this annual maintenance is $800 to $1,000 per ventilator.

The lack of ability for timely discharge of these patients is costing Medi-Cal/CCS. The cost of an inpatient day ranges from $1,000 up to $2,500 for these patients whereas the cost of this rental equipment is about $3,000 per month.

More clarity as to what options are available for the Medi-Cal and CCS programs to address this issue is needed. Based on the most recent information obtained, there are about 760 ventilator dependent children enrolled in the CCS Program.

Subcommittee Staff Comment and Recommendation—Open. It is recommended to leave this issue open pending receipt of additional information.

1. DHCS, Please comment regarding this continued concern. What options may be available to better address the needs of ventilator dependent children enrolled in the CCS Program?

4. Proposed Self-Certification Pilot Project per SB 437 (Escutia), Statutes of 2006

Issue. The Administration proposes a total increase of $30.9 million ($14.4 million General Fund) within the Medi-Cal Program and Healthy Families Program to conduct a two-county Pilot Program as contained in Senate Bill 437 (Escutia), Statutes of 2006. As shown in the table below, most of the proposed expenditures are in the Medi-Cal Program.

Area of Expenditure	Medi-Cal Program (Total Funds)	Healthy Families Program (Total Funds)	Total Funds	Total General Fund
Pilot Caseload	$22.8 million	$5 million	$27.8 million	$13.2 million
County Administration	$1.7 million		$1.7 million	$870,000
Administrative Vendor		$600,000	$600,000	$210,000
Pilot Evaluation	$800,000		$800,000	$400,000
TOTALS	**$25.3 million**	**$5.6 million**	**$30.9 million**	**$14.7 million**

Under this pilot, two counties—Santa Clara and Orange—have been selected to conduct "self-certification" pilot projects for both the Medi-Cal and Healthy Families Program. Under this approach, as contained in statute, applicants and enrollees in certain categories of eligibility would self-certify income and assets for purposes of enrolling in these two programs.

The purpose of these pilots is to obtain data regarding the potential for streamlining program enrollment functions and to focus limited funds towards health care services and not administration and eligibility processing.

For the Medi-Cal pilot, it is assumed that 10 percent of the projected eligibility categories enroll in the pilots, or a total of 203,800 people total (more people between these two counties). With respect to the Healthy Families Program, it is assumed that a total of 11,674 children would be enrolled in the two pilots.

The two pilot projects are the first phase of the program. After an evaluation of the pilots, a statewide rollout can be conducted. Therefore, the DHCS also included funding for an evaluation component.

Background—Description of Senate Bill 437 (Escutia), Statutes of 2006. Among other things. this legislation includes strategies to promote and maximize enrollment in the Medi-Cal Program and the Healthy Families Program (HFP), improve the retention of children already enrolled, and strengthen county-based efforts to enroll eligible children in existing public programs. These strategies include the following:

- *Self Certification for the Medi-Cal Program.* The Department of Health Care Services is required to implement a process that allows applicants and enrollees of certain categories of eligibility to self-certify income and assets. This process is to be implemented in two phases. The first phase is a two-year Pilot project to be operated in two counties. Orange County has been selected to be a pilot and so has Santa Clara County. After an evaluation of the Pilot, a statewide rollout can be conducted.

- *Self Certification for the Healthy Families Program.* The Managed Risk Medical Insurance Board is required to implement processes by which applicants at the time of annual eligibility review may self-certify income rather than provide income documentation. The MRMIB will establish rules concerning which applicants will be permitted to certify income and the circumstances in which supplemental information may be required by January 2009.

Legislative Analyst's Office Recommendation. The LAO recommends deleting the pilot projects due to the fiscal crisis.

Subcommittee Staff Comment and Recommendation—Hold Open. These pilot projects offer an opportunity to finally field test more innovative approaches to conducting eligibility processing which have been discussed in various reports and analyses for years.

Due to the fiscal crisis, there may be some options available for modifying the pilot projects, such as having one county implement and deferring the evaluation component for another year, or encouraging foundation funding for the evaluation.

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

1. DHCS, Please provide a brief summary as to how the pilots would operate and when they could commence.

5. Medi-Cal Program Adult Day Health Care (ADHCs)--Multiple Issues

Issue. There are two issues pertaining to the Adult Day Health Care Program.

First, is the DHCS request for an increase of $2.4 million ($1 million General Fund) for 20 new state positions. This request is in addition to the 33 new positions provided to the DHCS in 2007 to continue to implement "reforms" as contained in SB 1775 (Chesbro), Statutes of 2006.

The DHCS contends that 20 additional positions are needed to continue implementation of SB 1775, as well as to provide follow-up to the annual Medi-Cal Payment Error Study. Of the total positions, Specifically, the DHS would assign these 20 positions as follows:

- *Medi-Cal Benefits, Waivers Analysis and Rates Division (Total of 1 Position).* This Research Analyst II would carry out the workload generated by the new prospective rate reimbursement methodology specified in SB 1775.

- *Audits &Investigations, Medical Review Branch (Total of 7 Positions).* All of these positions pertain to conducting more anti-fraud activities related to the Medi-Cal Payment Error Study. This includes six Nurse Evaluator II positions and one Health Program Auditor III position. It should be noted that the DHCS redirected other staff in previous years to conduct anti-fraud activities related to the ADHCs.

- *Audits & Investigations, Financial Audits Branch (Total of 8 Positions).* All of these positions pertain to further implementation of SB 1775, including doing about 350 audits per year for the first three years under the ADHC reforms. This includes five Health Program Auditor III, and three Health Program Auditor IVs.

- *Office of Legal Services (Total of 4 Positions).* Two of the four positions would be used to assist with appeals related to the Medical Review audits (as noted above), and the remaining two would be associated with the Finance Audits (as noted above). These positions include two Staff Counsels and two Health Program Auditor positions.

- *Office of Legal Services, Administrative Hearings and Appeals (Total of 2 Positions).* This includes two Staff Counsel positions. These positions would be used for administrative hearings and appeals associated with the audits.

Second, the DHCS assumes savings of $27.5 million ($13.7 million General Fund) in 2008-09 by beginning implementation of the tightening of medical necessity criteria starting as of February 1, 2008. Under this action, the DHCS assumes that 30 percent of new users of ADHC services and 15 percent of old users of ADHC services will not meet the more defined medical criteria for receiving Adult Day Health Care Services.

Background—Medi-Cal Payment Error Study. The DHCS just released its 2006 "error rate" study which is an annual analysis within the Medi-Cal Program to detect, identify and prevent fraud and abuse. This is the third such study that has been completed.

The study is primarily used by the DHCS to identify where the Medi-Cal Program is at greatest risk for payment errors. The results of the study assist in the development of new fraud control strategies and determine how best to deploy Medi-Cal anti fraud resources.

Among other things, the study found that the Adult Day Health Care (ADHC) Program errors accounted for 10 percent of the overall percentage of payment error which represents a *decrease* from what was identified in 2005. ADHC errors were comprised of insufficient documentation of services and medical necessity (i.e., it is not medically necessary for the beneficiary to have received ADHC services).

The DHCS has conducted "unannounced" site visits to many ADHC providers over the past two years. Payment errors found during these unannounced site visits resulted in the imposition of sanctions. The number of ADHC providers, as well as the number of beneficiaries attending ADHCs from November 2005 to December 2006, declined significantly. It is likely that these declines are a direct result of the anti-fraud efforts undertaken by the DHCS.

Background—Key Provisions of SB 1775 (Chesbro), Statutes of 2006. This legislation was crafted in response to federal CMS concerns with California's ADHC Program.

Specifically, the federal CMS notified the DHS that certain specified changes needed to occur in the program in order for California to continue to receive federal matching funds. The state will be submitting a "State Plan Amendment" (SPA) to the federal CMS in 2009 that details the authorized reforms once implementation issues have been worked through.

SB 1755 authorizes the DHS to make major reforms to the ADHC Program over the next three years. As authorized by SB 1775, Statutes of 2006, the following significant reforms are to be instituted:

- Establish a set of definitions relating to ADHC services;
- Revise the standards for participant eligibility and medical necessity criteria in receiving ADHC services;
- Set forth new standards for the participant's personal health care provider and the ADHC center staff physician;
- Require the ADHCs to provide a set of core services to every participant every day of attendance; and
- Restructure the rate methodology to a prospective cost-based process requiring audited cost reporting.

The DHCS states that with the gradual implementation of SB 1755 reforms, it is estimated that beginning in 2011-2012 a savings of $121.8 million ($60.9 million General Fund) may be achieved. Savings leading up to 2011-2012 are expected to be limited. Savings are expected to stem from a combination of the following factors:

- Post-payment reviews with subsequent audit recoveries;
- Tightening of medical necessity criteria, eliminating authorization for Medi-Cal enrollees that do not require ADHC services to remain in the community;
- Unbundling of the ADHC all-inclusive procedure code and requiring ADHCs to bill only for those specific services provided that were medically necessary;
- Development of prospective costs reimbursement that tie the ADHC rates to the actual costs of providing the services; and
- Intensive and ongoing audits of ADHCs to prevent and resolve fraud and abuse issues.

Background—What Are Adult Day Health Care Services and Baseline Funding Provided in the Medi-Cal Program. Adult Day Health Care (ADHC) is a community-based day program providing health, therapeutic and social services designed to serve those at risk of being placed in a nursing home. The ADHC Program is funded in the Medi-Cal Program. The DHS performs licensing of the program and the Department of Aging administers the program and certifies each center for Medi-Cal reimbursement.

The baseline budget for the ADHC Program is $407.3 million ($203.6 million General Fund). The average monthly cost per ADHC user is $1,010. The projected average monthly user of these services is about 46,000.

The current reimbursement rate for ADHCs is 90 percent of the nursing facility level A rate. This is a bundled, all-inclusive rate for all ADHC services which was set by a court settlement in 1993. *The baseline budget assumes a 5.15 percent rate increase, prior to the Governor's 10 percent reduction to Medi-Cal rates.*

The Governor's 10 percent reduction, as adopted in Special Session, reduces Adult Day Health Care by $36.4 million ($18.2 million General Fund) from the baseline level.

The bundled reimbursement rate pays for a day of ADHC services (defined as a minimum of four hours, not including transportation) regardless of the specified services actually provided on any given day. The bundled rate assumes that the required ADHC services will be provided to individuals as deemed medically necessary.

Background—Moratorium Continues on New ADHC. Through the Budget Act of 2004 and accompanying trailer bill legislation, a 12-month moratorium on the certification of new ADHCs became effective.

This was done to diminish the growth of the centers due to concerns regarding rapid growth and the potential for Medi-Cal fraud, as well as concerns expressed by the federal CMS regarding the operation of California's program (which SB 1775, Statutes of 2006 address). With minor adjustments, this moratorium was extended for 2005, 2006, 2007 and the budget assumes this continuation through 2008-09. Existing statute makes annual renewal of the moratorium the purview of the Director of Health Services (Director Sandra Shewry).

Legislative Analyst Office Recommendation—Reject Position Request. *First,* the LAO recommends rejecting the DHCS' request for 20 additional state positions. They believe that work on SB 1775 can continue with the resources provided last year and that the Medi-Cal Error Rate Study could be done on a biennial basis (once every two years).

Second, they raise no issues regarding the local assistance adjustments for tightening the medical necessity component of the ADHC Program.

Subcommittee Staff Comment and Recommendation—Approve 1 Position. The DHCS was provided 33 additional positions last year to commence with the reform efforts. Based on recent information, many of these positions are still in the process of being filled.

With respect to the need for more anti-fraud efforts regarding the ADHC Program, the DHCS has considerable Audits and Investigations staff which can be focused and redirected on various aspects of the Medi-Cal Program as needed. There are also many tools that the DHCS can employ with respect to claims review, withholds, suspension of Medi-Cal Provider numbers and various other administrative actions in the event of suspected fraud and abuse. General Fund resources are limited and need to be directed at providing core services to people which the state serves.

Due to the need for the DHCS to develop a federal Waiver for continuation of the ADHC Program, Subcommittee staff recommends approval of one position (Research Analyst II as designated) for this purpose. All other positions should be deleted.

Further, Subcommittee staff concurs with the LAO regarding the approval of the local assistance adjustments regarding the tightening of medical necessity for ADHC services.

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

1. DHCS, Please provide a *brief update* regarding implementation of SB 1775 and the reforms the DHCS is implementing regarding the ADHCs.

2. DHCS, Please provide a *brief update* regarding the Medi-Cal Error Report and concerns identified regarding ADHCs.

3. DHCS, Please provide a *brief summary* of the budget actions, *both* the requested positions and the savings identified in the Medi-Cal budget relating to the tightening of medical criteria.

6. Administration's Trailer Bill Language-- AB 1629 Nursing Home Rates

Issue. The DHCS is proposing trailer bill language to extend for one year the sunset date for this nursing home rate methodology to include the *2009-2010 rate year*. Existing statute continues the rate methodology through to July 31, 2009 presently.

At this time no other statutory changes are proposed. *However* it is likely that the Administration may be proposing additional changes at the May Revision.

The purpose of the enabling legislation was to create a *"facility-specific"* Medi-Cal reimbursement methodology for nursing homes, and to authorize a provider *"Quality Assurance Fee"* to assist in providing a Medi-Cal rate increase.

The purpose of these changes were to devise a rate-setting methodology that: (1) encouraged access to appropriate long-term care services; (2) enhanced quality of care; (3) provided appropriate wages and benefits for nursing home workers; (4) encouraged provider compliance with state and federal requirements; and (5) provided administrative efficiency.

It should be noted that the Administration has yet to conduct a *comprehensive analysis* of the effects of the rate increases. Two studies have been done by not by the DHCS. The most recent study, supported with a foundation grant, is discussed below.

An April 1 report—"Impact of California's Medi-Cal Long Term Care Reimbursement Act on Access, Quality and Costs--conducted by researchers at the University of CA, San Francisco (Charlene Harrington, PhD, et al) contends that contrary to expectations, the new reimbursement methodology did not substantially improve quality as measured by complaints, licensing and certification deficiencies, staffing levels, turnover rates and wage levels.

Among many other things, the report also notes that 16 percent or 144 nursing facilities in the state did not meet the state's minimum staffing standard of 3.2 hours per resident day in 2006. Therefore, the researchers conclude that California nursing homes have low staffing levels, and average staffing levels only slightly improved after California adopted the new reimbursement system.

Governor's Proposed Budget. Facilities paying Quality Assurance Fees, including all facilities reimbursed as contained in AB 1629, were held harmless from the Governor's 10 percent Medi-Cal rate reductions. The DHCS notes that revenues of $289 million are to be generated from the Quality Assurance Fees in 2008-09. These revenues will be used to offset General Fund expenditures contained within the Medi-Cal Program as designed.

According to the DHCS, an increase of $186.4 million ($93.2 million General Fund) is proposed for 2008-09 to fund the AB 1629 rate methodology and the increase in the state's minimum wage ($8.00 as of January 2008). It should be noted that this level of funding represents a 3.35 percent cost-of-living-adjustment (COLA) which is more than 2 percent below the cap as contained in statute.

Background---Summary of Key Aspects of Assembly Bill 1629, Statutes of 2004.
The key components of the nursing home rate methodology contained in this enabling legislation are as follows:

- Establishes a **baseline reimbursement rate** (weighted average rate) *and* state maintenance of effort level (methodology in effect as of July, 2004 plus certain specified adjustments). The facility-specific rate and "Quality Assurance Fee" rate increases are built upon this baseline.

- Establishes a **"facility-specific" Medi-Cal reimbursement methodology** for nursing homes. Payment is based upon each facility's projected costs for five major cost categories: (1) labor costs; (2) indirect care non-labor costs; (3) administrative costs; (4) capitol costs—"fair rental value system"; and (5) direct pass-through costs (proportional share of actual costs, adjusted by audit findings).

- Imposed a **"Quality Assurance Fee"** on all nursing homes (about 1,200 facilities), not to exceed 5.5 percent as of January 2008, which is deposited in the state treasury and is used to fund the specified rate increases, as well is used to offset some General Fund expenditures (amounts vary each year for the rate increase and General Fund savings levels). (Effective January 2008, the federal government is lowering the 6 percent threshold for fees to 5.5 percent.)

- Limits growth in the overall Medi-Cal reimbursement rate for nursing homes through the use of spending caps. These spending "caps" were agreed to because facility-specific reimbursement systems can be inflationary. The spending "caps" contained in the enabling legislation are:

  - ✓ 2005-06 8 percent (of the weighted average rate for 2004-05);
  - ✓ 2006-07 5 percent
  - ✓ 2007-08 5.5 percent (DHCS states this cap will not be reached)

Constituency Concerns. The Subcommittee is in receipt of several letters regarding this issue with diverse opinions and concerns.

A key theme is that this program area needs to have a *more comprehensive* evaluation as to the quality assurance benefits to resident care which have or have not resulted from this rate methodology.

Another issue pertains to the regulatory establishment of minimum staff-to-patient ratios for direct caregivers and licensed nurses in nursing homes. These regulations were not proposed until late 2007 (legislation was enacted in 2003), as the result of litigation. Emergency regulations were filed with the Office of Administrative on April 15, 2008 and will not be implemented by the DHCS unless funding is provided. At this time an estimate of $208 million in annual costs has been estimated by the DHCS and would be contingent upon appropriation in the Budget Act (very unlikely given the state's fiscal crisis).

Additional issues of concern include nursing home providers expressing the need to maintain their rates to address staffing expenditures to maintain patient care, and other advocates concerned that too much funding is being provided for “institutional” care versus providing community-based care.

Subcommittee Staff Recommendation—Open. It is recommended to hold this issue open until the May Revision.

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

1. Why has the Administration proposed to extend the AB 1629 rate methodology through trailer bill language and has not pursed the policy committee process since existing statute continues the rate methodology until June 30, 2009?
2. What is the Administration’s perspective of the UCSF Report?
3. Please provide a brief fiscal summary of the rate increase as contained in the Medi-Cal budget. Will these figures be adjusted at the May Revision?

ISSUES FOR DISCUSSION –DEPARTMENT OF PUBLIC HEALTH

1. Licensing and Certification—Multiple Issues *("A" through "D").* The L&C Program develops and enforces state licensure standards, conducts inspections to assure compliance with federal standards for facility participation in Medicare and/or Medi-Cal, and responds to complaints against providers licensed by the DPH.

The budget proposes several adjustments to the Licensing and Certification (L&C) Program within the Department of Public Health (DPH). Due to the complexity of the issues, each of them is discussed separately below.

ISSUE "A"—Governor's Proposed Fee Increases. Commencing with the Budget Act of 2006, the Governor has *annually* proposed significant increases in the fees paid by health care facilities and agencies (i.e., "Non-State"). State-owned facilities have their licensing and certification fees paid using General Fund support, as well as applicable federal funds.

Through a number of means, the Legislature has annually acted to mitigate the Administration's substantial fee increases, including requiring improved time keeping systems, the unbundling of facility types to more appropriately allocate costs, adjusting state staffing requirements, recognizing other revenues collected by the L&C Division to offset L&C Fees, and providing a small General Fund subsidy for certain non-profit community-based facilities.

The Governor's proposed L&C fee increases are shown in the table below, as compared to those approved by the Legislature through the Budget Act of 2007. As noted below, in most instances there are *substantial fee increases* proposed for 2008-09.

Governor's Proposed Licensing and Certification Fee Schedule Increases

Facility Type	Fee Category	2007-08Fee (Budget Act 2007)	Governor's 2008-09 Fee	Difference (+/-) *(Rounded)*	Percent Change *(Rounded)*
Referral Agencies	per facility	$6,798.11	$6,216.49	-$582	-8.6%
Adult Day Health Centers	per facility	$4,383.14	$5,030.16	$647	14.7%
Home Health Agencies	per facility	$3,867.14	$5,260.47	$1,393	36%
Community-Based Clinics	per facility	$871.13	$1,349.93	$479	55%
Psychology Clinic	per facility	$2,296.58	$3,565.26	$1,268	55%
Rehabilitation Clinic (for profit)	per facility	$402.20	$1,103.60	$702	172%
Rehabilitation Clinic (non-profit)	per facility	$402.20	$1,103.60	$702	172%
Surgical Clinic	per facility	$2,842.08	$2,694.73	-$148	-5.2%
Chronic Dialysis Clinic	per facility	$3,238.98	$3,405.79	$166	5.1%
Pediatric Day Health/Respite	per bed	$138.30	$195.89	$58	4.2%
Alternative Birthing Centers	per facility	$1,710.20	$2,983.92	$1,274	74.5%
Hospice (2-year license)	per facility	$723.86	$2,221.40	$1,497	206%
General Acute Care Hospitals	per bed	$309.07	$255.46	-$54	-17.5%
Acute Psychiatric Hospitals	per bed	$309.07	$255.46	-$54	-17.5%
Special Hospitals	per bed	$309.07	$255.46	-$54	-17.5%
Chemical Dependency Recovery	per bed	$200.29	$177.49	-$23	-11.5%
Congregate Living Facility	per bed	$250.77	$292.20	$41	16.3%
Skilled Nursing	per bed	$250.77	$292.20	$41	16.3%
Intermediate Care Facility (ICF)	per bed	$250.77	$292.20	$41	16.3%
ICF-Developmentally Disabled	per bed	$469.81	$1,307.72	$837	178%
ICF—DD Habilitative, DD Nursing	per bed	$469.81	$1,307.72	$837	178%
Correctional Treatment Centers	per bed	$806.53	$832.67	$26	3.3%

As required by statute, the DPH did *finally* publish their annual L&C Fees Report in March (over 1 month late), and has provided some additional background to several constituency groups regarding how the fees are calculated.

However, Subcommittee staff notes that information has been more problematic to obtain this year and that several organizations have not yet been provided full disclosure on how their particular heath care category of fees have been determined (as proposed by the Governor).

Based on information gleaned by Subcommittee staff, the following should be noted with respect to the DPH's proposed increases for L&C Fees:

- *Reduction in General Fund Subsidy for Non-State Facilities.* The General Fund subsidy of $2.782 million provided by the Legislature last year has been reduced by the Administration to a total subsidy of $2.340 million (General Fund). The Legislature has been providing a subsidy for certain community-based, non-profit health facilities since inception of the Fee program by the Administration. A decrease in General Fund support means an increase in fees.

  The DPH proposes to use the $2.340 million in General Fund subsidy to offset L&C Fees for the following health care facilities. The DPH did allocate this subsidy in the same proportion as done previously (same percentage as used by the Legislature).

Health Facility	Proposed General Fund Subsidy	Percent of Subsidy
Home Health Agencies	$491,166	21%
Community Clinics	$636,714	27.2%
Psychology Clinics	$12,636	0.54%
Surgical Clinics	$171,522	7.3%
Chronic Dialysis Clinics	$151,866	6.5%
Hospice	$133,380	5.7%
Intermediate Care Facilities (6-bed)	$742,716	31.7%
Total	$2,340,000	100%

- *DPH Provides Price Increase.* The DPH reflects an increase of $478,000 (L&C Fees) to provide its headquarters and field offices with more funding for operating expenses and equipment.

- *DHP Employee Compensation Adjustment.* The DPH reflects an increase of $1.8 million in costs associated with employee compensation adjustments for the budget year.

- *Proposed Augmentation for SB 739 (Speier), Statutes of 2006.* In the Budget Act of 2007, the Governor vetoed an increase of $1.3 million ($833,000 General Fund and $431,000 L&C Fees) for implementation of this legislation. For the budget, the DPH is now proposing an increase of $431,000 (L&C Fees) to fund three positions. The DPH is showing this as a "baseline" adjustment and does not clearly provide reference to this adjustment in its annual L&C Fees Report. Further the DPH allocates the $431,000 across all facility types based on an assumed workload percentage.

- *Proposed Augmentation for Continued Implementation of SB1312 (Alquist), Statutes of 2006.* Though the DPH was provided a total of 16 positions, as requested in the Budget Act of 2007 and the Legislature adopted modifications as requested by the Administration to clarify statute, the DPH is requesting an *additional* $8.864 million (L&C Fees) for 2008-09. The DPH would use these funds to hire an additional 68 positions.

  This issue is discussed separately in this Agenda under *ISSUE "B",* below.

- *Proposed Augmentation for Reviewing and Processing of Applications.* The DPH is requesting an augmentation of $732,000 ($293,000 L&C Fees and $439,000 federal funds) for 7 positions. This issue is discussed separately in this Agenda under *ISSUE "C"*, below.

- *Special Fund Loan Repayment.* In 2006, a loan from the General Fund was established as a transition until the L&C Fee revenues were generated to sustain the program. As such, a loan repayment of almost $1.1 million (L&C Fees) is transferred to the General Fund for 2008-09. This represents the final payment on the loan.

- *Other Revenue Offsets to L&C Fees.* As required through trailer bill language enacted last year by the Legislature, miscellaneous fee revenues such as that collected from "change of ownership" fees and initial application fees will be used to offset a portion of the L&C Fees overall. The DPH estimates that about $3 million in other revenues will be used to offset L&C Fee increases.

- *"Prudent" Reserve Adjustment.* The DPH also includes an increase of $158,000 (L&C Fees) to account for a 5 percent "prudent" reserve in addition to all of the other calculations.

Background—L&C Fee Fund Reserve--$7.3 million Available . The L&C Fee special fund is reflecting an overall fund condition balance of $7.3 million (L&C Fees). This is the reserve for economic uncertainty that is projected for this fund for 2008-09. Subcommittee staff believes that a portion of these reserves could be used to reduce the projected increase in L&C Fees for some of the health care facilities.

Background—Baseline Workload Assumptions. The DPH uses a "workload" methodology which they state is based upon a detailed timekeeping system as to how staff is utilized by the 17 L&C Field Offices in the state to conduct various licensing and certification visits, including initial visits, annual reviews, follow up, visits for complaints and others. Based on this "workload" methodology, a percentage is devised and it is used to then allocate costs back to the individual health care facility categories.

The DPH's "workload" percentage for allocating costs to each category of health care facility for 2008-09 is shown in the table below.

Facility Type	Administration's Workload Percentage
Referral Agencies	0.0722%
Adult Day Health Centers	2.1262%
Home Health Agencies	7.4880%
Community-Based Clinics	2.3347%
Psychology Clinic	0.1059%
Rehabilitation Clinic (for profit)	0.1661%
Rehabilitation Clinic (non-profit)	0%
Surgical Clinic	2.4468%
Chronic Dialysis Clinic	1.9938%
Pediatric Day Health/Respite	0.0429%
Alternative Birthing Centers	0.0173%
Hospice (2-year license)	0.9590%
General Acute Care Hospitals	23.6436%
Acute Psychiatric Hospitals	23.6436%
Special Hospitals	23.6436%
Chemical Dependency Recovery	0.0868%
Congregate Living Facility	40.7132%
Skilled Nursing	40.7132%
Intermediate Care Facility (ICF)	40.7132%
ICF-Developmentally Disabled	17.0882%
ICF—DD Habilitative, DD Nursing	17.0882%
Correctional Treatment Centers	0.7161%

It should be noted that many constituency groups are still unclear as to how this workload percentage is devised, and they are concerned since it is a key aspect of how the L&C Fees are calculated. As noted below, the Office of Statewide Audits and Evaluations (OSAE) also raised this issue.

Background--Office of Statewide Audits and Evaluations Report: Licensing and Certification Fees Methodology Review. Due to continued concerns expressed by the Legislature regarding the Administrations development and application of fees under this program, the Legislature requested the Office of Statewide Audits and Evaluations (OSAE) within the Department of Finance to conduct an analysis of the methodology used by the DPH. The DPH's methodology is critical because it services as the baseline for developing the "workload" percentages (baseline costs) as noted above.

The OSAE report, released on January 31, 2008, made the following key points regarding the L&C Fee methodology used by the DPH:

- The DPH *cannot ensure* that the L&C Fees to be assessed to health facilities in 2008-09 will fairly allocate the costs among the various health facilities;

- The DPH has design flaws and operational weaknesses in its timekeeping system used by the L&C Division for determining workload allocations;

The OSAE then made the following recommendations for improvement:

1. Modify the existing timesheet format;
2. Develop written procedures for the Headquarters timesheet adjustment process;
3. Provide training to staff on usage of the format and related administration;
4. Reconcile the timesheet data to the accounting data on a monthly basis;
5. Maintain adequate supporting documentation to support all data used to calculate the L&C Fees.

At this time it is not clear to Subcommittee staff if the DPH has *fully* implemented all of these OSAE recommendations, or if the DPH is making other additional improvements in this area.

Continued Vacancies in Licensing and Certification—Very Significant. According to the DPH, as of January 2008, the L&C Division had a total of *167 vacant positions*. Of this vacancy level, a total of 96 positions (57 %) pertained to the Health Evaluator classifications which are the key positions used in conducting licensing and certification surveys. Many of the other vacancies pertain to pharmacy consultants, program technicians and other key support staff.

Subcommittee staff would note that the L&C Division is still in transition for making improvements. A significant number of positions have been added to the Division over the past several years on a bi-partisan basis in an effort to improve oversight and the quality of patient care through out the health care facilities system. The large number of staffing increases, coupled with personnel shortages in many areas, including nursing, has proven to create a hiring challenge for the DPH.

However, an update at the May Revision on their vacancy levels would be useful prior to adding additional positions (as discussed in the issues noted later in this Agenda).

L&C Division's Use of Lower Hours for Staff Calculations. As discussed for the past two-years in Subcommittee, the DPH uses a Health Facility Evaluator Nurse (HFEN) surveyor workload calculation of 1,364 personnel hours as being a full-time equivalent position. Most other programs within the DPH, as well as state departments pervasively, use a calculation of 1,800 personnel hours, or 336 hours more, as their full-time equivalent.

Therefore, each HFEN position at the DPH represents *25 percent less time* than other full-time equivalent positions.

The DPH has used this calculation due to the need for training time, completion of reports and related aspects of the surveyor position. However, Subcommittee staff believes that this enriched level should now be changed back to the 1,700 level on a prospective basis for all future positions as calculated for budgetary purposes. The baseline needs for the L&C Division have improved from an overall staffing position perspective and new positions can be added at the standard state personnel hours equivalent.

Subcommittee Staff Comment and Recommendation—Some Actions Now. *First,* as already noted, it has been more problematic this year to obtain information regarding the many of the details as to how the L&C Fees are calculated. Further, appropriate public access to this information is not readily available since much of the information is not contained in the annual L&C Fee Report as required by statute.

Therefore, it is recommended to adopt placeholder trailer bill legislation to require the DPH to provide a brief narrative of all baseline adjustments *and* dollar amounts assumed for calculation of the L&C Fees, including the basis for its workload assumptions and a comparison of the prior year's L&C Fees (i.e., 2007-08 in this case) with the baseline L&C Fees for the budget year (i.e., 2008-09). This information would be contained in the annual L&C Fee Report..

Second, it is recommended to *delete* the DPH's funding augmentation of about $500,000 for the "price" adjustment related to operating expenses and equipment and related items. Cost-of-Living-Adjustments are not being given to most programs and this augmentation just increases the L&F Fee level.

Third, the L&C Fee special fund reserve is at $7.3 million (L&C Fees). Subcommittee staff believes that a portion of these reserves could be used to reduce the projected increase in L&C Fees for some of the health care facilities. The DPH should provide the Subcommittee with an updated Fund Condition Statement on these reserves at the May Revision.

Fourth, Subcommittee staff is concerned with the vacancy rate of the L&C Division. But because of it, there will be additional *unspent* L&C Fees (i.e., collected fees not being spent on staff). As such, the L&C Division should provide this information at the May Revision, once an update on filling staff can be obtained. Unspent L&C Fees can be used to offset 2008-09 L&C Fee increases as presently proposed by the Governor.

Fifth, Subcommittee staff recommends the adoption of the following Budget Bill Language regarding the use of the 1,700 hours equivalent for all of the DPH positions related to the

Licensing and Certification Division. This language will be applicable for one-year and can be modified next year if needed. The proposed language is as follows:

> Item 4265-001-0001
> Provision x. The Department of Public Health shall use the standard state personnel year equivalent for all new positions funded in 2008-09 for licensing and certification activities related to health care facilities.

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

1. DPH, Please provide a brief summary of the Administration's L&C Fee increases.
2. DPH, Please *briefly* explain how the "workload" baseline is calculated.
3. DPH, Please *briefly* explain what is being done to fill vacant positions?
4. DPH, Please *briefly* explain the *key actions* taken to address concerns expressed in the Office of State Audits and Evaluations report.

ISSUE "B"—Licensing and Certification Increases Senate Bill 1312 (Alquist), 2006

Issue. The DPH is requesting an increase of $8.7 million (L&C Fees) to support 68 state positions and augment a contract the state has with Los Angeles County (as is always done), to continue implementation efforts associated with SB 1312 (Alquist), Statues of 2006. The amount for the Los Angeles County contract is $985,000 (L&C Fees).

Of the requested positions, 51 are Health Facilities Evaluator Nurses (HFEN), 7.5 are Supervising HFEN and the remaining positions provide quality assurance, training, data analysis and technical support to the surveyors.

The DPH states that this position request is based on L&C developed and pilot tested survey tools and an analysis of the state standards and required survey work. They state that that the pilot tests indicate the workload hours have increased considerably from the initial estimates and the appropriation provided in the Budget Act of 2007.

The table below outlines the request for the HFENs who would conduct the survey work. Stand-alone surveys means the survey will be performing the survey at a separate time from the federal re-certification surveys. Concurrent survey means that will be done at the same time (federal certification and state review).

Facility Type	**"Stand Alone" Surveys**	**"Concurrent" Surveys**	**Total HEFNs**
Nursing Homes (one to 90 beds)	238	79	17.0
Nursing Homes (91 plus beds)	247	83	33.0
Adjustment for 10 Positions (Budget Act of 2007)			-10.0
Totals	**647 surveys**	**162 surveys**	**40.0**

Key assumptions used to develop this workload estimate are as follows:

- A state re-licensing survey is required at least once every two years. About 50 percent of the licensed long-term care health facilities will be surveyed each year. The remaining 50 percent would be surveyed on alternate years.
- It is estimated that 42 percent of those facilities surveyed in the prior year will require an annual survey based on citation data from L&C's system (between October 2006 to October 2007). About 192 surveys will be needed to address this area.
- "Concurrent" surveys will require a total of 6 HFENs while "stand alone" surveys will require 40 additional HFENs. Therefore, a total of 46 are needed for these efforts.
- The total number of surveys to be completed by the DPH in 2008-09 is 647 surveys. Los Angeles County will complete 409 surveys under their stand-alone contract.

As part of the 68 position request, the DPH is also requesting 6 positions to do "quality assurance reviews" as part of this process. Quality assurance reviews reassure that patient safety is protected and will provide standardization across the state so that evaluators in the Field Offices are applying and enforcing state standards.

Lastly, 5 other positions have been identified to address significant training needs and continuing education to staff.

Background--Budget Act of 2007. A total of 16 positions, including ten surveyor positions were provided to the DPH to begin implementation efforts. In addition, trailer bill language was adopted at the Administration's request to provide further clarification regarding implementation of SB 1312.

Background—Senate Bill 1312 (Alquist), Statutes of 2006. Prior to the passage of SB 1312, long-term care health facilities that were certified to participate in the Medi-Cal Program were *exempt* from periodic state licensing inspections. SB 1312 removed that exemption.

SB 1312 requires the DPH to inspect all licensed long-term care health facilities to ensure compliance with state laws and regulations to the extent that those standards provide greater protection to residents or are more precise than federal standards. All long-term care health facilities must be surveyed once every two years. However, a long-term health facility that has received a class "AA", "A" or "B" citation for non-compliance with state law or regulation within the last 12 months must be surveyed annually.

To ensure maximum effectiveness of inspections conducted, SB 1312 also mandated the L&C Division to identify all state law standards for staffing and operation of long-term care health facilities.

Background—Federal and State Aspects. The survey protocols for conducting a federal *certification* survey are prescribed by the federal CMS. The DPH surveyors are "graded" for compliance with those protocols by periodic and direct observations by the federal CMS specialists. The DPH performance is measured by the average length of time taken for the federal survey, the timeliness of submitting the survey findings to the facility, and the timeliness of obtaining an acceptable plan of correction.

The federal CMS does *not* permit violations of *state licensing* standards to be included in the federal certification survey documents. Failure to comply with federal standards can jeopardize the federal grant funds the state receives for the L&C Division.

Allocation of Staff Expenditure for L&C Fee Purposes. With respect to the L&C Fee methodology for allocating the costs of this staff, it should be noted that the DPH is spreading the $8.7 million (L&C Fees) across the following health care facility categories:

- Pediatric Day Health/Respite Care — $ 9,104
- Skilled Nursing, and Intermediate Care Facility — $6.3 million
- Intermediate Care Facilities for Disabled — $2.5 million

Constituency Concerns with Implementation. The Subcommittee is in receipt of a letter from consumer advocates who are in support of the L&C Division's funding request for positions, but are seeking clarity in how the DPH is actually proceeding with implementation of SB 1312 on a statewide basis.

Of key importance is the need for the DPH to implement SB 1312 on a statewide basis. Thus far there has been limited implementation even though the law took effect on July 1, 2007. A key aspect of this concern is that the DPH has not provided any written instructions to its Field Offices on how to evaluate compliance with the SB 1312 requirements during licensing inspections. Apparently each surveyor is left to choose his or her own approach for evaluating and documenting compliance and to setting priorities for the licensing components of the surveys.

Subcommittee Staff Comment and Recommendation—Modify and Leave Open.
First, it is recommended for the DPH to submit a revised proposal using the standard state productivity hours of 1,800 annually, versus the 1,364 personnel hours as presently being used. The calculation needs to be provided to Subcommittee staff *before* the May Revision.

As discussed under ISSUE "A", the DPH is one of the only departments in state government using this lesser standard. Further, with the inclusion of the quality assurance reviews and the additional staff for training, as contained in this request, the HEFNs should be able to begin to meet program goals. This can be monitored and reviewed in subsequent budgets.

Second, Subcommittee staff is equally concerned with the lack of instruction from the DPH to its Field Offices regarding the implementation of SB 1312. In a written response to questions, the DPH notes that seven (7) of its 17 Field Offices use the federal enforcement process where substantiated complaints are assessed a federal "scope and severity" finding for the facility. While the ten (10) other Field Offices follow the state requirement process whereby substantiated compliant and facility reported events may result in a state citation.

The DPH needs to clarify why it is proceeding in this manner and if it is creating any quality assurance concerns across the Field Offices.

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

1. DPH, Please provide a brief summary as to how the DPH conducts its surveys to meet the requirements of SB 1312.
2. DPH, Please provide a brief summary of the budget request.
3. DPH, Please clarify how the state intends to fully implement SB 1312 requirements statewide and why there are differences between Field Offices in the manner referenced above.

ISSUE "C"—Licensing and Certification: Professional Certification Branch Staff

Issue. The DPH is requesting an increase of $732,000 ($293,000 L&C Fees and $439,000 federal funds) to fund 7 state positions to investigate complaints against Certified Nurse Assistants (CNAs), Home Health Aides and Certified Hemodialysis Technicians who are accused of abuse, theft, negligence, or unprofessional conduct against patients in health care facilities, private homes or agencies.

The DPH states these positions are needed due to an increase in new complaints received and the importance of addressing a backlog of 726 cases. Specifically, 1,458 new complaints were received in 2006-07. This large volume of new complaints, coupled with 629 existing cases being investigated, combined for a total of over 2,000 cases.

Though DPH staff has been working diligently, an increase in staff is requested to alleviate the existing backlog needing review of 726 cases. Currently 15 staff are performing these investigations and related work.

The DPH notes they have triaged the new complaints into three priorities:

(1) Abuse (sexual and physical assault, sexual coercion, emotional abuse and theft). About 55 percent of the complaints are in this category.

(2) Negligence and Unprofessional Conduct (rough handling, poor care, dropping a resident resulting in injury, and abandonment). About 34 percent of complaints are in this category.

(3) Certification by Fraud or Misrepresentation (identification, theft, stolen/false social security number, perjury on application for certification, and competency testing fraud). About 11 percent of complaints are in this category.

Allocation of Staff Expenditure for L&C Fee Purposes. With respect to the L&C Fee methodology for allocating the costs of this staff, it should be noted that the DPH is spreading the $293,000 in L&C Fee expenditures across all health facility categories using the workload percentage as discussed in ISSUE "A", above.

Background—Overview of Investigation Process. The "Professional Certification Branch" within the L&C Program is responsible for oversight of the CNAs, Home Health Aids and Certified Hemodialysis Technicians. The branch receives complaints against these professions from health care facilities or agencies, the State Long-Term Care Ombudsman, victim's families, L&C Field Offices, and law enforcement agencies.

Investigators work primarily in the field, interviewing complainants, victims and witnesses; reviewing medical, financial and criminal records; developing investigative leads; and collecting, securing and interpreting evidence. In the office the investigators document case findings and recommend disciplinary actions.

When the complaint is of a criminal nature, the investigators work with local law enforcement, the Department of Justice and other agencies. Investigators also testify as expert witnesses in criminal cases filed by local prosecutors and the Department of Justice.

Subcommittee Staff Recommendation--Approve. Subcommittee staff concurs with the workload and need for these positions. This backlog creates potential health and safety concerns.

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

1. DPH, Please provide a brief summary of the budget request and an update on the investigation of the backlog.

ISSUE "D"—Licensing and Certification: Governor's Reduction

Issue. The Governor is proposing a reduction of $1.254 million (General Fund) to the L&C Program as part of his 10 percent reduction proposal.

The DPH states that this reduction amount will be taken as follows:

- *General Fund Subsidy to Offset L&C Fee Costs.* A reduction of $260,000 (General Fund) is proposed by reducing the amount of the General Fund subsidy provided to certain health care facilities form its current $2.6 million in 2007-08 to a total of only $2.3 million in 2008-09. (As discussed under ISSUE "A" above).
- *State Facilities Surveys.* A reduction of $918,000 (General Fund) is proposed by eliminating five of thirty-two Health Facilities Evaluator Nurse positions who survey state facilities (such as the state Developmental Centers, State Hospitals and Veterans Homes)
- *Administrative Overhead.* A reduction of $54,000 is proposed by decreasing the amount of distributed administrative overhead allocated to the L&C Program.

Subcommittee Staff Comment and Recommendation—Modify the Reduction. In order to achieve the same level of General Fund reduction as proposed by the Governor, it is recommended to further reduce the State Facilities Unit by two positions and to make adjustments to the operating expense and equipment area of the overall L&C Division to achieve the $260,000 (General Fund) reduction, in lieu of reducing the General Fund Subsidy to offset L&C Fees.

Questions. The Subcommittee has asked the DPH to respond to the following question.

1. DPH, Please comment on the Governor's proposed reduction.

2. Governor's Proposed Reduction to Battered Women Shelter Program

Issue. The Governor is proposing a reduction of almost $2.7 million (General Fund) to the Battered Women Shelter Program. This reduction would reduce all of the shelter grants (total of 94) and four technical assistance and training contracts by about 10 percent. The reduction to the shelters would mean that 13,000 women would *not* receive program services.

This core public health and safety program is presently funded at $22.9 million ($22.6 million General Fund and $235,000 Domestic Violence Training and Education Fund) and funds 94 shelter-based domestic violence agencies to provide emergency and non-emergency direct services to battered women and their children and to perform domestic violence prevention activities.

Shelter services include emergency shelter, transitional housing, legal advocacy and assistance with temporary restraining orders, counseling, and other support services.

The Battered Women Shelter Program grantees serve about 130,000 women and their children each year (105,000 women and 25,000 children) with the existing funding level.

Office of Emergency Services Domestic Violence Programs. The OES has a total of $2.5 million (General Fund) which is also allocated certain domestic violence shelters.

Legislative Analyst's Office Recommendation—Reject Proposed Reduction. The LAO recommends rejecting this proposal since it affects direct services that provide for immediate public health and safety concerns.

Subcommittee Staff Comment and Recommendation. Subcommittee staff concurs with the LAO recommendation that services provided under the Battered Women Shelter Program address immediate public health and safety concerns for women, children and related family members.

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

1. DHCS, Please provide a brief summary of the reduction proposal and the potential impacts to services.

3. Trailer Bill Legislation—Continued Oversight of New Department

Issue. With the creation of the new Department of Public Health (DPH) in July 2007, issues have come to the forefront regarding the continued evolution of the restructuring efforts.

Many of these issues pertain to the natural outgrowth of creating a new state department, and some of them concern issues that have not had the opportunity to be fully vetted before due to the shear size and complexity of the Department of Health Services prior to the split into the two very distinguishable departments.

With appointments just completed for the 15- member Public Health Advisory Committee, it appears to be an opportune time to propose trailer bill legislation to continue the restructuring efforts in a more focused manner to address specific administrative and programmatic efficiencies.

For example, the Legislative Analyst states in her Analysis that consideration of consolidating various public health programs into a block grant might be warranted. Subcommittee staff believes a more comprehensive review of certain administrative functions, such as development of program regulation packages, is much over due for public health programs.

Therefore, Subcommittee staff is recommending adoption of the following trailer bill language to more fully engage the Public Health Advisory Committee and DPH to continue the restructuring efforts to ensure the sustainability of core public health programs.

Proposed Trailer Bill Language (uncodified)

a) The Director of the Department of Public Health shall convene the Public Health Advisory Committee established by Section 131230 of the Health and Safety Code to review the organizational structure of the Department of Public Health in order assess the department's efficiency and effectiveness in administering its programs. The department shall participate in this review and shall make available to the committee information that is deemed necessary to carry out this review and shall provide support and assistance to the committee within its existing resources.

b) The review shall consider the following:

   i) The ability of the department to carry out current statutory responsibilities.

   ii) The timeliness of program implementation after enactment of statutes, including the development of related regulations.

   iii) The use of fees charged for program services, including the efficiency of collection and budgeting of these fees to carry out the purposes of Department's programs.

   iv) The level of administrative support provided to carry out program services, including the ability to process, in a timely manner allocations, grants and contracts.

   v) The ability to recruit and properly compensate the professional personnel necessary to carry out department programs.

   vi) The organizational structure of the department and the number and breadth of programs administered by the department.

vii) The recommendations by the legislative analyst, as outlined in the Analysis of the 2008-09 Budget Bill, calling for the consolidation of public health programs and the development of a universal contract for funds allocated to local jurisdictions and non - profits organizations.

c) The director and the advisory committee shall seek and invite the participation of experts from local health departments, universities, health providers and organizations that participate in department programs, and the federal government in order to assist and inform the advisory committee in this review.

d) The committee shall report the results of the review required by this section to the director, the Secretary of the Health and Human Services Agency, and to the fiscal committees and the health policy committees of the Legislature by October 1, 2009. The report shall include any recommendations to improve the department's organizational structure, program effectiveness and efficiency, and technical competence and expertise.

Background—New CA Department of Public Health. Effective July 1, 2007, pursuant to Senate Bill 162 (Ortiz), Statutes of 2006, specific programs and public health responsibilities currently vested with the Department of Health Services were transfer to the newly established Department of Public Health (DPH).

The creation of a separate DPH is intended to elevate the visibility and importance of public heath issues. It is also intended to result in increased accountability and improvements in the effectiveness of DPH programs the Department of Health Care Services programs by allowing each department to administer a narrower range of activities and focus on their respective core missions

The core functions of the DPH include: (1) Emergency Preparedness; (2) Communicable Disease Control; (3) Chronic Disease and Injury Prevention; (4) Laboratory Sciences; (5) Family Health Programs; (6) Environmental and Occupational Health; (7) Drinking Water and Environmental Management; (8) Food, Drug and Radiation Safety; (9) Health Statistics; (10) Health Facility Licensure and Certification; (11) Office of Multicultural Health; and (12) Office of Binational Border Health.

Background--Public Health Advisory Committee. A 15-member Public Advisory Committee (Committee) was established in the enabling legislation. Its members are appointed by the Governor (9 appointments), the Senate Rules Committee (3 appointments) and the Speaker of the Assembly (3 appointments). The Committee membership was formally announced in early April.

The purpose of the Committee is to provide expert advice and make recommendations on the development of policies and programs that seek to prevent illness and promote the public's health.

The Committee is to identify strategies to improve public health program effectiveness, identify emerging public health issues, and make recommendations, as necessary, on programs and policies to improve the health and safety of Californians.

Questions. The Subcommittee has requested a response to the following questions.

1. **LAO**, Would you please comment on the proposed trailer bill language?

2. **DPH,** Would you please comment on the proposed trailer bill language?

4. Augmentation for Richmond Laboratory Capital Outlay Project

Issue. The Administration is proposing an augmentation of $2.5 million (General Fund) for the construction of modifications at the Viral and Rickettsial Disease Laboratory which is part of the DPH's Richmond Laboratory complex.

The DPH states that changes are desired for this laboratory to meet newly established guidelines for *"enhanced"* bio-safety Level III laboratories as determined by the U.S. Department of Agriculture, federal Centers for Disease Control and Prevention (CDC) and National Institutes for Health (NIH).

The DPH contends that compliance with these *"enhanced"* guidelines is essential for the safe growing, handling and examining of potentially high pathogenic influenza viral agents, thereby continuing the state's ability to respond quickly and control a potential outbreak of pandemic flu.

Presently the Viral and Rickettsial Disease Laboratory meets bio-safety Level III preparedness but not the new "enhanced" level.

Subcommittee Staff Comments and Recommendation—Defer Proposal for One-Year. As noted the "enhanced" guidelines are relatively new. According to the DPH, there presently are no states in the nation that meet "enhanced" guidelines.

The only laboratories certified to safely handle the Avian ("bird") Influenza viruses is the federal CDC laboratories located in Atlanta, Georgia; Ames, Iowa; and Fort Collins, Colorado.

The DPH states that in the event a case of Avian Influenza is suspected here in California, the general protocol is to use the federal CDC laboratories to conduct confirmatory testing.

Further, the DPH states where there have been two known instances where potential Influenza samples were sent to the federal CDC by the DPH for confirmation. *In both instances, the initial testing was conducted at the Richmond Laboratory complex with the federal CDC conducting the confirmatory analysis.*

Finally, the Administration notes that no other funding sources—federal or special funds—can be identified to be expended for this purpose.

In light of the state's severe fiscal crisis, and the availability of federal CDC "enhanced" bio-safety Level III laboratories to California for the specified purposes, it is recommended to defer this construction for one-year.

ISSUES FOR DISCUSSION –DEPARTMENT OF MENTAL HEALTH

1. Administrative Headquarters Savings—Open Issue

Issue and Prior Subcommittee Hearing—March 14th. In the March 14th hearing, the Subcommittee discussed a comprehensive report by the Office of State Audits and Evaluations (OSAE) within the Department of Finance.

Specifically, this "internal control review" of the Department of Mental Health (DMH) encompassed headquarters operations, as well as the State Hospitals administered by the DMH. The OSAE identified areas where managerial and fiscal controls are not in place or working as intended.

This OSAE report identifies fundamental concerns with core fiscal and administrative functions at the DMH. Their review identified weak budgetary controls, lack of communication and coordination, and weak fiscal oversight among units. They noted that due to weak fiscal oversight, the DMH has not effectively or timely prevented or detected budgeting and accounting errors which have resulted in lost opportunities to fund critical needs.

The OSAE provided the DMH with a series of recommendations (numerous pages) to assist the DMH management in focusing attention on strengthening internal controls, preventing and mitigating risks, and improving operations. *Further, to strengthen controls, OSAE recommended for the DMH to develop a plan to address the observations and recommendations noted in the report.*

The OSAE identifies several areas where General Fund moneys were inappropriately utilized. With improved controls, savings should be achieved.

Request of Senator Alquist, Chair. At the request of the Chair, the DMH was to report back on April 28th to identify General Fund savings within the Headquarters office that can be achieved from re-tooling efforts as suggested by the OSAE report.

In addition, the DMH was directed to provide the Subcommittee with their plan, as recommended in the OSAE report, upon its completion (whenever that occurs).

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

1. DMH, What level of General Fund savings can be achieved in 2008-09 due to changes which are to occur as suggested by the OSAE report?
2. DMH, When will the DMH have its plan of action completed?

2. County Purchase of State Hospital Beds—Open Issue

Issue and Prior Subcommittee Hearing. In the March 24th hearing, the Subcommittee raised the issue of the state's continued use of General Fund support for State Hospital beds purchased by County Mental Health Plans (County MHPs) for civil commitments.

Specifically, the Department of Mental Health (DMH) provides about $9.8 million (General Fund) to subsidize, or to offset the full cost of, the State Hospital beds purchased by County MHPs.

County MHPs purchase State Hospital beds from the DMH on a contracted basis. According to the DMH's budget, it is estimated that County MHPs will contract for a total of 542 beds (i.e., "Civil Commitments") in 2008-09.

Counties purchase State Hospital beds using their County Realignment Funds (Mental Health Subaccount). Under realignment, counties may choose to purchase State Hospital beds or to utilize community-based resources as appropriate for the individual patient.

During the mid-1990's, the DMH provided some General Fund support to counties to offset the high cost of State Hospital beds while counties were developing community-based resources, including crisis intervention services and more expansive continuum of care services. As community-based resources were expanded, the counties purchased fewer State Hospital beds over time.

Subcommittee Staff Comment and Recommendation. During the mid-1990's General Fund augmentations were provided for several years to assist in offsetting the high cost of State Hospital beds to enable counties to purchase beds as necessary for patient care.

However, with the development over time of community-based resources, and the state's present fiscal situation, the state should eliminate the $9.8 million (General Fund) subsidy for counties. Without the General Fund subsidy, County MHPs may choose to purchase a State Hospital bed at full cost, utilize other long-term care resources, access other community-based resources, or develop new treatment models for patients.

It is recommended to eliminate the $9.8 million General Fund subsidy for the purchase of State Hospital beds and to increase by $9.8 million Reimbursements (coming from County Realignment for the State Hospitals.

Questions. The Subcommittee has the following questions.

1. **DMH**, Any additional comment here?

3. Ancillary Health Services for Patients in Institutes for Mental Disease

Issue. Subcommittee staff believes there is a need for clarifying responsibilities for patients receiving mental health treatment in Institutes for Mental Disease facilities (IMDs).

This is a cross-over issue between the Department of Mental Health (DMH) and the Department of Health Care Services (DHCS). The DMH is responsible for the administration of public mental health programs and the DHCS is the state's Medicaid (Medi-Cal in California) agency.

With respect to the DHCS Medi-Cal budget, the state is presently *repaying* the federal government for improperly claimed federal funds for ancillary health services for Medi-Cal enrollees residing in IMD facilities. Specifically, the Medi-Cal budget reflects General Fund expenditures of $36 million for 2007-08 and $12 million for 2008-09 for the repayment to the federal government for these ancillary health services due to the IMD federal exclusion. The payment for 2008-09 reflects the last payment owed to the federal government at this time.

Subcommittee staff contends that these federal audit exceptions, and therefore General Fund expenditures, should cease once the state has repaid the federal government for past years owed. To ensure that this occurs, additional clarity should be provided in statute and communication between the DMH and DHCS regarding the exchange of data needs to improve.

As noted in the background section below, services provided to most individuals residing in IMDs are generally *not* eligible for federal matching funds as is normally available under the Medi-Cal Program. This includes specialty mental health services, *as well as* ancillary health services (i.e., services that are health-related but not for the treatment of the specific mental illness, including expenditures for pharmacy, laboratory services, and physician services)

On page 4 of a November 2002 letter from the DMH (Letter # 02-06) to Counties, it is stated that County MHPs are responsible for submitting reports to the DMH regarding Medi-Cal enrollees in the IMDs. The IMD report is to be used by the DHCS to identify claims for *all* services that fall under the IMD federal exclusion. County MHPs are responsible, to the extent possible, to prevent the submission of claims to the state for services provided to Medi-Cal enrollees covered by the IMD federal exclusion.

The DMH Letter notes that County MHP inappropriate claiming of federal funds must be minimized in the Medi-Cal system and that individual claiming errors will be subject to disallowance. Further the letter directs for County MHPs that have the capability of editing claims for IMD status and age of enrollee must do so. County MHPs that do not have this capability should be especially careful to report enrollees in the IMDs accurately on the IMD report.

Subcommittee staff contends that more comprehensive oversight by the DMH and DHCS would have improved the data received from County MHPs and would have mitigated the repayment amounts owed to the federal government for these audit exceptions. (The

Office of State Audits and Evaluations noted the need for much improved communication between the two departments in their review of the Medi-Cal Mental Health programs.)

<u>Background—What is an Institute for Mental Disease (IMD)?</u> As defined in a November 2002 letter from the Department of Mental Health to Counties, Institutes for Mental Disease are "a hospital, nursing facility, or other institution of *more than* 16-beds that is primarily engaged in providing diagnosis, treatment, or care of persons with mental diseases, including medical attention, nursing care, and related services." Generally, this includes the following facilities: Acute Psychiatric Hospitals, Psychiatric Health Facilities, Skilled Nursing Facilities with a certified special treatment program, and Mental Health Rehabilitation Centers.

<u>Background—What is the Federal IMD Exclusion?</u> Federal Medicaid law (Medi-Cal in California) states that federal funds are *not* available for individuals under the age of 65 who are patients in an Institution for Mental Disease unless they are under age 22 and are receiving inpatient psychiatric services as specified. This federal exclusion has been in existence since inception of the Medicaid Program. California and many other states have attempted to get this federal exclusion changed for decades with no success.

<u>Background—Counties Responsible for Individuals in IMD's.</u> The Department of Mental Health, in their November 2002 letter to Counties, notes that County Mental Health Plans (County MHPs) are responsible for services to eligible patients. Specifically, this letter states the following:

> "Regardless of whether or not federal financial participation is reimbursed, certain specialty mental health services must be provided to eligible patients by County MHPs under California law and the provisions of their contract with the DMH. Psychiatrist and psychologist services and comparable mental health services and medication support services are the responsibility of the County MHPs in accordance with medical necessity criteria that apply to all other services."

Further, Section 14053.1(a) of the Welfare and Institutions Code states: "ancillary outpatient services, pursuant to Section 14132, for any eligible individual (i.e., for public mental health services) who is 21 years of age or over, and has not attained 65 years of age and who is a patient in an IMD shall be covered regardless of the availability of federal financial participation."

<u>Subcommittee Staff Comment and Recommendation.</u> In order to mitigate General Fund exposure due to any federal audit exceptions related to the IMD federal exclusion, it is recommended to adopt the following trailer bill language:

> "As federal financial participation reimbursement is not allowed for ancillary services provided to persons residing in facilities that have been found to be Institutions for Mental Disease, and since, consistent with Part 2 (commencing with Section 5600) of Division 5 and Chapter 6 (commencing with Section 17600) of Part 5 or Division 9 of the Welfare and Institutions Code, counties are financially responsible for mental health services and related ancillary services provided to persons through county mental health programs when Medi-Cal reimbursement is not available, when it is determined that Medi-Cal reimbursement has been paid for ancillary

> services for residents of IMDs, both the federal financial participation reimbursement and any state funds paid for these ancillary services provided to residents of IMDs shall be recovered from counties by the Department of Mental Health in accordance with applicable state and federal statues and regulations."

The above language will more comprehensively compel the DMH to provide increased oversight of County MHPs with this issue and should overall encourage more of a coordinated state effort.

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

1. Administration, Please comment on the proposed trailer bill language.

4. Proposition 63—Mental Health Services Act Implementation

Issue. The Subcommittee is in receipt of a Finance Letter requesting several adjustments for the Department of Mental Health pertaining to continued implementation of the Mental Health Services Act (MHSA). A total increase of $32.9 million (MHSA Funds and matching federal reimbursements) is requested for 2008-09. This includes: (1) $5.8 million for state operations (DMH and the Oversight Commission); and (2) $27.2 million for local assistance.

(It should be noted that a discussion regarding funding for the MHSA Housing Program as referenced in the Finance Letter will be conducted at a later Subcommittee hearing.)

Key components of the Finance Letter request are as follows:

- *Workforce Education and Training.* The MHSA requires the development of a program intended to remedy the shortage of qualified individuals providing services to severely mentally ill people. Using data submitted by counties and key stakeholders, the DMH is finalizing a five-year plan based upon a statewide workforce needs assessment. To this end, contract funds are requested for the following: (1) Psychiatric Residency Programs ($1.350 million); (2) Stipend Programs ($10 million); and (3) Client and Family Member Technical Assistance Center ($800,000)

- *Prevention and Early Intervention—Office of Suicide Prevention.* The DMH is requesting a total of four positions ($370,000) to establish an Office of Suicide Prevention and to contract for statewide initiatives regarding suicide prevention ($7 million). Additional funding in this effort also includes: (1) $900,000 for a statewide resource center on suicide prevention; (2) $2.3 million for crisis lines; and (3) $1.5 million for support training and workforce enhancements to prevent suicide.

- *Prevention and Early Intervention—Student Mental Health Initiative.* An increase of $8 million is identified for the provision of mental health services in educational settings throughout the state. A grant program to award about 56 higher education grants to support training, mental health education, peer support and violence prevention would be implemented.

- *Mental Health Services Oversight and Accountability Commission (Commission).* An increase of $842,000 (MHSA Funds) is requested to support two new positions—a Staff Counsel III and a Consulting Psychologist is requested, along with funds to contract out for subject matter experts.

Background—Summary of Key Aspects of Mental Health Services Act (Proposition 63 of 2004), including Local Assistance Funding. The Mental Health Services Act (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. It is intended to expand mental health services to children and youth, adults and older adults who have severe mental illnesses or severe mental health disorders and whose service needs are not being met through other funding sources (i.e., funds are to supplement and not supplant existing resources).

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 Act requires that each County Mental Health program prepare and submit a three-year plan which shall be updated at least annually and approved by the Department of Mental Health (DMH) after review and comment by the Mental Health Services Oversight and Accountability Commission (OAC).

The Act imposes a 1 percent income tax on personal income in excess of $1 million. The Act is projected to generate (i.e., revenues) about $1.363 billion in 2005-06, $1.528 billion in 2006-07, and $1.694 billion in 2007-08.

The six components and the required funding percentage specified in the Act are as follows:

Six Components of MHSA Act	**2008-09**
Community Services & Supports	55%
Workforce Education & Training	10%
Capital Facilities & Technology	10%
State Implementation/Admin	5%
Prevention and Early Intervention	20%
Innovation (within the Community Services & Supports and Prevention components)	
TOTALS	100 %

<u>Background—Fiscal Policy Clarification and Local Assistance Funding.</u> In December 2007, the DMH states that it revised and clarified many of the MHSA fiscal policies in order to simplify program administration and expedite distribution of funds to the Counties. Specifically, the DMH contends it streamlined the State/County performance contract (MHSA Agreement), changed many of the case management policies, and provided guidance on the use of unexpended funds from prior years.

The DMH informs Subcommittee staff that it included provisions in the MHSA Agreement with Counties to allow the addition of funding to the MHSA Agreement upon approval of a Plan update. This should expedite the distribution of funding by allowing Counties to rely on Board of Supervisors (Board) approval of MHSA Plans and by not requiring Board approval of each successive agreement modification.

The DMH also states it is moving to a cash-based system which ensures that sufficient MHSA Funds are available to support the total funding level by component for the subsequent fiscal year. According to the DMH this means that revenues will accumulate for 12 months in the State Mental Health Services Fund prior to distribution in the subsequent state fiscal year but will allow substantial cash payments to each County at the beginning of each fiscal year. Under this new policy, the DMH states that each County will receive 75 percent of the approved annual Plan amount upon Plan approval (and execution of a MHSA Agreement) or at the start of the fiscal year, whichever is later. The remaining 25 percent will be distributed upon submission of required reports, which include the semi-annual Local MHS Fund Cash Flow Statement and the Annual MHSA Revenue and Expenditure Report.

Further, the DMH states that it clarified that MHSA Funds should be expended and accounted for on a "first-in", "first-out" basis (i.e., the first dollar distributed to the County is the first dollar spent on services irrespective of the fiscal year). Each County is to identify unspent funds and the use of such unspent funds through the annual Plan update process. Unexpended funds will be considered available to fund services in subsequent years and a County may dedicate unspent funds to a local prudent reserve.

The table below reflects the Administration's proposed expenditures for the MHSA Funds as of January 2008. It should be noted that this table will be updated at the May Revision to reflect increased expenditures approved by the Mental Health Services Act Oversight and Accountability Commission (OAC) and the DMH.

Table: Administration's Proposed *Expenditures* by Component *(January)*

Six Components of Mental Health Services Act (MHSA)	**2006-07 (Actual)**	**2007-08 (Estimated)**	**2008-09 (Projected as of January)**
Local Planning	--	--	--
Community Services & Supports	$352.1 million	$975.5 million	$921.4 million
Workforce Education & Training	--	$127.7 million	$172.3 million
Capital Facilities & Technology	--	$300 million	$148.9 million
Prevention and Early Intervention	--	$90.2 million	$250.8 million
TOTAL for Local Assistance	**$352.1 million**	**$1.493 billion**	**$1.493 billion**
TOTAL for State Implementation (Including all Departments)	$18.5 million	$39.5 million	$38.9 million **(increasing)**
TOTAL Overall	**$370.5 million**	**$1.532 billion**	**$1.532 billion**

The following descriptions outline the various local assistance components to the Act.

- 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.

Background—Mental Health Services Oversight & Accountability Commission (OAC). 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. Members of the OAC are appointed by the Governor, Speaker of the Assembly, and the Senate Rules Committee.

Through the Executive Director of the OAC (Ms Jennifer Clancy), the OAC adopted a two-year work plan that provides a road map to effectively implement the OAC's statutory responsibilities. **Key responsibilities of the OAC include the following:**

- Provide the vision, leadership, and oversight necessary to prevent mental illness from becoming severe and disabling and transform the public and private systems charged with providing services, care, and support to California's living with mental illness.
- Ensure public *transparency* in all aspects of the Mental Health Services Act (Act) implementation, including planning, implementing, evaluating, and program and quality improvement.
- Advise the Governor and Legislature regarding actions the state may take to improve care and services for individuals experiencing mental illness.
- Provide oversight over the Act and ensure accountability to the intent and purpose of the Act through: **(1)** review and comment on *all* county plans for following the components of the Act; *and* **(2)** review and approve *all* county program expenditures using Mental Health Services Funds.
- Oversee the implementation of the Act's (1) Part 3—Community Services and Supports; (2) Part 3.1—Education and Training; (3) Part 3.2—Innovative Programs; and (4) Part 3.6—Prevention and Early Intervention.
- Identify critical issues related to the performance of County Mental Health programs and refer the issues to the Department of Mental Health
- Ensure funding from the Act leads to the intended outcomes of the Act.
- Develop and promote a statewide policy agenda that promotes a public mental health system prepared to reduce the long-term adverse impact on individuals, families, and state and local budgets resulting from untreated mental illness.

Subcommittee Staff Comment and Recommendation. *First*, it is recommended to above the Finance Letter as proposed, excluding the Housing component which will be discussed in a forthcoming Subcommittee #3 hearing.

Second, in an effort to clarify the DMH's use of contracting for certain functions, Subcommittee staff has worked with the DMH, the County Mental Health Directors Association and others to craft the following amendment (shown in underscore) to Section 4061 of Welfare and Institutions Code as follows:

> 4061 (a) The department shall utilize a joint state-county decision-making process to determine the appropriate use of state and local training, technical assistance, and regulatory resources to meet the mission and goals of the state's mental health system. The department shall use the decision-making collaborative process required by this section in all of the following areas:
>
> (1) Provide technical assistance to the State Department of Mental Health and local mental health departments through direction of existing state and local mental health staff and other resources.
> (2) Analyze mental health programs, policies, and procedures.
> (3) Provide forums on specific topics as they relate to the following:
> (A) Identifying current level of services.
> (B) Evaluating existing needs and gaps in current services.
> (C) Developing strategies for achieving statewide goals and objectives in the provision of services for the specific area.
> (D) Developing plans to accomplish the identified goals and objectives.
> (4) Providing forums on policy development and direction with respect to mental health program operations and clinical issues.
> <u>(5) Identify and fund a statewide training and technical assistance entity jointly governed by local mental health directors and mental health constituency representation, which can:</u>
> <u>(A) Coordinate state and local resources to support training and technical assistance to promote quality mental health programs;</u>
> <u>(B) Coordinate training and technical assistance to assure efficient and effective program development; and</u>
> <u>(C) Provide essential training and technical assistance as determined by the state-county decision-making process.</u>

Legislative Analyst's Office. The LAO has raised no issues regarding this Finance Letter.

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

1. DMH, Please describe the changes the DMH has made regarding clarification of its fiscal policies in its administration of the Mental Health Services Act Funding.

2. DMH, Are MHSA Funds being distributed more efficiently to the Counties for local expenditure due to the fiscal changes? Please be specific.

3. DMH, Please provide a brief summary of the key components to the proposed Finance Letter, and comment regarding the proposed trailer bill language as noted above.

Diane Van Maren, SBFR, 651-4103

Subcommittee No. 3: Monday, April 28th (Room 112) 10:30 AM

(Please use the Agenda for the day to better discern each issue)

A. "VOTE-ONLY"—EMERGENCY MEDICAL SERVICES (Page 2)

- **Action:** Adopted the Vote Only Calendar as noted for Emergency Medical Services. This action denied the Finance Letter.

- **Vote**: 3-0

B. "VOTE-ONLY"— PUBLIC HEALTH----(Pages 3 through Page 6)

- **Action:** Adopted the Vote Only Calendar as noted for various items in **Public Health**.

- **Vote**: 3-0

C. "VOTE-ONLY"-- HEALTH CARE SERVICES—(Pages 7 through Page 10)

- **Action:** Adopted the Vote Only Calendar as noted for various items **Health Care Services**. Please note that issue C-1 (CA Discount Prescription Drug Program) was taken off of the agenda for this hearing.

- **Vote: Item C-2 was 3-0; Item C-3 was 3-0; Item C-4 was 2-1** (Senator Wyland); **Item C-5 was 2-1** (Senator Wyland).

D. "VOTE-ONLY"—DEPARTMENT OF MENTAL HEALTH—(Page 11)

- **Action:** Adopted the Vote Only Calendar as noted for **Mental Health**.
-
- **Vote**: 3-0

ISSUES FOR DISCUSSION –HEALTH CARE SERVICES (Page 12)

1. Governor's Proposed Reductions to Clinic Programs (Page 12)

- Held OPEN.

2. Reduction to Child Health & Disability Prevention Program (Page 14)

- Held OPEN.

3A. Children's Services Program: ISSUE "A" Governor's Reductions (Page 15)

- Held OPEN.

3B. Children's Services Program ISSUE "B"—Ventilator Availability (Page 17)

- Held OPEN.

4. Proposed Self-Certification Pilot Project (Page 18)

- Held OPEN.

5. Medi-Cal Program Adult Day Health Care (ADHCs)--Multiple Issues (Page 20)

- **Action.** Approved the ONE position as noted and adopted the local assistance adjustment for Adult Day Health Care. (Therefore, 19 positions were deleted from the Governor's budget.)
- **Vote**: 3-0

6. Administration's Trailer Bill Language-- AB 1629 Nursing Homes (Page 24)

- Held OPEN.

ISSUES FOR DISCUSSION –DEPARTMENT OF PUBLIC HEALTH

1. Licensing and Certification—Multiple Issues *(“A” through “D“).* (PAGE 27)

ISSUE “A”—Governor’s Proposed Fee Increases.

- **Action.** **(1)** Adopted placeholder trailer bill legislation to require the Department to provide more information on how the L&C Fees are developed; **(2)** Deleted the $500,000 for “price” as noted in the Agenda; **(3)** **Required DPH** to report at May Revision on the Fee Reserves (Fund Condition Statement) and the Salary Savings information as requested; (4) Adopted Budget Bill Language as contained in the Agenda.
- **Vote**: 3-0

1.“B”—Licensing and Certification Increases Senate Bill 1312 (Alquist) (PAGE 34)

- **Comment.** Please provide the Subcommittee with revised figures using the standard productivity hours and provide in Writing how the Department is going to administer this law statewide. (Please provide both of these by May 5th please.)

1.“C”—Licensing and Certification: Professional Certification Branch Staff (PAGE 37)

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

1.“D”—Licensing and Certification: Governor’s Reduction (PAGE 39)

- **Action.** (1) Denied the General Fund reduction to offset Fees for health care provider groups; and (2) Shifted the $260,000 in GF reduction instead to the state facilities unit and deleted two positions and adjusted operating expenses accordingly.
- **Vote**: 3-0

2. Governor's Proposed Reduction to Battered Women Shelter Program (PAGE 40)

- **Action.** Restored the $2.7 million General Fund reduction for this program since it is a health and safety concern.
- **Vote**: 3-0

3. Trailer Bill Legislation—Continued Oversight of New Department (PAGE 41)

- **Action.** Adopted the trailer bill language as contained in the Agenda.
- **Vote**: 2-1 (Senator Wyland)

4. Augmentation for Richmond Laboratory Capital Outlay Project (PAGE 43)

- **Action.** Deferred this project for one-year, so deleted $2.5 million (General Fund).
- **Vote**: 3-0

ISSUES FOR DISCUSSION – MENTAL HEALTH (Page 44)

1. Administrative Headquarters Savings (Page 44)

- DMH identified savings will be reflected for 2006-07. (No vote necessary.)

2. County Purchase of State Hospital Beds—Open Issue (Page 45)

- **Action** Reduced by $9.8 million (General Fund) and increased reimbursements by $9.8 million to reflect that Counties will now be purchasing at the state's cost (versus a subsidized cost), if they choose to purchase a State Hospital bed.
- **Vote**: 3-0

3. Ancillary Health Services for Patients in Institutes for Mental Disease (Page 46)

- **Action.** Adopted the Trailer Bill Language as contained in the Agenda with the modification of taking out "from counties" (after the word recovered in the second line of the sentence shown on page 47).
- **Vote**: 3-0

<u>4. Proposition 63—Mental Health Services Act Implementation (Page 49)</u>

- **<u>Action</u>.** Approved the Finance Letter, with the understanding that the Housing issue will be discussed later, and Adopted the Trailer Bill Language as contained in the Agenda (inserting "To extent resources are available" to the beginning of subparagraph 5).
- **Vote**: 2-1 (Senator Wyland)

SUBCOMMITTEE NO. 3 Agenda

Health, Human Services, Labor & Veteran's Affairs

Chair, Senator Elaine K. Alquist
Senator Alex Padilla
Senator Mark Wyland

Agenda – Part A

Monday, May 5, 2008
10:30 a.m.
Room 2040 (Rose Ann Vuich Hearing Room)
(Eileen Cubanski, Consultant)

Vote-Only Agenda

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 Agenda (continued)

Discussion Agenda

Vote-Only Agenda

Vote-Only Issue 1: OSHPD – Seismic Safety Deadline Extension

Description: The Governor's Budget proposes one-time funding of $614,000 from the Hospital Building Fund and one limited-term position to provide health impact assessments for hospitals requesting a seismic safety deadline extension pursuant to Senate Bill (SB) 306 (Chapter 642, Statutes of 2007). Of this amount, $108,000 is to cover the cost of the position and $506,000 is to cover the cost of performing required health impact assessments. This request was originally heard during the March 24 subcommittee hearing and left open pending additional information from the Office of Statewide Health Planning and Development (OSHPD) on the amount of the fees that would be charged pursuant to SB 306.

Background: Current law requires that all general acute hospitals meet stringent seismic safety standards within specified timeframes. SB 306 permits hospital owners a delay in compliance with the seismic safety deadline, from 2013 to 2020, if the owner lacks the financial capacity to retrofit or replace their SPC-1 buildings by 2013 and meets specified conditions. SB 306 authorizes OSHPD to charge hospitals seeking the extension an additional fee to sufficiently cover the additional costs incurred by the Department for maintaining all reporting requirements, including review and verification of the financial data in accordance with SB 306. OSHPD estimates that 150 of the 1,100 hospitals rated SPC-1 would apply for the SB 306 extension. Of those 150, 100 were originally estimated to need the health impact assessments required by SB 306.

OSHPD has determined that they will charge a $1,000 fee to each applicant for the extension to cover the costs associated with completing the extensive analysis required to determine whether the hospital is qualified for the extension. This fee will cover the costs of the requested limited-term position who will be conducting these analyses. If it is determined that the hospital requires a health impact assessment, the hospital will be assessed that fee after the assessment has been completed based on the actual costs of the assessments. OSHPD is now estimating that fewer than the 150 hospitals they originally estimated would apply, will actually qualify, which will lead to the need for fewer assessments. However, OSHPD is also now estimating that a significant portion of the hospitals requiring assessments will be in urban rather than rural areas, which will make the impact assessments more complex and lengthy. These factors could increase the costs of the assessments. OSHPD has requested $506,000 in expenditure authority to cover the cost of the assessments, which they continue to believe is a sufficient amount.

Staff Recommendation: Approve the requested one-time funding and limited-term position.

Vote-Only Issue 2: OHSPD – Technical Adjustment to Provide Direct Appropriation from the Mental Health Services Fund

Description: At the March 24 hearing, the Subcommittee approved an increase in reimbursement authority of $500,000 in Mental Health Services Act funds from the Department of Mental Health (DMH) to train physician assistants to provide mental health care services in public mental health settings and/or in areas of unmet priority need. The Administration has since determined that these funds should be reflected in OSHPD's budget as a direct appropriation from the Mental Health Services Act Fund rather than as a reimbursement from DMH, and submitted a spring Finance Letter on April 1 requesting the technical adjustment.

Staff Recommendation: Approve the requested technical adjustment.

Vote-Only Issue 3: OSHPD – Mental Health Loan Assumption Program

Description: The Office of Statewide Health Planning and Development (OSHPD) submitted a spring Finance Letter requesting $2.8 million in Mental Health Services Act (MHSA) funding and two positions in 2008-09 and $3.0 million in MHSA funding and two additional positions in 2009-10 to establish the Mental Health Loan Assumption Program.

The Mental Health Loan Assumption Program will augment the existing Licensed Mental Health Services Provider Education Program, which provides loan repayment awards to mental health professionals in California (including psychologists, clinical social workers, and marriage and family therapists) who enter into a contractual agreement with OSHPD to provide a two-year, full-time service obligation in a designated mental health professional shortage area or qualified facility. The proposed new program would also expand the mental health disciplines that are eligible for the loan repayment awards to include psychiatrists and psychiatric nurse practitioners. OSHPD anticipates that applications received annually under the new program will quadruple from the existing program, from 300 to 1200, and that the grant awards under the new program will be 113 per year (compared to seven under the existing program). By 2010-11, OSHPD estimates that it will be overseeing 339 awards annually.

Staff Recommendation: Approve the requested funding and positions for 2008-09. OSHPD should submit a BCP requesting any additional needed resources and positions for 2009-10. Although this is a new program and the Subcommittee has generally rejected proposals to establish new programs this year, the MHSA requires that loan forgiveness programs be developed and expanded for mental health professionals and provides funding to do so. Given that OHSPD currently administers an existing loan forgiveness program for mental health professionals and administers loan forgiveness programs for other health professions, establishing this new program in OSHPD is a logical choice.

Vote-Only Issue 4: OSHPD – Song-Brown Program

Description: The Governor's Budget proposed a $497,000 General Fund reduction to the Song-Brown Program. At the March 24 hearing, the Subcommittee took action to reduce the General Fund supporting the program by $497,000, but backfilled that reduction with $497,000 in funding from the California Health Data Planning Fund. During the hearing, the Legislative Analyst's Office suggested that the Subcommittee could backfill all of the General Fund in the Song-Brown Program with funding from the Health Data Planning fund on a one-time basis. The Administration concurred with this assessment.

Background: The Song-Brown Program provides funds to Family Practice Residency Programs, Family Nurse Practitioner and Physician Assistant Training Programs and Registered Nurse Education Programs to increase the training and education of primary care providers that will increase access to health care in rural and urban inner city areas of unmet priority in the state. The purpose of the program is to improve healthcare workforce diversity and increase the number of health professionals available to provide care in medically underserved areas.

There is a total of $7.1 million for the Song-Brown Program. It is funded with a combination of General Fund ($5.0 million) and funds from the California Health Data Planning Fund (CHDPF) ($2.1 million). The CHDPF is projected to have healthy ending balances, as well as revenues that exceed expenditures, into the future.

Staff Recommendation: Remove the remaining $4.5 million General Fund from the Song-Brown Program and backfill it with $4.5 million in funding from the California Health Data Planning Fund in 2008-09 on a one-time basis.

Vote-Only Issue 5: ADP – Problem and Pathological Gambling Treatment Services

Description: The Department of Alcohol and Drug Programs (ADP) submitted a spring Finance Letter requesting $5.0 million in increased expenditure authority and two, three-year limited-term positions to develop and implement treatment programs for problem and pathological gamblers. Of this amount, $4.0 million will be allocated, via a competitive grant application process, to local governments, public universities, and community organizations for treatment programs. Of the remaining $1.0 million, $750,000 will be used for counselor training, training materials, campaigns to raise public awareness about the availability of treatment, and surveys and evaluation, and $250,000 will be to support the requested positions.

Background: The Office of Problem and Pathological Gambling was established in ADP in 2003. The office currently has annual funding of $3.3 million in special funds from tribal casino revenues statutorily dedicated to prevention efforts, development of a statewide plan, operation of toll-free telephone helpline services, research, and public awareness campaigns. Current law also requires that treatment services be provided with these funds, but to date, there has not been sufficient funding to do so. With the ratification of the new Indian gaming compacts, additional resources are now available to develop treatment programs.

Staff Recommendation: Approve the requested funding and limited-term positions. Although this is a new program and the Subcommittee has generally rejected proposals to establish new programs this year, these funds cannot be used for any other purpose. If the request is not approved, the funds will sit unused.

Vote-Only Issue 6: ADP – Problem Gambling Prevention Program

Description: The Governor's Budget requests $400,000 in increased expenditure authority to expand research and prevention services for problem and pathological gamblers. Of the $400,000, $150,000 is from fees imposed on licensed card clubs pursuant to Assembly Bill (AB) 1973 (Chapter , Statutes of 2006) to be deposited in the Gambling Addiction Program Fund and $250,000 will be a reimbursement from the California State Lottery.

Background: The Office of Problem and Pathological Gambling was established in ADP in 2003. The office currently has annual funding of $3.3 million in special funds from tribal casino revenues statutorily dedicated to prevention efforts, development of a statewide plan, operation of toll-free telephone helpline services, research, and public awareness campaigns. AB 1973 requires each entity with a state gambling license to pay an additional $100 for each licensed table for deposit in the Gambling Addiction Program Fund for allocation to community-based organizations that directly provide assistance to persons with a gambling addiction. The California State Lottery also currently operates a toll-free helpline and provides gambling awareness materials to the 19,000 lottery retailers in the State. The ADP will take over these functions for 2008-09 through an interagency agreement with the Lottery. ADP and the Lottery estimate that the ongoing costs to ADP of these functions will be $60,000.

Staff Recommendation: Approve the requested increase in expenditure authority. Of the funding from the Lottery, approve $60,000 ongoing and the remaining $190,000 as one-time for 2008-09.

Vote-Only Issue 7: ADP – Health Insurance Portability and Accountability Act (HIPAA) Budget Balancing Reduction

Description: The Governor's Budget proposes a $174,000 ($87,000 General Fund) reduction to the Department of Alcohol and Drug Programs (ADP) for HIPAA activities. HIPAA is a multi-year project assessing and implementing changes as a result of federal HIPAA requirements. ADP anticipates no significant impact resulting from the proposed cut, as the project is near completion.

Staff Recommendation: Approve the proposed reduction.

Vote-Only Issue 8: CSD – Prisoner Reentry Initiative (PRI) Program

Description: The Department of Community Services and Development (CSD) has submitted a spring Finance Letter requesting a $50,000 increase in federal fund state operations authority for 2008-09 for the administration of the PRI Program. The PRI Program is a $450,000 two-year grant from the federal Bureau of Justice Assistance to provide services to probationers and parolees to ensure their successful reentry into society. The grant start date was July 1, 2007, although CSD was not notified by the federal government of receipt of the award until September 2007. CSD did not submit a Section 28 request to enable them to begin implementing the program until late in the 2007 calendar year. That Section 28 request included approval of $100,000 for state operations funding for CSD for 2007-08. Given the delays in starting up the program, CSD is requesting that $50,000 of that $100,000 be transferred from 2007-08 to 2008-09.

Staff Recommendation: Approve the spring Finance Letter.

Vote-Only Issue 9: DCSS – Selected Budget Balancing Reduction (BBR) Proposals

Description: The Governor's Budget proposed the following BBRs as part of the ten percent across-the-board reduction for the Department of Child Support Services (DCSS). These BBRs were heard in the March 24 subcommittee hearing and held open pending receipt of additional information by DCSS.

- Locate and Intercept Contracts – Reduce by $781,000 ($175,000 General Fund) the contracts with various state agencies to locate non-custodial parents (NCPs) and their assets and for the intercept of these assets. As originally proposed on January 10, this proposal also would have resulted in General Fund revenue losses in excess of the savings. To address this problem, DCSS identified administrative and workload savings in these contracts so that this reduction can be achieved without impacting customers or collections. Based on additional information eventually provided by DCSS, the LAO has been able to confirm these administrative and workload savings.

- Customer Operations – Reduce by $1.1 million ($383,000 General Fund) and 14 positions to various areas of its Operations Divisions, including its Non IV-D Call Center, central financial work, the California Central Registry, the State Disbursement Unit, and locate and intercept processing. This component of the BBR was almost completely revised from that originally proposed on January 10 and most of the positions proposed for elimination are different. Based on additional review, the LAO has concurred that child support collections will not be affected by the proposed reductions.

Staff Recommendation: Approve the proposed reductions to the locate and intercept contracts and to customer operations.

Vote-Only Issue 10: DCSS – State Disbursement Unit (SDU) Bank Exceptions

Description: The Governor's Budget proposed two permanent positions to perform accounting activities for analyzing and processing banking exceptions and monitoring the recovery of funds. The DCSS will redirect $169,000 ($57,000 General Fund) from their Operating Expense and Equipment (OE&E) budget to fund the positions. Banking exceptions result in a loss of funds to the State, as the disbursement of funds has been made through the State Treasury, but the underlying funds have reversed because of exceptions.

This issue was heard in the March 24 subcommittee hearing and held open pending a better understanding of the SDU position proposed for elimination as part of the DCSS' budget balancing reductions and of whether resources can be redirected within the SDU to fund one of these requested positions.

Based upon additional discussions with the DCSS and the Department of Finance, staff has determined that the SDU position proposed for elimination as part of the BBR and the requested positions have very different functions. Furthermore, the General Fund savings do not change whether a position is redirected within SDU to cover one of the new requested positions or a position is eliminated and two new positions are added. From a technical standpoint therefore, approval of the two new positions is simpler.

Staff Recommendation: Approve the two requested positions and redirection of OE&E funding.

Vote-Only Issue 11: DSS – Title IV-E Child Welfare Waiver Demonstration Capped Allocation Project

Description: The Department of Social Services (DSS) submitted a spring Finance Letter requesting $807,000 and continuation of two limited-term positions to support administrative oversight of the Title IV-E Child Welfare Waiver Demonstration Capped Allocation Project (CAP). Of the funding requested, $404,000 is General Fund that would be redirected from local assistance funding for the CAP counties and $403,000 is existing federal funds that would be redirected internally. In addition, DSS would transfer two existing positions from elsewhere in the Department on a two-year limited-term basis to support the CAP.

Background: On March 31, 2006, the U.S. Department of Health and Human Services approved California's CAP proposal to allow Title IV-E funds, which are restricted to pay for board and care costs and child welfare administration only, to be used by participating counties for direct services and supports. The intent of CAP is to test a funding strategy whereby federal Title IV-E and state General Fund can be used more flexibly to improve the array of services for children and families to increase child safety without an over-reliance on out-of-home care, improve permanency outcomes and timelines, and improve child and family well-being. Los Angeles and Alameda counties are the two counties participating in CAP. DSS was originally provided $805,000 ($403,000) General Fund and four limited-term positions for CAP. The funding and positions expire at the end of the 2007-08 fiscal year.

Staff Comment: Notwithstanding the merits of the request for ongoing resources for DSS to continue implementation of CAP, it is inappropriate to redirect funds from Los Angeles and Alameda counties that are used to provide the direct services under CAP for state activities. Furthermore, the counties have expressed serious concerns that the proposed funding transfer would violate the Memorandum of Understanding between the counties and DSS for the project. It is unclear why the Administration did not continue the General Fund in DSS' base budget to support necessary state activities regarding CAP, particularly in light of the many DSS requests approved by the Administration for new positions and General Fund to implement new, lower priority programs.

Staff Recommendation: Approve the requested continuation of two limited-term positions; reject the request to transfer funding from local assistance to state operations. DSS will need to find additional internal resources to redirect to support this project.

Vote-Only Issue 12: DSS – Child Welfare Services: Resources Family Pilot Program (AB 340)

Description: The Governor's Budget requests $440,000 ($278,000 General Fund) and four, two-year limited-term positions to implement Assembly Bill (AB) 340 (Chapter 464, Statutes of 2007). The estimated local assistance funding needed to implement this bill is $870,000 ($377,000 General Fund).

AB 340 establishes a three-year pilot project in up to five counties to test implementation of a strategy developed by DSS and the County Welfare Directors Association (CWDA) over the past three years to consolidate the existing separate and duplicative processes for licensing foster family homes, approving relatives and non-related extended family members, and approving adoptive families. California currently has three separate processes for licensing foster parents, approving relative caregivers, and approving families to adopt children in foster care. These processes are governed by three different statutory codes, sets of regulations, funding streams, and, in some cases, different government entities. As part of the Program Improvement Plan resulting from the 2002 Child and Family Services Review (CFSR), DSS agreed to develop a legislative proposal for a caregiver assessment process that would combine foster care licensing, including relative approvals, and adoption home studies into a single process. AB 340 is the result of that effort.

Staff Recommendation: Reject the requested state operation funding and positions and local assistance funding and adopt the following trailer bill language to delay implementation for two years:

“The effective date of the provisions of Chapter 464, Statutes of 2007 shall be delayed until July 1, 2010.”

Notwithstanding the merits of AB 340 and the potential need to do these activies that could result from our next CFSR, this action is consistent with the goal of delaying funding of new programs in an effort to preserve current direct service levels in other areas of the budget to the extent possible.

Vote-Only Issue 13: Public Social Services Hearings (AB 921)

Description: The Governor’s Budget requests $146,000 ($54,000 General Fund) and one Administrative Law Judge II Specialist for the State Hearings Division (SHD) within the Department of Social Services (DSS) to conduct judicial review and provide legal grounds to grant or deny rehearing requests on behalf of the Directors of DSS and the Department of Health Care Services (DHCS) as required in Assembly Bill (AB) 921 (Chapter 502, Statutes of 2007).

The SHD is required to provide full, impartial, and timely state hearings to recipients and applicants of various public assistance programs who have disputes with their local county welfare departments. The programs include CalWORKs, Child Support Services, Food Stamps, Medi-Cal, several Adult Programs, and In-Home Supportive Services (IHSS). Interagency agreements exist between SHD and DHCS to provide hearings on Medi-Cal issues, and with the Department of Child Support Services to provide hearings on issues related to child support payments.

DSS contends that currently all existing staff have full caseloads and are not available to handle the additional workload associated with review of rehearing requests. Furthermore, DSS states that existing resources are allocated to meet the normal caseload demands of the various programs in order to minimize financial penalties for failure to adjudicate hearing decisions within court-mandated timeframes. However, DSS also proposed a budget balancing reduction to cut the SHD by $913,000 ($337,000 General Fund) and 18 positions in 2008-09 and $2.1 million ($780,000 General Fund) in 2009-10 and annually thereafter. The Subcommittee rejected this proposed reduction in the April 14 hearing. In light of the rejection of cuts to the SHD and the administrative and hearing efficiencies that the SHD is seeking to achieve, DSS should attempt first to absorb any additional workload that may result from AB 921 prior to seeking additional new resources.

Staff Recommendation: Reject the requested funding and position.

Vote-Only Issue 14: California Food Assistance Program Budget Balancing Reduction

Description: The Governor's Budget proposed to reduce California Food Assistance Program (CFAP) benefit levels by 10 percent commencing June 1, 2008. Trailer bill language was also proposed to implement the proposed reduction. This issue was heard by the full Senate Committee on Budget and Fiscal Review on January 30, 2008, and the current year reduction was ultimately rejected by the Legislature in the special session. At issue is whether to cut funding for CFAP by 10 percent, which equals $2.5 million General Fund, commencing in 2008-09.

The CFAP provides state-funded food stamp benefits to low income noncitizens between the ages of 18 and 65, who have resided in the United States for less than five years. Recipients are legal immigrants who are otherwise eligible for food stamps but for their citizenship status and must comply with all other state and federal food stamp requirements. The current CFAP monthly population is approximately 23,400. The proposed rate cut would reduce the average CFAP monthly benefit per person from approximately $91 to $82.

Staff Recommendation: Reject the proposed 10 percent reduction to CFAP. In light of increasing demand for food stamp benefits as a result of the downturn in the economy and significant increases in food costs, this reduction would pose an even greater hardship.

Vote-Only Issue 15: DSS – Interim Statewide Automated Welfare System (ISAWS) Migration Project

Description: The Governor's Budget requests a decrease of $853,000 in 2007-08 and an increase of $59.8 million ($27.2 million General Fund) in 2008-09 for the Interim Statewide Automated Welfare System (ISAWS) Migration project. As part of the special session, the Administration proposed to eliminate the ISAWS Migration project completely for a savings of $97.7 million ($44.0 million General Fund). Rather than eliminate the project, the Legislature chose to delay implementation of ISAWS Migration by one month, leaving the issue open for discussion in the spring budget process, rather than cancel the project and forego the benefit of prior progress and investment.

The Subcommittee discussed options for continuing the ISAWS Migration project at the April 14 hearing and left the issue open pending further analysis of the options.

Background: The proposal to cancel the ISAWS Migration project was heard in the Senate Committee on Budget and Fiscal Review on January 31, 2008. During that hearing, members expressed concerns about canceling the project now and losing the investment already made, particularly in light of uncertain ongoing federal support for the existing system. It was also not clear exactly when the Administration would need to begin procuring a new system. Furthermore, it was revealed that the General Fund savings from cancellation of the project would actually be at least $13.9 million less because the State would have to repay the federal government for federal funding already received for migration. As a result, the Legislature acted to delay implementation of the ISAWS Migration project by one month, resulting in savings of $3.5 million General Fund, and requested the Administration provide alternatives to canceling the project that might also result in additional General Fund savings.

In response to that request, OSI worked with the vendor and counties and developed an option that would allow the project to continue without incurring additional General Fund costs in 2008-09. That option was presented to the Subcommittee at the April 14 hearing and consists of the following components:

- Use of $6.8 million ($3.4 million General Fund) in maintenance and operations (M&O) savings from the existing ISAWS system.
- Use of $14.5 million General Fund in savings from the CMIPS II project resulting from obtaining a higher federal funding match for the project.
- Use of $4.0 million ($1.8 million General Fund) in M&O savings from the CWS/CMS project.
- Negotiated contract changes resulting in savings of $24.5 million ($11.7 million General Fund).

There would also be a three-month delay in implementation activities, but this delay would not impact the overall timeline for completion of the project. This option would result in ongoing General Fund savings in the ISAWS Migration project of $1.3 million.

It is important to note that, at this time, OSI and the Administration do not support the alternative proposal and continue to advocate for canceling the ISAWS Migration project. The LAO also included elimination of the project in their alternative budget. Counties remain strongly opposed to canceling the project. In light of the facts that the State is likely to need to begin reprocuring a system to replace ISAWS in the next couple of years if the current project is cancelled, that we cannot be assured of ongoing federal funding for the existing project, that the savings resulting from canceling the project as estimated by the Administration are overstated because we have to repay federal funds already used toward development of the new system, and that we would lose the investment of time and funding already made in the new system, canceling the ISAWS Migration project now does not make fiscal sense.

Staff Recommendation: Reject the proposal to cancel the ISAWS Migration project and approve the alternative proposal to maintain the project. Adopt placeholder trailer bill language to continue the ISAWS Migration project.

Vote-Only Issue 16: Foster Family Home and Small Family Home Insurance Fund Reduction

Description: The Governor's Budget proposed a $127,000 General Fund reduction to the Foster Family Home and Small Family Home Insurance Fund. This represents a 10 percent cut to the annual appropriation to the fund. This issue was discussed by the Subcommittee at the April 21 hearing and held open.

Background: The Foster Family Home and Small Family Home Insurance Fund is a depository for all funds appropriated for the purpose of paying, on behalf of foster family homes and small family homes, claims ad litem resulting from occurrences peculiar to the foster care relationship and the provision of foster care services. The fund currently contains a balance of $5.8 million in addition to the amount that is appropriated each fiscal year.

The Administration contends that there will be minimal impacts resulting from this reduction to foster family homes and small family homes, as claims paid on an annual basis have not exceeded the amount appropriated each year and the fund currently has an adequate balance to cover potential increases. DSS is currently researching historical information on the fund balance at the request of subcommittee staff. In the meantime, DSS indicates that a $3 million reserve is a prudent amount for this fund, leaving $2.8 million of the existing $5.8 million fund balance that could be swept on a one-time basis.

Staff Recommendation: Approve a one-time reduction to the fund of $2.8 million General Fund. Continue to hold open the proposed 10 percent reduction to the Fund.

Vote-Only Issue 17: DSS – Cash Assistance Program for Immigrants (CAPI) Advocacy Program

Description: The Cash Assistance Program for Immigrants (CAPI) advocacy program sunsets on June 30, 2009. The Assembly Budget Subcommittee #1 took action at their April 16 hearing to extend the sunset date to July 1, 2013.

Background: In 1996 with the enactment of federal welfare reform, Congress eliminated legal immigrant eligibility for SSI and Food Stamps. The Cash Assistance Program for Immigrants (CAPI) was created to provide a safety net for the frail and vulnerable elderly, blind, and disabled legal immigrants who were no longer federally eligible for SSI. It is a safety net program mirroring SSI/SSP. In alignment with this state response, the California Food Assistance Program (CFAP) was created as the safety net for food stamps.

Prior to this change in eligibility, it was not necessary for the state to review disability applications for legal immigrants over age 65. If the individual age 65 or over met the income and other eligibility standards, SSI was granted. Due to the loss of this eligibility, the federal government developed disability standards to address the legal immigrant population over 65. With the advent of revised federal regulations, it became clear that due to their frailty, most CAPI clients who entered the United State prior to enactment of federal welfare reform would be eligible for federal SSI. Los Angeles expanded its existing SSI advocacy program to encompass CAPI clients, generating impressive results in moving CAPI clients to the federal SSI program. Given LA's success, the Legislature in 2004 enacted a requirement for counties with a base CAPI caseload of more than 70 to institute a CAPI/SSI advocacy program.

While many more counties are now showing success with their CAPI advocacy programs, others have been slower to implement the program. Clearly there is merit to continuing the program, but it will be important to ensure that progress continues to be made.

Staff Recommendation: Adopt trailer bill language to extend the sunset of the CAPI advocacy program to July 1, 2011. Adopt placeholder supplemental report language to require the Department of Social Services to report by July 1, 2010, by county, on the number of SSI applications filed by CAPI recipients through the advocacy program; the number of SSI applications approved; and the amount of the savings resulting from the program.

Discussion Agenda

5180 Department of Social Services (DSS)

DSS Issue 1: Disability Determination Service Division

Description: The Governor's Budget proposes to reduce the Disability Determination Service Division (DDSD) within the Department of Social Services (DSS) by $1.2 million ($589,000 General Fund) and 10.2 positions in 2008-09 and $2.4 million ($1.2 million General Fund) and 20.4 positions in 2009-10 and annually thereafter. This is a 10 percent reduction to DDSD.

Background: Through an interagency agreement with the Department of Health Care Services (DHCS), DSS has the responsibility for determining medical eligibility for California residents who have applied for Medi-Cal disability under the provisions of Title XIX of the federal Social Security Act. Applications for Medi-Cal disability are taken by county welfare departments and forwarded to DSS for the development of medical and vocational evidence and a determination of medical eligibility based on the evidence. There is a 90-day federal regulatory processing requirement (including both county and state processing time). The processing time standards for these cases cannot be altered by the state.

The Western Center for Law & Poverty (WCLP) filed a lawsuit over a year ago against DHCS and DSS for failure to meet the required federally mandated 90-day processing requirement for thousands of pending medically needy applications. At the end of 2005-06, the cumulative backlog was 13,571 cases with a wait of over 285 days before a decision is rendered. In response to that lawsuit, the Administration requested and the Legislature approved $2.333 million ($1.167 million General Fund) and 11 limited-term positions to enable DSS to eliminate the backlog of Medi-Cal medically needy applications and to keep pace with incoming applications. The Legislature also required DSS to submit quarterly reports to provide a periodic progress report on elimination of the backlog. Based on the latest quarterly report submitted in March 2008, the backlog has now been completely eliminated.

Impact of the Proposed Reduction: When the proposed 10 percent reduction is fully implemented in 2009-10, the DDSD will lose 20.2 positions. The result of the loss of this staff will be delays in disability determinations and an estimated 3,500 case backlog by the end of 2008-09, increasing to 7,000 cases annually each year thereafter. DSS will have to request additional staff again for 2009-10 to eliminate the backlog or face another lawsuit. Therefore, the proposed reduction is effectively only a one-time cut.

Questions:

1. DSS, describe the function of the Disability Determination Service Division.
2. DSS, describe the proposed cut and the expected impact of the cut.

Staff Recommendation: Reject the proposed reduction in funding and positions since DSS will need additional resources again in 2009-10 to handle a new backlog of cases. Eliminate the 4.0 limited-term positions and $401,000 ($200,000 General Fund) provided in 2007-08 for 2008-09 to address the backlog, since that latest backlog has already been eliminated.

DSS Issue 2: Food Stamp Program Administrative Reduction

Description: The Governor's Budget proposes to reduce funding provided to counties for administration of the federal Food Stamp Program by $34.9 million ($14.4 million General Fund), which is a four percent cut to administrative funding for the program. The Administration has also proposed a couple of strategies to streamline the application process in order to mitigate the impact of the cut on counties, but no trailer bill language or other such specific information to implement these strategies has been provided.

Background: The Food Stamps Program provides food benefits via Electronic Benefit Transfer (EBT) cards to eligible low-income families and individuals. The Department of Social Services (DSS) provides statewide oversight, and counties perform eligibility determination and employment services functions. Families eligible for CalWORKs are automatically eligible for Food Stamp benefits. Low-income working families and individuals are also eligible for Food Stamp benefits, even if they have not enrolled in the CalWORKs program.

- **Enrollment Summary:** The DSS estimates that average monthly Food Stamp caseload in 2008-09 will be 2.2 million persons, a four percent increase over 2007-08. Given the continued downturn in the economy, however, Food Stamp caseload estimates are anticipated to be higher at the May Revision. Approximately 73 percent of these beneficiaries are not receiving cash assistance. The proportion of "non-assistance" Food Stamp caseload in the program has grown significantly in recent years, and increased enrollment among non-assistance households has been the driving factor in overall program growth since 2000-01.

- **Funding Summary:** Food Stamp benefits are funded entirely by federal funds. These funds are not included in the state budget, as the U.S. Department of Agriculture provides funding for food directly to beneficiaries via EBT cards. Californians are estimated to receive approximately $3.0 billion in federal Food Stamp benefits in 2008-09. The federal government also funds 50 percent of the program's eligibility determination and administrative costs. The remaining 50 percent is split between the State and counties at a ratio of 70 percent to 30 percent, respectively. The budget anticipates that funding for county activities will be $939.2 million ($315.5 million General Fund), an increase of $12.1 million (but a reduction of $4.4 million General Fund) compared to the current year, due to increasing caseload combined with the proposed four percent reduction. In addition, counties use local funding to overmatch the state funding provided for administration. In 2008-09, this overmatch is estimated to be $33.6 million, a $9.6 million increase over 2007-08.

- **Food Stamp Error Rate:** In Federal Fiscal Years (FFYs) 2000, 2001, and 2002, Calfornia's Food Stamp Error Rate was 13.99 percent, 17.37 percent, and 14.84 percent respectively. As a result, the State received a federal sanction penalty totaling $187 million for exceeding the national tolerance levels. A settlement agreement between California and the federal government on the $187 million was reached in January 2005 that resulted in no cash payment and $62.5 million of the penalty held in abeyance over a five year period with potential for having $12.5 million of that total waived each year if the State's error rate is below 7.4 percent for each of FFY 2003 through 2007.

  The State has made significant improvement in the error rate over the past four years, although it has climbed very slightly in recent years:

  > FFY 2003 – California's error rate declined to 7.96 percent. Although the penalty was not waived, California did receive a performance bonus of $6.8 million for being the most improved state in the nation.
  > FFY 2004 – California's error rate was 6.32 percent, an all time low for the State. The State avoided a sanction and had $12.5 million in penalties waived for that year.
  > FFY 2005 – California's error rate was 6.38 percent, again avoiding a sanction and having $12.5 million waived.
  > FFY 2006 – California's error rate was 6.98 percent, again avoiding a sanction and having $12.5 million waived.
  > FFY 2007 – The projected rate is expected be less than 7.4 percent. The final rates will be released in June 2008.

- **Food Stamp Participation Rate:** According to the latest U.S. Department of Agriculture (USDA) information, California's Food Stamp participation rate ranks last in the country, with only 46 percent of eligible recipients participating. This low rate may result in a significant amount of lost federal funds for the state's economy, as well as reduced nutrition and increased hunger for low-income families.

  California has maintained that the USDA underestimates the State's participation rate. The USDA methodology for calculating states' participation rates does not accurately take into account California's Supplementary Security Income (SSI) recipients who receive a food stamp cash-out. Approximately 1.2 million potential eligible food stamp recipients receive cash payments in the SSI/SSP program in place of food stamp benefits. According to the University of California Data Archive & Technical Assistance, if 80 percent of the SSI/SSP population were counted, which is the percentage of the SSI/SSP population eligible for Food Stamp benefits, California's Food Stamp participation rate would increase somewhere between 7 and 10.5 percent to 53 to 56 percent respectively. This would place California closer to rates of other large states and put us between 38th and 44th in the national rankings.

The State has also taken steps, since 2004, to improve the participation rate. These efforts have included enacting legislation to provide transitional Food Stamp benefits for people leaving CalWORKs and providing Food Stamp benefits to individuals with certain felony drug violations who were previously excluded; implemented outreach programs in conjunction with the California Association of Food Banks and H&R Block; and worked with other state agencies to identify eligible individuals. The DSS has also instituted some administrative simplifications around eligibility redeterminations.

Impact of the Proposed Reduction: The proposed four percent reduction to county administration would result in the loss of an estimated 290 county Food Stamp eligibility workers statewide. This loss of staff would have the following impacts:

- Delayed eligibility – The cut would delay the provision of Food Stamp benefits to an estimated 116,000 parents and children each year. Services would also be cut for "immediate need" applicants, who apply for benefits in a crisis, at the same time that the numbers of these applicants is likely to grow due to the downturn in the economy.

- Fewer eligible people receiving Food Stamps – Counties have been discussing the need to increase outreach activities with the state and federal governments for a number of years in order to increase California's Food Stamp participation rate. The proposed cut would make any increased outreach impossible to achieve and could jeopardize current outreach efforts. Over time, there could also be more denials of coverage because counties will not have time to work with families to obtain necessary information and documentation to determinate eligibility, further hindering progress in improving the participation rate.

- More errors – Cuts to Food Stamp administration could erode the progress that the counties and State have made over the past five years in reducing California's error rate, opening the State up to the possibility of facing federal penalties again.

The DSS has acknowledged that the impacts described above could likely occur.

In addition, there have been no adjustments to county allocations to account for inflation in any DSS programs since 2001-02. By the Administration's own estimates, the shortfall in the amount of administrative funding needed by the counties and actually provided is over $800 million (over $450 million General Fund) annually. In the Food Stamps Program alone, the County Welfare Director's Association (CWDA) estimates the underfunding to be $160 million ($66 million General Fund) annually between 2001-02 and 2006-07. Counties have partially covered the shortfall by overmatching the

State's contribution with local dollars by more than $24 million annually. The Administration assumes that counties will increase this local match by an additional $9.6 million in 2008-09. Counties are likely to have difficulty maintaining the existing overmatch in light of proposed budget cuts in all county-administered health and human services programs, let alone increasing local funding for Food Stamp administration.

Questions:

1. DSS, describe the proposed reduction to Food Stamp administration funding and your proposals to mitigate the impact to counties.
2. DSS, will you need trailer bill changes to implement your mitigation strategies and if so, why hasn't it been provided to the Legislature yet and when will it be provided? How much in administrative savings do you estimate that these strategies will generate?
3. DSS, describe the impacts of the proposed reductions.

Staff Recommendation: Hold open pending the May Revision.

4700 Department of Community Services and Development (CSD)

CSD Issue 1: Naturalization Services Program Reduction

Description: The Governor's Budget proposes a reduction of $300,000 General Fund, which is a ten percent reduction, to the Naturalization Services Program (NSP). The Department of Community Services and Development (CSD) estimates that the proposed reduction will result in 1,130 legal residents not receiving assistance.

Background: The NSP funds 32 local, community-based organizations that conduct outreach, intake and assessment, citizenship application assistance, citizenship testing and interview preparation. The program assists an average of 12,000 individuals annually in the completion of citizenship applications. Total funding for the program in 2007-08 is $3.0 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 qualify 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 $29 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.

Related Programs in Department of Education: There is significant funding for adult education in the California Department of Education (CDE); 2008-09 funding for the Adult Education Program is proposed to be $797.2 million in on-going state and federal funding. However, only a small portion is used specifically for citizenship preparation. Enrollment data from CDE for 2004-05, the latest year available, indicates that only 0.3 percent, or 3,300 persons, were enrolled in citizenship preparation classes funded through Adult Education. This is down from 3,683 persons in 2003-04 and 5,178 persons in 2002-03.

Nonetheless, in addition to traditional classroom activities, the CDE indicates that 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 citizenship preparation activities.

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 community-based organizations 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.

LAO Recommendation: In their alternative budget proposal, the Legislative Analyst's Office (LAO) recommends reducing the NSP by $1.3 million General Fund. They indicate that the remaining funding of $1.7 million will maintain support for a core group of contracted community-based organizations that deliver these services. The LAO notes that some related services are available through the CDE.

Questions:

1. CSD, describe the Naturalization Services Program and your role in administering it. What do you know about the unmet need for naturalization services?
2. CSD, describe the proposed reduction and the estimated impact.
3. LAO, describe your recommendation.
4. CSD, do you concur with the LAO recommendation? Why or why not?

Staff Recommendation: Hold open pending the May Revision.

Senate Budget & Fiscal Review Committee
Eileen Cubanski 651-4103

Hearing Outcomes

Subcommittee No. 3
10:30 a.m., Monday, May 5, 2008

Vote-Only Agenda

4140 Office of Statewide Health Planning and Development (OSHPD)

- Vote-Only Issue 1: Seismic Safety Deadline Extension
  Action: Approved as budgeted.
  Vote: 3-0
  Senator Padilla also requested a list of the hospitals that eventually apply for the extension.

- Vote-Only Issue 2: Technical Adjustment to Provide Direct Appropriation from the Mental Health Services Fund
  Action: Approved the technical adjustment.
  Vote: 3-0

- Vote-Only Issue 3: Mental Health Loan Assumption Program.
  Action: Approved as budgeted for 2008-09 only. OSHPD will need to submit a BCP for additional resources and positions for 2009-10.
  Vote: 2-1 (Wyland)

- Vote-Only Issue 4: Song-Brown Program
  Action: Removed the remaining $4.5 million General Fund from the program and backfilled it with $4.5 million in funding from the California Health Data Planning Fund in 2008-09 on a one-time basis.
  Vote: 3-0

4200 Department of Alcohol and Drug Programs (ADP)

- Vote-Only Issue 5: Problem and Pathological Gambling Treatment Services
  Action: Approved the spring Finance Letter.
  Vote: 3-0

- Vote-Only Issue 6: Problem Gambling Prevention Program
  Action: Approved the requested increase in expenditure authority. Approved $60,000 of the funding from the California State Lottery as ongoing and $190,000 as one-time funding.
  Vote: 3-0
  Senator Padilla also requested a description of how OPG dollars are being spent.

Vote-Only Issue 7: Health Insurance Portability and Accountability Act (HIPAA) Budget Balancing Reduction
Action: Approved the reduction.
Vote: 3-0

4700 Department of Community Services and Development (CSD)

- Vote-Only Issue 8: Prisoner Reentry Initiative (PRI) Program
  Action: Approved the spring Finance Letter.
  Vote: 3-0

5175 Department of Child Support Services (DCSS)

- Vote-Only Issue 9: Selected Budget Balancing Reduction (BBR) Proposals
  Action: Approved the reductions to the locate and intercept contracts and to customer operations.
  Vote: 3-0

- Vote-Only Issue 10: State Disbursement Unit (SDU) Bank Exceptions
  Action: Approved as budgeted.
  Vote: 2-1 (Wyland)

5180 Department of Social Services (DSS)

- Vote-Only Issue 11: Title IV-E Child Welfare Waiver Demonstration Capped Allocation Project
  Action: Approved the continuation of two limited-term positions; rejected the requested transfer of funding from local assistance to state operations.
  Vote: 3-0

- Vote-Only Issue 12: Child Welfare Services: Resources Family Pilot Program (AB 340)
  Action: Rejected the requested state operations funding and positions and local assistance funding, and adopted the following trailer bill language to delay implementation for two years:

  "The effective date of the provisions of Chapter 464, Statutes of 2007 shall be delayed until July 1, 2010."

  Vote: 3-0

- Vote-Only Issue 13: Public Social Services Hearings (AB 921)
  Action: Rejected the requested funding and position.
  Vote: 3-0

- Vote-Only Issue 14: California Food Assistance Program Budget Balancing Reduction
  Action: Rejected the proposed ten percent reduction.
  Vote: 2-1 (Wyland)

- Vote-Only Issue 15: Interim Statewide Automated Welfare System (ISAWS) Migration Project
  Action: Rejected the proposal to cancel the project; approved the alternative proposal to maintain the project; and adopted placeholder trailer bill language to continue the ISAWS Migration project.
  Vote: 3-0

- Vote-Only Issue 16: Foster Family Home and Small Family Home Insurance Fund Reduction
  Action: Approved a one-time reduction of $2.8 million General Fund.
  Vote: 3-0

- Vote-Only Issue 17: Cash Assistance Program for Immigrants (CAPI) Advocacy Program
  Action: Adopted trailer bill language to extend the sunset of the CAPI advocacy program until July 1, 2011. Adopted placeholder supplemental report language to require the Department of Social Services to report by July 1, 2010, by county, on the number of SSI applications filed by CAPI recipients through the advocacy program; the number of SSI applications approved; and the amount of the savings resulting from the program.
  Vote: 3-0

Discussion Agenda

5180 Department of Social Services (DSS)

- DSS Issue 1: Disability Determination Service Division
  Action: Rejected the proposed reduction in funding and positions; eliminated the four limited term positions and $401,000 ($200,000 General Fund) provided for 2008-09 to address the backlog, since the backlog has been eliminated.
  Vote: 2-1 (Wyland)

- DSS Issue 2: Food Stamp Administrative Reduction
  Action: Held open.

4700 Department of Community Services and Development (CSD)

- CSD Issue 1: Naturalization Services Program Reduction
  Action: Held open.

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

Chair, Senator Elaine K. Alquist
Senator Alex Padilla
Senator Mark Wyland

Agenda – Part B

Monday, May 5, 2008
10:30 am
Room 2040
(Consultant: Bryan Ehlers)

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 California Department of Veterans Affairs (CDVA) has three primary objectives: (1) to 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) to afford California veterans the opportunity to become homeowners through loans available to them under the Cal-Vet farm and home loan program; and (3) to 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 (Ventura County), Fresno, and Redding.

The Governor's 2008-09 Proposals
The Governor's Budget begins by funding 1,896.5 positions (including 238.6 new positions) and budget expenditures of $381 million for the department, but then includes a 10-percent, across-the-board General Fund (GF) reduction (Budget-Balancing Reduction–BBR) of $19.4 million and 118.5 positions. The individual BBRs are as follows:

Program	**General Fund***	**Personnel Years (PYs)**
Care of Sick and Disabled Veterans	-$18,687	-115.0
Veteran Claims	-$263	-1.0
Veteran Memorials	-$32	--
Veterans Claims and Rights (Local Assistance to Veterans Service Offices)	-$260	--
General Administration (Administrative Support)	-$149	-2.5
TOTALS	-$19,391	-118.5

(*dollars in thousands)

Staff notes that because the Administration changed the way it accounts for federal funds and reimbursements for the CDVA, the GF numbers above are "inflated" by approximately $5 million. Put another way, $5 million of the GF reduction scored by the Administration actually comes to the state as reimbursements or federal funds from non-state sources. In order to provide a clearer comparison between the adjusted Fiscal Year (FY) 2007-08 totals and the 2008-09 Governor's Budget, the following table uses the traditional accounting method in which federal funds and reimbursements are kept separate from General Fund:

	Total Funds*	General Fund*	Positions
Adjusted 2007-08 Budget	$366,238	($125,919)	1,652.5
2008-09 Base Budget	$381,226	($138,307)	1,896.5
Proposed Budget-Balancing Reductions	-$19,391	(-$14,246)	-118.5
GOVERNOR'S REVISED 2008-09 TOTALS	$361,835	($124,061)	1,778.0
Change—Year Over Year	-1.2%	-1.5%	+7.6%

(*dollars in thousands)

As illustrated in the table above, the net effect of the Governor's proposals would be a 1.2 percent decrease in total funds from adjusted Fiscal Year 2007-08, including approximately $1.9 million less in GF.

Staff notes that although the above table displays the 2008-09 CDVA proposed budget using the conventional accounting methodology, unless otherwise noted the remainder of this agenda references dollars provided in the 2008-09 Governor's Budget using the Administration's alternative accounting method. Although confusing for the purposes of comparing budget year proposals to current or past years, the time constraints inherent to the budget process simply do not permit all of the numbers to be "translated" at this point in time.

VOTE-ONLY AGENDA:

CDVA Vote-Only Item 1: Finance Letter (FL) – Dietary and Food Service Staffing Increase

The CDVA requests 7.5 positions and $380,000 GF to address health and safety risks associated with the disabled residents who dine in the main dining room at the Yountville veterans home.

Staff Comment: The Yountville main dining room was set up as a self-serve cafeteria at a time when the veterans home was intended to serve self-sufficient residents. As a result, the dining room was not staffed to provide table service to 80-100 disabled residents per meal. Given that the average age of the residents at Yountville is 79.5 years of age, many suffer from low vision, decreased motor functions, or more serious medical conditions, and require assistance in order to dine in the main dining room. According to the CDVA, these residents require assistance ranging from reading and selecting from the menu, to making trips back and forth to the service area, to monitoring for choking, spills, and biohazards. The department reports that there were thirteen falls and two choking incidents recorded in 2007.

While the CDVA currently supports resident dining room needs using overtime, temporary help, and resident employees, the department indicates that the United States Department of Labor has demanded that the resident employees be reassigned to less stressful, less physically demanding, and more age-appropriate functions that do not impact food safety (for example, distributing and reading menus or making holiday decorations).

Staff Recommendation: APPROVE the request.

CDVA Vote-Only Item 2: FL – Veteran Services Mental Health Network Development and Federal VA Referrals

The CDVA requests 2.0 positions and $496,000 (Mental Health Services Fund—Proposition 63) to begin development of a statewide network for veteran mental health referrals. Of the request, $226,000 would support state operations and $270,000 would be for local assistance (County Veterans Service Offices).

Staff Comment: Chapter 221, Statutes of 2005 (AB 599) identified veterans as a priority population for provision of county mental health services and mandated that county mental health providers refer those veterans to the County Veterans Service Organization to determine eligibility for, and assistance in seeking, health care services (including mental health services) from the federal Veterans Administration. According to the CDVA, this proposal would begin to address the funding and networking shortfalls created by AB 599 and help ensure that veterans in need of services do not "fall through the cracks." The Department of Mental Health, which administers the Proposition 63 funds that would sustain this activity, supports this proposal.

Staff notes that a class-action lawsuit was recently brought against the United States Department of Veterans Affairs (VA) for failure to provide adequate mental health care to veterans suffering mental trauma after service in Afghanistan or Iraq. According to the VA, the suicide rate among veterans of all wars is currently 18 per day—a rate three to seven times that of the general population according to a suicide expert who testified in the trial.

Given that mental health is a new service for the CDVA, staff recommends the Subcommittee approve provisional language to require the department to report on program outcomes in two to three years.

Staff Recommendation: APPROVE the request with provisional language to be developed by staff, in consultation with the LAO and the Administration.

CDVA Vote-Only Item 3: Trailer Bill Language – Adult Day Health Care Fees

The Administration has submitted Trailer Bill Language (TBL) to authorize the CDVA to charge a fee for its new adult day health care program.

Staff Comment: This item was originally held open in anticipation of revised language. The Administration subsequently submitted the revise trailer bill language, which contains a provision allowing the CDVA to adopt regulations to waive a portion of the adult day health care fee for individual members based upon a defined means test. Staff has no concern with the revision, but notes that this TBL is unnecessary at this time given that the Administration has proposed to delay the implementation of the ADHC program (see Discussion Item 5 below).

Staff Recommendation: DENY the TBL in anticipation of approving the reduction/delay in Discussion Item 5.

VOTE to APPROVE the Staff Recommendation for Vote-Only Items 1, 2, and 3:

DISCUSSION AGENDA:

CDVA Item 1: BCP-5 – Fiscal Operations—Effective Fiscal Oversight (HQ)

The CDVA requests 14.0 positions and $1.3 million GF to address deficiencies in fiscal controls and provide effective fiscal oversight of budget development, capital outlay, accounting, and financial and fiscal operations for the department, particularly at the veterans homes.

Staff Comments: This request stems from a corrective action plan developed by the CDVA in response to Budget Bill Language instituted as a result of errors and inconsistencies in budget documents produced by the department during the FY 2006-07 budget process.

As discussed at an earlier hearing, while the CDVA makes a compelling case for the need for five budget/fiscal support staff, the immediate need for the remainder of this proposal is less clear at the present time. For example, it is not apparent that the department currently has the need for an entire unit devoted to cost analysis and forecasting (though it might once all eight homes are on-line). Given the tight constraints on the GF in the current fiscal crisis, a more measured approach to staffing these new functions might be warranted.

Staff originally recommended denying 5.0 of the requested positions (2.0 Research Analysts, 1.0 SSM III, 1.0 SSA, and 1.0 Mgmt Svcs Tech), and instead providing the incremental funding necessary for the CDVA to upgrade an existing SSM II (in the Budget Office) to an SSM III in recognition of the position's increased managerial responsibilities. Based on subsequent discussions with the department, staff has revised the above recommendation as follows: approve the 1.0 Mgmt Svcs Tech, but deny 1.0 Associate Governmental Program Analyst instead.

Staff Recommendation: APPROVE 9.0 positions and DENY 5.0 positions (as described above).

VOTE:

CDVA Item 2: BCP-10 – Capital Assets, Facilities Management and Construction

The CDVA requests $3.2 million GF and 19.0 positions (including $1.1 million for deferred maintenance) to address increased workload in construction planning and implementation, capital outlay, and facilities management.

Staff Comments: This proposal reflects a request to: (1) make permanent last year's approval of 8.0 one-year limited-term positions and $1.9 million GF to address deferred repair and maintenance at the homes (primarily Yountville) permanent; and (2) create a new division of Capital Assets, Facilities Management, Maintenance and Construction (an additional 11.0 positions).

As discussed at an earlier hearing, while the significant maintenance needs of the aging facility at Yountville and the imminent construction of several new veterans homes highlights the need for the CDVA to be proactive in managing its capital assets, like the Fiscal Operations proposal above (Discussion Item 1), some of the positions in this proposal appear to be unjustified at this time. In fact, the CDVA itself acknowledges that the staffing complement requested would be adequate to address the needs of the department after all eight homes are up and running.

The staff recommendation was to deny 4.0 positions (the Direct Construction Supervisor II, the SSM II, the AGPA, and an OT), and approve the deferred maintenance funding for one-year (with the expectation that any future request for ongoing funding should be accompanied by a long-term deferred maintenance plan). Based on subsequent discussions with the department, staff has revised the above recommendation as follows: approve the Direct Construction Supervisor and the SSM II, but deny 1.0 SSM I (Sup), 1.0 Construction Project Director (Exempt), and 1.0 Direct Construction Supervisor II instead.

Staff Recommendation: APPROVE 14.0 positions and DENY 5.0 positions (as described above).

VOTE:

CDVA Item 3: BCP-2 – GLAVC Veterans Homes Start Up Staffing, Phase II

The CDVA requests $9.4 million GF and 100.7 positions to complete construction, pre-activation, and begin business operations of the Greater Los Angeles/Ventura Counties (GLAVC) Veterans Homes.

Staff Comments: This request was discussed at a previous hearing and held open pending further clarification on the ADHC-portion of the proposal. Questions regarding the ADHC program were addressed in subsequent talks with the department, and, assuming the subcommittee approves the Governor's proposal to delay implementation of the ADHC program until FY 2009-10 (see Item 5 below), staff raises no additional concerns with the proposal at this time.

Staff Recommendation: APPROVE the request in anticipation of approving the associated reductions in Item 5, with funding adjustments discussed at the March 10 hearing (related to changes in the Operating Expenses & Equipment calculator used by the department).

VOTE:

CDVA Item 4: BCP-3 – Redding and Fresno Veterans Homes Pre-Activation

The CDVA requests $580,000 GF and 8.0 positions (4.3 PYs in 2008-09) for the pre-activation phases of the Redding and Fresno Veterans Homes projects to ensure that all aspects of the construction and business operations of the homes are compliant with federal, state, and local laws and regulations.

Staff Comments: The legislation enacted in 2005 provided authority and a fund source for two new veterans homes (Redding and Fresno) to be modeled after the GLAVC satellite facilities in Lancaster and Ventura County. This BCP reflects the current plan to begin construction of these homes in November 2008, with Redding to be completed in October 2010, and Fresno in February 2011.

As discussed previously, the Governor's proposed BBR (Item 5 below) would delay the pre-activation phase for these new homes until FY 2009-10 (essentially placing this BCP on hold for a year). Consistent with prior legislative intent, the Subcommittee may wish to approve this proposal; however, because these homes represent a significant out-year GF-pressure, staff notes that this request and the decision to move forward with the construction of the two new homes may warrant reconsideration at a future hearing should the Governor's May Revise reflect a further deterioration in the state's fiscal outlook.

Staff Recommendation: APPROVE the request in anticipation of approving the associated reductions in Item 5, with funding adjustments discussed at the March 10 hearing (related to changes in the Operating Expenses & Equipment calculator used by the department).

VOTE:

CDVA Item 5: BBR – Ten Percent Cut to Care of Sick and Disabled Veterans Program

The Governor proposes to reduce veterans home budgets by a total of $18.7 million GF and 115.0 positions relative to the "workload" budget prepared by the Administration.

Staff Comments: As noted above, the Administration first approved a number of baseline and policy adjustments (a “workload” budget), before applying a ten-percent GF reduction. For example, the Governor approved funding to finish construction and activate new veterans homes in Lancaster and Ventura County, and to begin pre-activation and construction on homes in Fresno and Redding, and then ordered certain delays in these activities (outlined below) to help achieve a ten-percent savings.

According to the Administration, the proposed reductions would be taken in the following manner:

- Limit expansion of the Memory Care Unit at Yountville to 40 beds [instead of 75, as approved in FY 2006-07], resulting in fewer veterans served.
- Reduce the Chula Vista Domiciliary/Residential Care Facility for the Elderly (DOM/RCFE) census by approximately 60 residents. Some former residents of Barstow have already expressed interest in returning to that home, while the rest of the reduction would be achieved through normal attrition as residents require higher levels of care or move to other placements.
- Postpone by three months, until Fiscal Year 2009-10, the opening of the Adult Day Health Care (ADHC) unit at the Lancaster and Ventura County homes.
- Delay establishing the pre-activation teams at both Redding and Fresno until July 2009.
- Eliminate the VistA component from the Enterprise-wide Veterans Home Information System project [approved in FY 2007-08].

Staff notes that the Legislature approved the current year component of this BBR proposal in special session, including a GF reduction of $1.7 million and 17.8 positions.

Staff Recommendation: APPROVE the reduction.

VOTE:

Informational Item: Yountville Audit Finds Chronic Staff Shortages

In a recently released report on the veterans home at Yountville, the Bureau of State Audits (BSA) found that:

- *Chronic shortages in key health care positions, such as nursing, have limited the Veterans Home in serving the veteran community. Some nursing staff have worked substantial amounts of overtime to meet staffing guidelines for providing care to members who live in the skilled nursing and intermediate care facilities.*
- *Despite these staffing shortages, the Veterans Home has not had a coordinated and comprehensive strategy for filling chronic staff vacancies in especially important occupational areas.*
- *Weak oversight of its medical equipment maintenance contract provides the Veterans Home little confidence that the equipment has received regularly scheduled testing and maintenance, thereby risking not having properly functioning equipment available when needed and making inappropriate payments to its medical equipment contractor.*

- *The Veterans Home has not assessed its compliance with Americans with Disabilities Act requirements to ensure people with qualifying disabilities have access to the Veterans Home and its programs and services, or designated a representative to respond to complaints of inaccessibility from members.*
- *State agencies responsible for investigating and resolving complaints by Veterans Home members regarding the Veterans Home and its programs and services, the Veterans Home, the California Veterans Board, the California Department of Veterans Affairs, and the California Department of Public Health, could improve their practices regarding those responsibilities.*

Although the BSA did not find that the health and safety of Yountville residents was compromised by the weaknesses noted above, the BSA did express concern that these weaknesses created the potential for such compromises in the future. The Subcommittee may wish the BSA to briefly discuss the basis for its findings, and to hear the CDVA's response. Specifically, the Subcommittee may wish the CDVA to address the following questions:

1. How does Yountville plan to ensure the continued health and safety of residents in the face of the ongoing staffing shortage? Does the home intend to develop a comprehensive recruitment and retention plan as recommended by the BSA? If so, when would it be completed and implemented?
2. What specific steps are being taken to strengthen oversight of medical equipment maintenance?

Senate Budget & Fiscal Review Committee
Bryan Ehlers 651-4103

Hearing Outcomes: Agenda Part B

Subcommittee No. 3
10:30 pm, Monday, May 5, 2008

8950 Department of Veterans Affairs (CDVA)

Vote-Only Agenda

- Vote-Only Item 1: FL – Dietary and Food Service Staffing Increase
  Action: Approved the request.
  Vote: 3-0

- Vote-Only Item 2: FL – Veteran Services Mental Health Network Development and Federal VA Referrals
  Action: Approved the request with supplemental report language to be developed by staff, in consultation with the LAO and the Administration.
  Vote: 3-0

- Vote-Only Item 3: Trailer Bill Language—Adult Day Health Care Fees
  Action: Denied the TBL.
  Vote: 3-0

Discussion Agenda

- CDVA Item 1: Fiscal Operations—Effective Fiscal Oversight
  Action: Approved $736,000 and 9.0 positions and Denied $494,000 and 5.0 positions (classification details in agenda).
  Vote: 2-1 (Wyland)

- CDVA Item 2: Capital Assets, Facilities Management and Construction
- **Action:** Approved $2.5 million and 14.0 positions and Denied $528,000 and 5.0 positions (classification details in agenda).
  Vote: 2-1 (Wyland)

- CDVA Item 3: GLAVC Veterans Homes Start Up Staffing, Phase II
  Action: Approved the request.
  Vote: 3-0.

- CDVA Item 4: Redding and Fresno Veterans Homes Pre-Activation
  Action: Approved the request.
  Vote: 3-0.

- CDVA Item 5: Ten Percent Cut to Care of Sick and Disabled Veterans Program
  Action: Approved the reduction.
  Vote: 3-0.

- Informational Item: Yountville Audit Finds Chronic Staff Shortages
  Action: Information Only. (Chair requested the department provide a status update to staff on progress toward/plans for developing various BSA-recommended plans/strategies at 60-day post-audit deadline.)

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

Chair, Senator Elaine K. Alquist

Senator Alex Padilla
Senator Mark Wyland

May 12, 2008

10:30 AM

Room 2040

AGENDA

(Diane Van Maren)

Item	**Department**
4260	**Department of Health Care Services**
4440	**Department of Mental Health**
4265	**Department of Public Health**

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 May Revision hearings.

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

VOTE ONLY ITEMS: DEPARTMENT OF PUBLIC HEALTH

1. Sexual Health Accountability Program

Issue. The DPH proposes an increase of $127,000 (General Fund) to fund a Health Program Specialist II to implement AB 629 (Bromley), Statutes of 2007.

Specifically, this legislation requires state funded/administered programs to provide sexual health education that is age appropriate, medically accurate, current and objective, and that does not promote or teach religious doctrine. It requires that state funded/administered programs not promote or reflect bias, be culturally and linguistically appropriate for targeted audiences, specify that abstinence is the only sure way to prevent sexually transmitted diseases, and explain the effectiveness of FDA-approved drugs and devices prescribed to prevent pregnancy.

Subcommittee Staff Recommendation—Deny the Augmentation. Due to the fiscal crisis, it is recommended to deny this augmentation. The Office of Family Planning, as well as the overall Maternal and Child Health Branch have sufficient staff to absorb any workload associated with this legislation.

2. Compliance with Federal Birth Certificate Standards

Issue. The DPH requests an increase of $439,000 (Health Statistics Special Fund) to fund 4.5 positions (two-year limited-term) to meet newly established federal standards for birth certificates and to comply with federal security requirements for access to, and issuance of, certified copies of these documents.

According to the DPH, California must comply with federal legislation within three years following release of final regulations in order for birth certificates to be accepted for federal purposes. If California does not meet federal requirements individuals who were born in California will be unable to use their birth certificates as identity documents to obtain federally compliant drivers' licenses, obtain passports, board commercial airlines, enter federal buildings, obtain federal benefits, or vote in federal elections.

Subcommittee Staff Recommendation—Approve Request. California must meet these federal requirements and special funds are available for this purpose. No issues have been raised.

3. Orphan Drug BabyBIG for Infant Botulism Patients

Issue. The DPH is requesting an increase of $1.750 million (Infant Botulism Fund) to continue the manufacturing process of Lot 4 for BabyBIG. The department produces the only supply of BabyBIG in the world.

A new lot of BabyBIG is manufactured every five years and takes about three years to produce due to the length of time needed to collect and test hyper-immune plasma from human volunteer donors, fractionate and vial the antibodies, and carry out release testing in fulfillment of stringent federal Food and Drug Administration (FDA) requirements.

The DPH states that the production of Lot 4 has presented special challenges because its manufacturer had to be relocated when the previous contractor discontinued the service, thereby triggering extensive interaction with the FDA and identification of a new contractor manufacturer. The requested increase pertains to these activities.

DPH's key role in BabyBIG production is obtaining the human plasma that contains the antibodies that neutralize botulinum toxin. However, as sponsor, DPH is responsible to the FDA for all aspects of product quality control and maintenance of BabyBIG. The DPH fulfills this responsibility through FDA-required external technical contracts with the manufacturers and regulatory specialists who are designated in the BabyBIG license to monitor and report on product quality, safety, and stability.

Background. In October 2003, the federal FDA licensed the Orphan Drug Botulism Immune Globulin Intravenous (Human) (BIG-IV) to the DPH under the registered name of BabyBIG. This license is contingent upon using specified processes, facilities, and equipment. BabyBIG is made by harvesting and bottling special antibodies from the blood plasma of volunteer donors. Most of these plasma donors are former employees of the DPH who have been immunized with botulinum toxoid for occupational safety.

Subcommittee Staff Recommendation—Approve. No issues have been raised regarding this issue. Funds are available in the special fund and it is critical to maintain BabyBIG production.

4. Vended Water

Issue. The DPH proposes an increase of $147,000 (Food Safety Special Fund) to support two positions and special training needs to implement Senate Bill 220 (Corbett), Statutes of 2007. Specifically, this legislation establishes new labeling and inspection requirements for water vending machines and requires bottlers to make a bottled water report available in various languages.

Subcommittee Staff Recommendation—Approve. No issues have been raised with this proposal. It is recommended to approve the request.

5. Export Program

Issue. The DPH proposes an increase of $155,000 (Export Document Program) to extend 1.5 positions for another two-years to address an increase in the number of export documents that require processing in order for California businesses to export products. The DPH states that these positions will improve customer service in reviewing export document requests and issuing export documents for food, drug, cosmetic and medical device manufacturers in California.

The exportation of foods, drugs, cosmetics, and medical devices by California manufacturers is a multi-billion dollar a year business. Most importing countries require "certificates" from the exporting state certifying that the manufacturer/distributor is currently licensed and has met all regulatory requirements. The DPH is responsible for issuing export documents to CA processors of food, drugs, medical devices and cosmetics. The shipping of products can be delayed if certification of documents is not processed in a timely fashion.

Subcommittee Staff Recommendation—Approve. No issues have been raised with this proposal. It is recommended to approve the request.

6. Governor's Reduction to Certain Contracts for Family PACT Program

Issue. The Governor is proposing a reduction of $510,000 ($255,000 General Fund) to certain administratively focused activities under the Family Planning Access Care and Treatment (Family PACT) Program as administered by the DPH. Specifically, the DPH is proposing a reduction to the evaluation contract, and reductions in the contracts focused on increasing both provider participation in the program and client participation in the program.

This reduction will not directly affect any services being provided to program participants.

The LAO did include this reduction in her alternative budget proposal.

Background—Summary of Family PACT Program. California operates a federal Waiver under the Medi-Cal to obtain federal reimbursement for specified services provided under this program, including access to contraceptive services, reproductive health services, treatment of sexually transmitted diseases, and activities related to reducing the overall number and cost of unintended pregnancies. Surgical procedures related to abortions are not included in this program.

Subcommittee Staff Recommendation—Adopt Governor's Reduction. No issues have been raised regarding this proposal. It is recommended to adopt the Governor's reduction of $510,000 ($255,000 General Fund) for these contracts.

7. State Operations Reduction to Office of Family Planning

Issue. The Governor proposes a reduction of $386,000 ($193,000 General Fund) to state administration within the Office of Family Planning. The DPH states that this reduction would require the elimination of two Office Technician positions and a reduction in operating expenses, including travel.

The LAO did include this reduction in her alternative budget proposal.

Subcommittee Staff Recommendation—Adopt Governor's Reduction. No issues have been raised regarding this proposal. It is recommended to adopt the Governor's reduction.

8. Governor's Reduction to Public Health Subvention

Issue. The Governor is proposing a reduction of $100,000 (General Fund), or 10 percent, to the amount the state provides on a discretionary basis to Local Health Jurisdictions for communicable disease control activities per Section 101230 of the Health and Safety Code. This reduction would leave $900,000 (General Fund) that is allocated based on a formula contained in statute.

The DHCS states that the reduction would reduce all of the Local Health Jurisdictions by 10 percent. As such, the reductions range from $903 to $18,915 among Local Health Jurisdictions (61 in total—58 counties and three cities).

The DHCS states that this reduction will minimally affect activities related to prevention and control of communicable and infectious disease.

The LAO did include this reduction in her alternative budget proposal.

Subcommittee Staff Recommendation—Adopt Governor's Reduction. No issues have been raised regarding this proposal. It is recommended to adopt the Governor's reduction.

9. Governor's Reduction for Emergency Response--Food

Issue. The Governor proposes a reduction of $219,000 (General Fund) to the Food and Drug branch within the DPH related to food microbiology and foodborne illness and for leading components of an outbreak investigation, environmental investigation and/or trace back.

This reduction would still leave 6 staff positions within the branch to respond to these issues.

The LAO did include this reduction in her alternative budget proposal.

Subcommittee Staff Recommendation—Adopt Governor's Reduction. No issues have been raised regarding this proposal. It is recommended to adopt the Governor's reduction.

10. State Staff for Sexually Transmitted Disease Control Program

Issue. The Governor is proposing a reduction of $501,000 (General Fund) and five positions (two Communicable Disease Representatives and three Communicable Disease Managers) from this program. This reduction will still leave 18 positions within the program.

The DPH notes that this proposal may reduce the state's ability to respond to sexually transmitted disease outbreaks and conduct follow-up activities on cases.

The LAO did include this reduction in her alternative budget proposal.

Background—Program Description. This program provides state support and local assistance funding for the control and prevention of sexually transmitted diseases including, syphilis, Chlamydia, gonorrhea, and HIV. State supported regional field offices are responsible for providing and direct disease intervention assistance, including locating and interviewing patients and sex partners and referring them to health care

Subcommittee Staff Recommendation—Adopt Governor's Reduction. No issues have been raised regarding this proposal. It is recommended to adopt the Governor's reduction.

11. Governor's Reduction to Laboratory Director Training Program

Issue. The Governor is proposing a reduction of $250,000 (General Fund), or 10 percent, to the state's discretionary support provided for training, outreach and education, doctoral candidate stipends, and postdoctoral fellow and assistant laboratory director salaries under the Laboratory Director Training Program. The proposed reduction would still leave $2.250 million (General Fund) within the program.

The DPH states that this reduction will result in the following:

- Decrease funding support to graduate students by $91,802. This would mean that 10 of 14 graduate students will be funded at pre-doctoral programs.
- Reduce outreach and education contract by $49,840.
- Reduce funding of Assistant Public Health Laboratory Directors by $108,358.

The LAO did include this reduction in her alternative budget proposal.

Subcommittee Staff Recommendation—Adopt Governor's Reduction. No issues have been raised regarding this proposal. It is recommended to adopt the Governor's reduction.

12. Governor's Reduction to County Maternal & Child Health

Issue. The Governor is proposing a reduction of $264,000 (General Fund) in the discretionary allocation the state provides to Local Health Jurisdictions for maternal and child health related activities to:

(1) Improve access to care. Local Health Jurisdictions assist individuals to access available health care through appropriate state and federal programs;

(2) Remove barriers to receiving services. They work with other agencies to ensure the maternal and child health population can obtain services;

(3) Recruit and inform health care providers. They work with the local medical community to identify gaps in service for this population;

(4) Educate the maternal and child health population. Local Health Jurisdictions provide outreach and prevention education to the population regarding topics such as breastfeeding, nutrition, and risk to the unborn associate with substance abuse;

(5) Make Home Visits. Several Local Health Jurisdictions operate a home visiting program to establish a close connection with the at-risk individual to facilitate client use and acceptance of education information;

(6) Review Fetal & Infant Mortality Cases. They review deaths to determine what specific action could prevent future deaths;

(7) Inform and Involve Community Groups. They collaborate with other public and private agencies to address the needs of these populations;

(8) Access Local Needs. They monitor the health needs of these populations; and

(9) Operate Local Toll Free "800" Number. Each Local Health Jurisdiction staffs a federally required toll free "800" number to provide access to the agency for the local population.

The DPH states the Local Health Jurisdictions could choose to backfill this General Fund reduction if they so choose.

Legislative Analyst's Office—Approve Governor's Reduction. The LAO raised no issues with this proposal and she did include it in her alternative budget.

Subcommittee Staff Comment and Recommendation—Approve Governor's Reduction. The Local Health Jurisdictions presently receive a total of $8.6 million ($2.6 million General Fund and $5.9 million federal Title V Maternal and Child Health Funds) from the state for these purposes. Through the Budget Act of 2007, an increase of $1.225 million (federal Title V Maternal and Child Health Funds) was provided to the Local Health Jurisdictions for these purposes. Therefore, a reduction of $264,000 (General Fund) should have minimal impact.

13. Governor's Reduction to Birth Defects Registry

Issue. The Governor is proposing a reduction of $209,000 (General Fund), or 10 percent, to the CA Birth Defects Registry within the DPH. This reduction will result in less data collection and analysis.

Under this program the DPH contracts with the March of Dimes to collect and review data from birthing hospitals and maintain a database of birth defects occurring in California. This registry is a database of diagnostic and demographic information drawn from over 3.9 million births. Complete diagnostic information is obtained on eligible children who have specific birth defects. Follow-up after one-year is performed to be sure that most birth defects are recognized and reported.

***Legislative Analyst's Office—Approve Governor's Reduction*.** The LAO raised no issues with this proposal and she did include it in her alternative budget.

Subcommittee Staff Recommendation—Approve Governor's Reduction.
Subcommittee staff concurs with the LAO.

14. Richmond Laboratory Capital Outlay Project—Finance Letter

Issue. The Subcommittee is in receipt of a Finance Letter which requests a reappropriation of $241,000 (General Fund) for working drawings related to the proposed capital outlay modifications for the Viral and Rickettsial Diseases Laboratory which is part of the state's Richmond Laboratory campus.

Prior Subcommittee Action. In the April 28th hearing, the Subcommittee deferred the proposed construction funds of $2.5 million General Fund for this project for at least one-year.

Subcommittee Staff Recommendation—Reject Finance Letter. It is recommended to reject the reappropriation of $241,000 (General Fund) and for savings of this amount. These modifications can be discussed in next year's budget for 2009-2010.

As was noted at the previous hearing, there are several federal CDC laboratories located in Fort Collins, Colorado; Ames, Iowa; and Atlanta, Georgia; that can address the new enhanced bio-safety Level III guidelines as identified by the federal CDC. No other state has this capability and there have only been two instances in the past several years whereby the state had to send two samples that were potentially avian flu to the federal CDC laboratories for confirmation. In both instances, the initial testing was conducted at the Richmond laboratory complex with the federal CDC conducting the confirmatory analysis (all were negative).

15. Governor's Reduction to DPH for State Staff in Emergency Preparedness

Issue. The Governor is proposing a reduction of $80,000 (General Fund) be eliminating a state staff position that is assigned to track pharmaceuticals and surge supplies statewide.

Subcommittee Staff Comment and Recommendation—Approve Reduction. No issues have been raised by this reduction. The Legislative Analyst's Office did include this reduction in her alternative budget. The DPH has many existing positions which are federally funded and can absorb this workload.

16. Finances Request for a Technical Correction to the DPH Budget

Issue. The Subcommittee is in receipt of a technical Finance Letter regarding the Every Women Counts Program. This program now resides with the Department of Public Health.

However, the Department of Finance states that due to technical and procedural issues regarding the division of the Department of Health Services into the two separate departments of Public Health (DPH) and Health Care Services, the Administration has not been able to appropriately split the billing responsibilities for the Every Women Counts Program.

As such, an increase of $37.4 million (federal funds and Cigarette and Tobacco Product Surtax Funds/Proposition 99 Funds) within the DPH appropriation is being requested in order for the department to reimburse the Department of Health Care Services for processing payments.

Subcommittee Staff Comment and Recommendation—Approve Technical Adjustment. No issues have been raised by this technical adjustment.

VOTE ONLY ITEMS: DEPARTMENT OF HEALTH CARE SERVICES

1. Modify Budget Bill Language to Provide Information

Issue. The Budget Bill contains provisional language which provides the Department of Finance (DOF) with the ability to transfer expenditure (i.e., budget) authority between the Medi-Cal Program and other health care programs administered by the Department of Health Care Services (DHCS).

The purpose of this language is to enable the DHCS to effectively administer their programs and to account for Medi-Cal enrollees utilization of certain programs, including the CA Children's Services Program, the Genetically Handicapped Persons Program and the Child Health Disability Prevention Program.

The Budget Act of 2007 was the first time the Legislature had allowed for this transfer language and the Administration just recently used it for the first time in a letter dated April 30, 2008. In this letter from the DOF to the Chair of the Joint Legislative Budget Committee (Senator Ducheny) the Administration requested the transfer of $16 million (General Fund) from the Medi-Cal Program to the GHPP to alleviate funding concerns within the GHPP due to some high cost cases.

Unfortunately, the Administration's letter lacked fiscal detail and explanation regarding the details of the cost increases and the fiscal assumptions used for calculating the need. Subsequently, it has taken fiscal staffs' time to request and receive additional information from the Administration. This has finally been provided and no issues have been raised to-date regarding this transfer.

Subcommittee Staff Comment and Recommendation. Due to the need of the Legislature to obtain accurate and timely information from the Administration regarding the transfer of funds across programs, it is recommended to modify the existing Budget Bill Language (i.e., for all provisional language contained in Items 4260-101-0001; 4260-102-0001; 4260-111-0001; 4260-113-0001; and 4260-117-0001).

The proposed Budget Bill Language and modification are as follows:

> "Notwithstanding any other provision of law, the Department of Finance may authorize transfer of expenditure authority between this Item and Items (reference varies for the Item) in order to effectively administer the programs funded by these items. The Department of Finance shall notify the Legislature within 10 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 10-day notification to the Legislature shall include the reasons for the transfer, the fiscal assumptions used in calculating the transfer amount, and any potential fiscal affects on the program from which funds are being transferred or reduced.

VOTE ONLY ITEMS: DEPARTMENT OF MENTAL HEALTH

1. Cathie Wright Technical Assistance Center

Issue. The Governor proposes a reduction of $40,000 (General Fund) for 2008-09 to the Cathie Wright Technical Assistance Center. This budget year reduction is in addition to the $10,000 (General Fund) reduction proposed by the Governor for the current year (2007-08) which was adopted by the Legislature in Special Session.

The reduction would leave $300,000 (General Fund) in the center for expenditure in 2008-09.

Background. In the Budget Act of 2004, the DMH received an appropriation of $350,000 (General Fund) to contract with the CA Institute for Mental Health for operation of the Cathie Wright Technical Assistance Center. This Center provides extensive assistance, including (1) training, consultation and technical assistance to counties to support the local implementation of evidence-based services; (2) developing new projects designed to facilitate state and local consensus building through interagency collaboration; and (3) support of family/professional partnerships, and child, youth, and family driven services.

This reduction would limit planned forums, and reduce the number of training activities for all involved parties. The DMH states that this reduction will not have any significant impacts on direct services.

Subcommittee Staff Recommendation—Adopt Governor's Reduction. Due to the fiscal crisis, it is recommended to adopt the reduction.

2. Napa State Hospital –Capital Outlay for Kitchen Project (Finance Letter)

Issue. The Subcommittee is in receipt of a Finance Letter which makes adjustments to a capital outlay project at Napa State Hospital. Specifically the letter proposes a *reduction* of $4.1 million (reduction of $449,000 General Fund and reduction of $3.6 million in Lease Revenue Bonds) to this project.

Based on this revision, the Administration is proposing expenditures of $32.2 million ($605,000 General Fund and $31.6 million Lease Revenue Bonds) for working drawings and the construction phase of rebuilding the main kitchen and several satellite kitchens at Napa State Hospital.

Subcommittee Staff Recommendation—Adopt Finance Letter. The Legislature has discussed this project on several occasions and recognizes the need for completion in order to meet licensing requirements and patient and staff needs. No issues have been raised.

3. Governor's Reduction to DMH Headquarters Administration

Issue. The Governor proposes to reduce certain positions and administrative expenditures at the DMH headquarters. A total reduction of $2.4 million ($500,000 in reimbursements) is proposed for 2008-09.

This reduction consists of eliminating 5 personnel years (vacant positions) and reducing contracts, general expenses, travel, and information technology contractor services.

Special Session Action. For the current-year, the Legislature adopted the Governor's reduction of $722,000 (General Fund) to DMH Headquarters Administration.

Subcommittee Staff Recommendation—Adopt Governor's Reduction. It is recommended to adopt the Governor's reduction as proposed. No issues have been raised.

ISSUES FOR DISCUSSION—HEALTH CARE SERVICES

1. Hospital Outpatient Services Fee Schedule—*Oversight Issue*

Issue. Constituency groups have expressed continued concerns with the Department of Health Care Services (DHCS) regarding the need for the DHCS to update the Medi-Cal published hospital outpatient fee schedule and website.

Presently the DHCS published schedule is considerably out-of-date and inaccurate. Though there is an addendum to this schedule which is used to calculate adjustments, it is typically not used by health care providers who need to reimburse the hospitals, or can be confusing on how the calculation should be done.

As such, hospitals contend the out dated hospital outpatient reimbursement schedule has resulted in reimbursements to them by managed care plans which are 40 percent less than what they should be receiving. Many hospitals are forced to litigate or appeal the incorrect reimbursement which only adds to the administrative burden of both the plans and hospitals which translates into increased costs.

This issue could be easily remedied if the DHCS appropriately updated its published Medi-Cal schedule for hospital outpatient rates.

Background—Posting of Reimbursements. The DHCS administers the Medi-Cal Program. As such, they publish a hospital outpatient fee schedule for use in reimbursing hospitals for those services on a Fee-for-Service basis. Additionally, many health care plans participating in the Medi-Cal Managed Care Program and Healthy Families Program, when applicable, utilize the same fee schedule when reimbursing providers both on a contract and non-contract basis. Typically, health care plans participating in Medi-Cal Managed Care Program and the Healthy Families Program contract and reimburse hospitals based on a multiple of the Fee-for-Service schedule.

Medi-Cal presently uses an *addendum* to make adjustments to the fee schedule based upon periodic changes, in lieu of publishing an updated overall schedule.

Subcommittee Staff Comment. The DHCS should be able to inform the Subcommittee as to when an updated published schedule can be provided.

The DHCS is *not* serving as a good business partner in administering the program here. The Orthopaedic Settlement Agreement which increased hospital outpatient rates was in effect as of the 2001 fiscal year. Specifically the Settlement increased hospital outpatient rates by 30 percent in 2001-02, 3.3 percent in 2002-03; 3.3 percent in 2003-04; and 3.3 percent in 2004-05. However, this information is shown as an addendum and is not included in the published schedule. The DHCS should have updated this schedule *several years* ago. This issue has no General Fund effect.

Questions. The Subcommittee has requested for the DHCS to respond to the following questions.

1. DHCS, When will the published schedule for hospital outpatient rates be completed?

ISSUES FOR DISCUSSION—DEPARTMENT OF MENTAL HEALTH

1. Mental Health Services Oversight & Accountability Commission--Technical

Issue and Subcommittee Staff Recommendation. Presently the Mental Health Services Oversight & Accountability Commission (OAC) is budgeted within the Department of Mental Health's Headquarters support item within the annual Budget Bill.

Subcommittee staff recommends establishing a separate display item within the annual Budget Bill for the OAC to better track the OAC's resources separate and apart from the DMH's Headquarters administration.

Background—Mental Health Services Oversight & Accountability Commission (OAC). 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. Members of the OAC are appointed by the Governor, Speaker of the Assembly, and the Senate Rules Committee.

Through the Executive Director of the OAC (Ms Jennifer Clancy), the OAC adopted a two-year work plan that provides a road map to effectively implement the OAC's statutory responsibilities. **Key responsibilities of the OAC include the following:**

- Provide the vision, leadership, and oversight necessary to prevent mental illness from becoming severe and disabling and transform the public and private systems charged with providing services, care, and support to California's living with mental illness.
- Ensure public *transparency* in all aspects of the Mental Health Services Act (Act) implementation, including planning, implementing, evaluating, and program and quality improvement.
- Advise the Governor and Legislature regarding actions the state may take to improve care and services for individuals experiencing mental illness.
- Provide oversight over the Act and ensure accountability to the intent and purpose of the Act through: **(1)** review and comment on *all* county plans for following the components of the Act; *and* **(2)** review and approve *all* county program expenditures using Mental Health Services Funds.
- Oversee the implementation of the Act's (1) Part 3—Community Services and Supports; (2) Part 3.1—Education and Training; (3) Part 3.2—Innovative Programs; and (4) Part 3.6—Prevention and Early Intervention.
- Identify critical issues related to the performance of County Mental Health programs and refer the issues to the Department of Mental Health
- Develop and promote a statewide policy agenda that promotes a public mental health system prepared to reduce the long-term adverse impact on individuals, families, and state and local budgets resulting from untreated mental illness.

Question. The Subcommittee has requested a response to the following question.

1. **DOF**, Can you readily establish a separate display item for the OAC?

2. Mental Health Services Act (Proposition 63)—Housing Initiative (Flow Chart)

Issue. The Subcommittee is in receipt of a Finance Letter informing the Legislature of the Administration's intent to allocate funding for the capital costs associated with development, acquisition, construction, and/or rehabilitation of permanent supportive housing for individuals with mental illness.

Working with the Mental Health Services Oversight & Accountability Commission, the Department of Mental Health (DMH), and the California Mental Health Directors Association (CMHDA), participating counties have identified a total of $400 million (Mental Health Services Act—Proposition 63 Funds) to allocate for the Housing Initiative. The funds to be used for this purpose are MHSA—Proposition 63 Funds from within the local assistance area which are continuously appropriated and are not subject to the annual Budget Act appropriation process.

According to the information provided, $300 million is to be made available in the current year and $100 million will be made available for 2008-09.

The DMH has released several "Informational Notices" to involved parties, including the County Mental Health Plans, regarding guidelines, housing application requirements, and related materials. Regulations have also been issued by the DMH regarding certain components of the Housing Initiative.

The California Housing Finance Agency (CalHFA) is also playing an instrumental role in the Housing Initiative. An interagency agreement with CalHFA and the DMH is presently being finalized. Under this agreement, CalHFA will underwrite load requests, disburse funds, and monitor the assets (See Flow Chart).

The Department of Finance and DMH are in the process of establishing a "Non-Budget Act" special deposit fund into which the $400 million (MHSA--Proposition 63 Funds) from the counties will be deposited.

The Administration states that once this Finance Letter is approved, to allow for the mechanism to shift funds from the counties to the state for the Housing Initiative, no additional action by the Legislature is required to implement this program.

Therefore, Subcommittee staff believes it would be beneficial to implement certain oversight requirements in order to track the program from both a fiscal perspective as well as outcomes perspective.

Background—Overview of the Housing Initiative. A portion of the Mental Health Services Act Funds (MHSA Funds) can be used for capital facilities to support community-based integrated services for clients and their families. Capital facilities can include housing and other buildings that enable mental health clients and their families to live in the most independent, least restrictive housing possible in their community and to receive services that support wellness, recovery and resiliency.

Specifically, the Housing Initiative offers permanent financing and capitalized operating subsidies for the development of permanent supportive housing, including both rental housing and shared housing for individuals who meet the MHSA target population description. Permanent loan proceeds may be used for allowable costs associated with the acquisition and development of property, including reimbursing the developer for predevelopment costs and acquisition costs. Permanent loans will be secured against the property and the improvements by a promissory note, a deed of trust and a regulatory agreement.

To receive funds under the Housing Initiative, each county must have a fully executed performance contract authorizing the state to administer this program on its behalf. Each county must submit a Housing Application to their Board of Supervisors, and both the DMH and CA Housing Finance Agency (CalHFA). Once the application is approved by these parties, the funds are released by CalHFA to the housing developer for the project to commence.

Subcommittee Staff Recommendation—Adopt Oversight and Monitoring Language.
First, it is recommended to approve the Finance Letter to commence with full implementation of the Housing Initiative.

Second, it is recommended to require the Administration to annually display the Fund Condition Statement of the "Non-Budget Act" special fund (i.e., MHSA Housing Support Account) in the Governor's annual budget summary released on January 10th of each year. This will enable the Legislature to track the flow of the funds. **The following Budget Bill Language is recommended for this purpose:**

> Item 4440-001-3085
>
> "Provision 3. The department shall annually provide to the Department of Finance a Fund Condition Statement for the Housing Support Account (special deposit account number 0942215-4450-1945-601) which shall be annually published in the Governor's January 10th budget summary. It is the intent of the Legislature to utilize this information to track the fiscal allocations made for the Housing Initiative Program as established under the Mental Health Services Act."

Third, it is recommended to require the Department of Mental Health, in collaboration with the CA Housing Finance Agency (CalHFA) to provide semi-annual updates to the Legislature on the progress and results of the $400 million being expended for the Housing Initiative Program. **The proposed trailer bill language is as follows:**

> "The Department of Mental Health, in collaboration with the California Housing Finance Agency, shall provide the fiscal and policy committees of the Legislature with semi-annual updates regarding key results and funding for the capital costs associated with development, acquisition, construction, and/or rehabilitation of permanent supportive housing for individuals with mental illness as provided for under the Housing Initiatives Program as administered by the state. These semi-annual updates shall commence as of July 1, 2008 and shall be provided to the Legislature as noted within 30-days after the end of the first and third quarters of each fiscal year thereafter. "

Questions. The Subcommittee has requested a response to the following questions.

1. DMH, Please provide a *brief* summary of the Housing Initiative with respect to the current year and budget year developments.

3. San Mateo Pharmacy and Laboratory Services Project—Several Issues

Issues. *First,* the Administration is proposing several fiscal adjustments to the San Mateo Project. These adjustments are as follows:

- Provides $8.7 million (General Fund) to complete the payment of prior years' claims which were owed to San Mateo by the DMH. This consists of $3.6 million (General Fund) for 2004-05 and $5.1 million (General Fund) for 2005-06.
- Adjusts the 2007-08 (current year) due to interactions with federal Medicare Part D pharmacy costs. Specifically, $3.1 million ($1.6 million General Fund) is being reduced due to pharmacy cost shifts to the federal Medicare Part D Program. This $1.6 million (General Fund) is being redirected to offset the prior year costs (as shown above).
- Adjusts the 2008-09 pharmacy estimate by $2.9 million ($1.5 million General Fund). This $1.5 million (General Fund) is being redirected to offset the prior year costs (as shown above).
- Reduces by $928,000 ($464,000 General Fund) to reflect the Governor's proposed 10 percent across-the-board reduction for 2008-09.

Second, at the request of the Legislature, the Office of Statewide Audits and Evaluations (OSAE) conducted a review of the DMH's administration of this program. Key observations and findings of this OSAE review, released in June 2007, include the following:

- There was a lack of DMH oversight over costs, including pharmacy expenditures, laboratory expenditures and pharmacy rebates.
- There was inadequate assessment by the DMH of the federal Medicare Part D Program impacts.
- The program estimate prepared by the DMH lacks essential user and service level detail.
- The DMH did not assess the program for cost effectiveness.

The OSAE recommended for the DMH to *significantly* increase its oversight of the program and to conduct a detailed assessment of the program from a fiscal perspective.

As recommended by OSAE, the Legislature required the DMH to report back regarding an Action Plan to implement fiscal reforms regarding the San Mateo Project. The DMH provided their report to the Legislature as of January 2008.

As noted in the DMH fiscal reforms report, they adopted five goals in their action plan as follows:

- Recraft the budget estimate with objectives for ensuring fiscal accuracy.
- Assure that the current quality of care measures for San Mateo enrollees served by the program are met and continued.
- Ensure that the state and county have shared fiscal accountability and responsibility.
- Provide the public and policy makers with information regarding best practices for the project.

- Foster a more comprehensive relationship and participation between the DMH and the DHCS, as well as with San Mateo to implement all corrective actions.

Third, the Legislature also required the DMH to provide a report by March 1, 2008 regarding

This report is needed for it would assist the Legislature and constituency groups to craft policy regarding an important program.

<u>Background—What is the San Mateo County Project?</u> The San Mateo County Mental Health Plan (San Mateo) began as a "field test" in April 1995 by assuming responsibility for both psychiatric inpatient hospital services and outpatient specialty mental health services. In 1998, it began a second phase of the field test which involved taking on responsibility for the management of financial risk through a case management rate system and management of the pharmacy and related laboratory services prescribed by its psychiatrist network.

The San Mateo MHP continues to be the <u>only</u> Mental Health Plan to cover pharmacy and related laboratory services. The San Mateo MHP claims federal funds for pharmacy and laboratory services on a fee-for-service basis via a monthly invoicing system.

<u>Subcommittee Staff Recommendation—Approve Budget and Adopt Language.</u> *First*, it is recommended to approve all of the budget adjustments, including the prior year payments and the Governor's 10 percent reduction.

Second, it is recommended to adopt the following trailer bill language to ensure an appropriate transition for the San Mateo Project since the contract between the DMH and the county expires as of June 30, 2008. The proposed language is as follows:

> "The Department of Mental Health shall confer with San Mateo County, relevant constituency groups, and the Department of Health Care Services to appropriately craft a transition plan to ensure the continuity of care for mental health clients in the event the state's contract for the services provided under the San Mateo Pharmacy and Laboratory Project are substantially modified or transitioned to the Department of Health Care Services. The Department of Mental Health shall provide the fiscal and policy committees of the Legislature with a status update regarding the development of a transition plan by no later than December 31, 2008.

Subcommittee staff believes this language is necessary since the contract between the DMH and San Mateo expires as of June 30, 2009 and because the Legislature has not received the March 1, 2008 report which would have provided more information to craft future policy for the program.

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

1. DMH, Please provide a *brief* summary of the proposed fiscal adjustments.
2. DMH, Please provide a *brief* update on the status of the DMH's action plan for implementing fiscal reforms.
3. DMH, When will the report on potential policy changes which was due to the Legislature as of March 1, 2008 be provided?

ISSUES FOR DISCUSSION—PUBLIC HEALTH

1. Licensing & Certification: Implementation of Senate Bill 1312 (Alquist), 2006

Issue & Prior Subcommittee Hearing Action. In the Governor's budget, the DPH is requesting an increase of $8.7 million (L&C Fees) to support 68 new state positions and augment a contract with Los Angeles County (as is always done) to continue implementation efforts associated with SB 1312 (Alquist), Statues of 2006. The amount proposed for the Los Angeles County contract is $985,000 (L&C Fees).

In the Subcommittee hearing of April 28th, the Chair directed the DPH to provide the Subcommittee with a revised proposal for the continued implementation of SB 1312 (Alquist), Statutes of 2006.

Specifically, the Subcommittee requested the DPH to recalculate the number of additional staff positions required for implementation using the standard state productivity hours of about 1,800 annually versus the 1,364 personnel hours as previously used by the L&C Division for several years.

In addition, the L&C Division made a commitment to the Chair to have all 17 Field Offices follow the state requirement process whereby substantiated complaint and facility reported events may result in a state citation. Presently seven (7) of the 17 Field Offices use the federal enforcement process where substantiated complaints are assessed a federal "scope and severity" finding for a facility.

As such the positions were to be adjusted to reflect the revised workload assumption, as well as the L&C Division's commitment to have a consistent statewide process for implementation including an adjustment for the Los Angeles County contract.

Based on this direction, using the revised workload level (i.e., 1,800 hours) as directed by the Subcommittee, the number of additional DPH L&C Division positions is reduced from the proposed 68 new positions to a total of 47.7 positions (31.9 Health Facility Evaluator Nurses, 6.9 Supervisors, 6.9 survey support staff, and two administrative support positions).

Further, the Los Angeles contract amount would be increased from the original proposal of $985,000 (L&C Fees) to a total of $2.946 million (L&C Fees) based on the fact that the majority of the surveys in the county follow the federal survey process and need to follow the state survey process.

Therefore, using the revised re-costing of the proposal as directed by the Subcommittee from the April 28th hearing, the DPH proposal would reflect a total increase of $8.4 million (L&C Fees) versus the original proposal of $8.7 million (L&C Fees). This represents a reduction of about $458,000 (L&C Fees) and strives to more fully meet the intent of SB 1312, Statutes of 2006.

Background--Budget Act of 2007. A total of 16 positions, including ten surveyor positions were provided to the DPH to begin implementation efforts. In addition, trailer bill language was adopted at the Administration's request to provide further clarification regarding implementation of SB 1312.

Background—Senate Bill 1312 (Alquist), Statutes of 2006. Prior to the passage of SB 1312, long-term care health facilities that were certified to participate in the Medi-Cal

Program were *exempt* from periodic state licensing inspections. SB 1312 removed that exemption.

SB 1312 requires the DPH to inspect all licensed long-term care health facilities to ensure compliance with state laws and regulations to the extent that those standards provide greater protection to residents or are more precise than federal standards. All long-term care health facilities must be surveyed once every two years. However, a long-term health facility that has received a class “AA”, “A” or “B” citation for non-compliance with state law or regulation within the last 12 months must be surveyed annually.

To ensure maximum effectiveness of inspections conducted, SB 1312 also mandated the L&C Division to identify all state law standards for staffing and operation of long-term care health facilities.

Background—Federal and State Aspects. The survey protocols for conducting a federal *certification* survey are prescribed by the federal CMS. The DPH surveyors are “graded” for compliance with those protocols by periodic and direct observations by the federal CMS specialists. The DPH performance is measured by the average length of time taken for the federal survey, the timeliness of submitting the survey findings to the facility, and the timeliness of obtaining an acceptable plan of correction.

The federal CMS does *not* permit violations of *state licensing* standards to be included in the federal certification survey documents. Failure to comply with federal standards can jeopardize the federal grant funds the state receives for the L&C Division.

Subcommittee Staff Recommendation. First, Subcommittee staff wants to acknowledge the responsiveness of the Licensing and Certification Division in providing the Subcommittee with factual and timely information.

Second, based upon the information received the following recommendations are proposed:

- Approve a total increase of only $8.406 million (L&C Fees) to support a total of 47.7 positions at the DPH in the Licensing and Certification Division and to provide $2.946 million for the Los Angeles County contract; and
- Adopt trailer bill language to codify the need for consistent implementation between the 17 Field Offices as administered by the DPH.

  The proposed trailer bill language is as follows:

  > Amend Section 1279 of Health and Safety Code by adding a new (h) as follows:
  >
  > The department shall emphasize consistency across the state and its district offices when conducting licensing and certification surveys and complaint investigations including the selection of state or federal enforcement remedies in accordance with Section 1423 of the Health and Safety Code. The department may issue federal deficiencies and recommend federal enforcement actions in those circumstances where they provide more rigorous enforcement action.

Questions. The Subcommittee has requested a response to the following question.

1. DPH, Please comment on the proposed changes, and are they workable?

2. Governor's Reductions to Various Programs Serving Teens—Local Assistance

Issue. The Governor is proposing reductions in several programs which serve to (1) mitigate teen pregnancy and unintended fatherhood; (2) provide information and education regarding reproductive health services; (3) develop life skills and sense of self-accountability; and (4) make conduct outreach to individuals at high risk for pregnancy and sexually transmitted infections. The Governor's reductions are shown in the table below.

Governor's Proposed Reduction to Programs Serving Teens

Public Health Program	Governor's Reductions 2008-09	Potential Affect of Reduction According to DPH
1. Adolescent Family Life Program (AFLP). The AFLP operates in 37 counties and serves about 18,000 pregnant and parenting teens annually. AFLP goals are to promote healthy birth outcomes for pregnant teens, prevent low-weight and premature births, completion of high school, and to mitigate future unintended pregnancies. Teens are referred to AFLP through high schools, hospital emergency rooms, churches, county social service agencies and other organizations. AFLP case managers work with each teen and develop an Individual Service Plan to meet the needs of that teen. The AFLP has had independent analysis conducted and has shown to be cost-beneficial.	-$1.194 million GF	This proposal would reduce the number of pregnant and parenting teens accessing local programs by about 1,100 teens. DPH states that 41 local assistance contracts would be reduced by about six percent each. (Los Angeles County is served by multiple contractors.)
2. Information & Education Project Grants. DPH has 27 grantees which serve 75,000 teens and parents/caregivers annually. The grantees provide teens with mentoring, referral to reproductive health services, and provide information to develop life skills and sense of self-accountability. This program presently receives $1.2 million (General Fund).	-$159,000 GF	An estimated 5,000 teens and parents of teens will not receive services.
3. Teen Smart Outreach. DPH has 21 grantees in this program that focus on teens that are at high risk for pregnancy and sexually transmitted infections. Outreach workers also focus on removing barriers for teens to access comprehensive reproductive health services. About 154,000 teens are annually served. This program presently receives $1.8 million ($900,000 GF).	-$182,000 (-$91,000 GF)	An estimated 30,000 teens would not receive services.
4. Male Involvement Program. DPH funds 21 grantees for the Male Involvement Program which serves about 30,000 adolescents and young males annually. Grantees provide program activities aimed to increase the involvement of young males in the prevention of teen pregnancy and unintended fatherhood. A variety of settings are used including mainstream and alternative schools, social services agencies, and youth centers.	-$115,000 GF	An estimated 2,400 young men will not receive services.
TOTAL REDUCTION	-$1.650 million (-$1.459 million GF)	

Legislative Analyst's Office. The LAO did *not* include these reductions in her alternative budget. The LAO was concerned that these reductions would result in reductions to services.

Subcommittee Recommendation—Hold Open. It is recommended to hold this issue open pending receipt of the May Revision.

Questions. The Subcommittee has requested a response to the following questions.

1. **DPH**, Please *briefly* describe the base program funding level for each program, and the proposed reductions to each as contained in the table above.
2. **DPH**, What are the potential affects of these reductions on services and their potential for increasing unintended pregnancies?
3. **DPH**, Have the above programs been evaluated and are they cost-beneficial to the state?
4. **DPH,** Could additional federal funds or other funding sources be used for these programs?

3. Governor's Reduction to Black Infant Health Program

Issue. The Governor is proposing a reduction of $390,000 (General Fund), or 10 percent of the General Fund amount, to the Black Infant Health Program for 2008-09.

Presently the Black Infant Health Program receives a total of $8.2 million ($3.9 million General Fund and $4.3 million federal Title V Maternal & Child Health Funds). The Governor's reduction would reduce this to a total of $7.8 million (total funds).

Presently the Black Infant Health Program serves about 13,900 clients annually.
The Governor's proposed reduction would result in 556 clients not receiving services and may result in low birth weight outcomes or infant mortality.

The program supports the development of projects that evaluate and refine culturally competent, effective models of practice in the areas of case management, health behavior modification, prenatal care outreach, prevention, the role of men and social support. Under the program clients are provided extensive services including:

- Case management;
- Health assistance;
- Educational services including medical, psychosocial, prenatal, and substance abuse;
- Information on nutritional services, including WIC referral; and
- Information on child care, affordable housing, and job training;

It should be noted that a 2001 San Diego State University epidemiological evaluation of the Black Infant Health Program suggested that the program is improving birth outcomes by decreasing the number of very low birth weight infants.

Background—Black Infant Health Program (BIH Program). Senate Bill 165 (Alfred E. Alquist), Statutes of 1989, established this program to address concerns regarding infant mortality for African American women in California. Since this time, the program has expanded to include 17 local health jurisdictions.

The BIH Program is located in local health jurisdictions where over 90 percent of all African American births and infant deaths occur. Between 1997 and 2006, the BIH Program has served 25,304 women, their children and 828 male partners.

The BIH Program serves a high risk population as compared to other populations. Clients of the BIH Program are:

- More likely to have an unintended pregnancy (82 percent for BIH clients versus 60 percent for African American mothers in California);
- Less likely to begin prenatal care during the first trimester of pregnancy;
- More likely to be very low-income and single mothers; and
- Over one-third of women participating in the BIH Program receive cash assistance.

Subcommittee Staff Recommendation—Restore Funding with Federal Funds. Health disparities within the African American population continue to be of significant concern. The Black Infant Health Program is one of the few state programs that directly addresses health disparities within the African American population.

Therefore, it is recommended to provide $390,000 in federal Title V Maternal and Child Health Funds to backfill for the Governor's proposed General Fund reduction and to fully fund the Black Infant Health Program at is current level.

Subcommittee staff recommends the following adjustments to obtain the $390,000 (federal Title V Maternal and Child Health Funds) for purposes of this funding shift:

- Shift $40,000 (federal Title V MCH Funds) from the Perinatal Profiles Report to the CA Health Planning & Data Fund (Fund number 0143). This would be consistent with the entire funding for this MCH Perinatal Outcomes project which is presently funded using this other special fund.

- Reduce the Maternal Morality Project, established in 2006 by the Administration, by $150,000 (Title V MCH Funds). This project would continue to receive $675,000 in funding for 2008-09 based on this reduction. This project analyzes maternal deaths in California with the focus on identifying opportunities for improvements and systems change. Possibly the DPH can encourage some foundation support for this data analysis project in the longer term.

- Reduce the state operations within the Maternal, Child & Adolescent Health Division by $200,000 (Title V MCH Funds). This Division has a total of 84 state staff positions, even with the Governor's ten percent General Fund reduction of $263,000 (General Fund) which deleted one position. The $200,000 reduction is to be taken from any combination of state positions and operating expenses, but not contracts, in order to provide the Administration with flexibility. Presently, a total of $9.8 million (federal Title V MCH Funds) is used for state support. The intent of this action is to prioritize limited resources.

This recommendation still captures the General Fund savings proposed by the Governor but maintains the funding for this vital program.

Questions. The Subcommittee has requested a response to the following questions.

1. **DPH**, Please provide a brief description of the Governor's reduction.

2. **LAO**, Do you have any comment?

4. Governor's Reduction to Tuberculosis (TB) Disease Control

Issue. The Governor is proposing a reduction of $748,000 (General Fund), or 10 percent, to state funding provided to Local Health Jurisdictions and others for Tuberculosis (TB) Control activities. Presently the state provides about $7.5 million (General Fund) for local TB Disease control efforts.

Specifically, the DPH is proposing to implement the *$748,000 (General Fund*) reduction as follows:

- Reduce by $600,000 (General Fund) the amount provided to Local Health Jurisdictions. This would leave $5.4 million (General Fund) remaining to be allocated for local infrastructure, direct care, outbreak investigations and contact investigations.

- Reduce by $89,500 (General Fund) for food and shelter programs providing assistance to homeless patients with active TB Disease. This would leave $805,500 remaining for this purpose.

- Reduce by $57,500 (General Fund) the Civil Detention Program. This would leave $517,500 remaining for this purpose.

Background—Tuberculosis Control. Presently, the DPH provides assistance through three programs as follows:

- *Local Assistance Awards ($6 million General Fund).* These funds are primarily provided to Local Health Jurisdictions by the DPH. It supports local infrastructure, direct care, outbreak investigations, and contact investigations.
- *Food and Shelter for TB Individuals ($895,000 General Fund).* These funds support local programs that target homeless patients with active TB Disease. The program provides for basic needs, ensuring that the lengthy treatment can be completed that the spread of TB in the community is limited. Funding is provided to high incidence jurisdictions (i.e., Los Angeles, San Francisco, Sacramento, San Joaquin, and Alameda counties).
- *Civil Detention Program ($575,000 General Fund).* These funds are provided to Local Health Jurisdictions for the secured treatment of persons with active TB Disease who cannot complete treatment independently and pose a risk to the health of the public.

It should be noted that TB Disease control is a joint responsibility of the state, as well as Local Health Jurisdictions.

Legislative Analyst's Office—Reject the Governor's Reduction. The LAO recommends rejecting this reduction because it poses a public health risk.

Subcommittee Staff Recommendation—Reject Governor's Reduction & Restore. Subcommittee staff concurs with the LAO and recommends rejecting this proposal. There has been increased public health concerns regarding the increased incidence of TB Disease as well as drug-resistant strains and non-compliant, TB infected individuals.

Questions. The Subcommittee has requested a response to the following questions.

1. **DPH**, Please provide a brief description of the Governor's proposed reduction.

<u>5. Governor's Reductions to Immunization Programs—*Three Issues*</u>

<u>Issues.</u> The Governor is proposing several reductions to the state's immunization programs. A total reduction of $2.133 million (General Fund) is proposed to *three areas* as follows:

- ***<u>1</u>***<u>*. Reduction to Local Infrastructure for Immunization Program.*</u> Presently a total of $39.4 million ($9.7 million General Fund and $29.7 million federal funds) is appropriated for this area as described in the background section below.

  The Governor is proposing a reduction of *$970,000 (General Fund)*, or a 10 percent reduction to the General Fund component of the program. The DPH intends to make this $970,000 (General Fund) reduction by reducing each contract component to the program as follows:

  - Reduce Local Assistance Awards by $220,000 (General Fund);
  - Reduce Community Health Center Awards by $350,000 (General Fund); and
  - Reduce Collaborative Awards by $400,000 (General Fund)

- ***<u>2</u>***<u>*. Reduction to State-Funded Vaccine Program*</u>. A reduction of $813,000 (General Fund) for the purchase of vaccines through the State-Funded Vaccine Program is proposed. This program is used to provide influenza vaccine and other adult vaccines as described below under the background section on vaccine programs.

  The DPH states that the amount of vaccines purchased under this program would be reduced by 60,000. The Administration contends this reduction would have minimal impact on services since only 80 to 95 percent of vaccines distributed under this program are utilized annually. They state that incomplete usage of state purchased vaccine is due to many factors but primarily due to influenza vaccine demand. This demand is hard to anticipate and is affected by timing of vaccine availability and public perception of the influenza season (it varies).

- ***<u>3.</u>*** <u>*Reduction to Local Immunization Registry Project.*</u> The Governor is also proposing a reduction of $476,000 ($350,000 General Fund), or 10 percent of the General Fund, to this registry project. Specifically, the state funds nine regional immunization registries to capture and consolidate all of a child's immunization information and provide a complete immunization record for parents. In addition, the registry assists providers with changing immunization schedules and tracking children through the health care system.

<u>Background on Local Infrastructure for Immunization Program ($9.7 million General Fund and $29.7 million Federal Funds).</u> The DPH provides both General Fund support and federal funding to Local Health Jurisdictions, community health centers and for overall collaborative efforts. These funds are to be used for the following purposes: (1) vaccine management and accountability; (2) provider quality assurance; (3) Perinatal Hepatitis B prevention; (4) epidemiology and surveillance; (5) population assessment; and (6) education, information, and training.

The General Fund amount for this program is presently $9.7 million (General Fund), and the federal CDC grant funds are $29.7 million (federal funds) which are appropriated to the DPH for allocation.

According to the DPH, the $9.7 million in *General Fund support* is allocated as follows:

- *<u>Local Assistance Awards--$2.2 million (General Fund).</u>* These funds are used by Local Health Jurisdictions and some community-based organizations to support local immunization infrastructure including service delivery, disease surveillance, education activities, and outbreak control.

- *<u>Community Health Center Awards--$3.5 million (General Fund).</u>* These funds are used by community health centers to support local immunization programs efforts to reduce barriers to immunization including funds to extend clinic hours and express immunization clinics. These funds are awarded through a competitive process. These funds are intended to supplement existing efforts and to bring children ages 2 to 4 years up to date on their immunizations. Seventy-five (75) awards were provided in the current-year. *No federal funds are available for this purpose.*

- *<u>Collaborative Awards--$4 million (General Fund).</u>* These funds are used to support collaborative efforts of two or more community, public, and private clinics to develop methods aimed at improving immunization rates and reducing barriers to immunization. The collaborative funding focuses on increasing outreach and direct services to the most underserved and hard-to-reach populations in California. It requires organizations to create partnerships to complete these goals. Twenty-five (25) collaborative projects were awarded in the current-year. *No federal funds are available for this purpose.*

According to the DPH, the $29.7 million in *federal fund support* (federal CDC grant) is allocated as follows:

- $14 million (federal funds) is allocated by the DPH to support immunization programs at the local level, including the 6 areas listed above regarding infrastructure, as well as direct services. These funds are mainly allocated to Local Health Jurisdictions based on population and need.

- $15.7 million (federal funds) is allocated by the DPH for non-profit contracts to coordinate activities of the Local Health Jurisdictions. These funds pay for field staff at the local level that visit provider offices for technical support, training and quality assurance, and provide support to Local Health Jurisdictions.

Background on Vaccine Programs. The DPH provides vaccine to both public and private providers throughout California. The allocation of vaccines received by the public sector is dependent upon population size and historical usage. Vaccine allocations for private providers are dependent upon their eligible patient populations. The majority of the vaccine purchased is given to children 18 years of age and younger.

Vaccine is purchased from three sources, primarily from two federal programs under the auspices of the federal Centers for Disease Control and Prevention (CDC). Each of these is briefly described below:

- *State Funded Vaccine Program*. The DPH utilizes a small amount of General Fund support to purchase vaccines for public sector providers. Presently, a total of $8.130 million (General Fund) is appropriated for this purpose. Of this amount, $6.4 million is used to purchase influenza vaccine for persons recommended to receive it under national guidelines, especially the elderly. About $1.7 million is used to purchase other adult vaccines, including those against infection with Hepatitis A virus, Hepatitis B virus, tetanus, Diphtheria and Pertussis. It should be noted that the DPH has flexibility in what it chooses to purchase, based on needs identified.

- *Federal Vaccine for Children Program.* Under this federal entitlement program, vaccines are distributed to about 4,500 public and private providers, including community health centers, in California. The DPH anticipates that $363.1 million (federal funds) will be available from the federal CDC in 2008. It should be noted that these funds are not actually appropriated to the DPH but instead, purchase requests are made against the federal allocation. Vaccines are shipped directly to public and private providers by a central contractor of the federal CDC.

  These vaccines are administered to children who are 18 years or younger and are:
  - Eligible for Medi-Cal or,
  - Have no health insurance, or
  - Are American Indian or Alaskan Native.

- *Federal Public Health Service Immunization Grants ("317 program").* This is a discretionary federal grant program which provides vaccines to underinsured children and adolescents not served by the federal Vaccines for Children Program. Vaccines purchased with these federal funds go only to public sector providers. The DPH anticipates receiving $33.8 million (federal funds) of these funds. However, funding is not actually appropriated to the DPH, purchase requests are made against the allocation and vaccines are shipped directly to public providers.

Legislative Analyst's Office—Approve Governor's Reduction. The LAO raised no issues regarding the Governor's proposed reductions and she did include all three of them in her alternative budget.

<u>Subcommittee Staff Recommendation—Modify Governor's Reduction.</u> First, it should be noted that the DPH is not fully expending the federal CDC grant funds for Local Infrastructure for Immunization Program. Based on information obtained from the Administration, the amount of *unexpended* funding for these contracts during the past three years is as follows:

Administration's Unexpended Funds—Local Infrastructure for Immunization

Fiscal Year	Unexpended General Fund	Unexpended Federal Funds
2006-07	$245,580	$2,788,549
2005-06	$220,042	$1,731,554
2004-05	$224,564	$3,816,839

The DPH notes that they have about 85 local assistance contracts in this area, including 59 contracts with Local Health Jurisdictions. They state that while each contractor is expected to spend their full allocation, not all contractors are able to do that each year. A couple of the primary reasons Local Health Jurisdictions return funds are an inability to fill positions and insufficient time to carry out campaigns or projects.

Subcommittee staff also notes that federal funds are available for the Local Health Jurisdictions, as noted by the DPH, but not for the Community Health Center Awards or for the Collaborative Awards. Subcommittee staff contends that the DPH has flexibility in prioritizing the $29.7 million (federal funds) it receives from the federal CDC with regards to Local Infrastructure for Immunization Program and can choose to increase funding for Local Health Jurisdictions if desired.

Therefore, in an effort to capture limited General Fund resources and to prioritize direct services, the following recommendations are proposed:

- Eliminate the entire $2.2 million (General Fund) amount under the Local Infrastructure for Immunization Program provided to Local Health Jurisdictions since federal funds are available for this purpose *and* not all federal CDC funds are being spent each year by the DPH. The DPH could use any portion of the $15.7 million (federal funds) it presently uses for non-profit contracts for this purpose.

- Reject the Governor's reductions to the Community Health Center Awards and Collaborative Awards since these areas do not receive federal funds for this purpose and are generally serving more disadvantage communities with these limited dollars.

- Adopt the Governor's reduction to the State's Vaccine Program, as recommended by the LAO, since only 80 to 95 percent of the vaccines are used annually and the Governor's reduction represents less than 1 percent of the estimated doses.

- Adopt the Governor's reduction to the Immunization Registry, as recommended by the LAO.

<u>Questions.</u> The Subcommittee has requested a response to the following questions.

1. **DPH**, Please provide a brief description of the proposed three reductions.

6. State Support to Local Health Jurisdictions for Pandemic Influenza

Issue. The Governor is proposing a *net increase* of $6.9 million (General Fund) to Local Health Jurisdictions for pandemic influenza and emergency preparedness. This proposed *net* increase consists of a $8.5 million (General Fund) restoration, coupled with a $1.6 million (General Fund) reduction to reflect the Governor's 10 percent reduction proposal.

Specifically, the Budget Bill of 2007 had provided a total of $15.6 million (General Fund) to Local Health Jurisdictions for emergency preparedness activities, primarily related to pandemic influenza preparation. However, the Governor vetoed $8.5 million of this amount, leaving $7.1 million (General Fund) in the current year (2007-08).

Legislative Analyst's Office Recommendation—Delete Augmentation. The LAO recommends deleting the $6.9 million (i.e., net increase) due to the fiscal crisis. There is no need to provide funding above the current year amount.

Assembly Subcommittee #1 Action. The Assembly adopted the LAO recommendation to delete the $6.9 million (General Fund) augmentation. This action was taken in their April 7th hearing.

Federal Funding Available to Local Health Jurisdictions and Hospitals. Under federal law there are two *key* funding streams made available to California—one from the federal Centers for Disease Control (CDC), and one from the federal Health Resources and Services Administration (HRSA). The federal CDC grant is in support of state and local public health measures to strengthen the state against bioterrorism. California allocates 70 percent of the CDC grant funds to support local public health jurisdictions and DPH state operations within the remaining 30 percent. Among other things, the HRSA grant has provided funding for over 300 of California's approximately 400 hospitals to purchase medical supplies and equipment such as pharmaceutical caches, personal protective equipment, communications equipment, cots, emergency generators, and isolation capacity systems.

Based on the most recent Department of Public Health report, as of December 2007, the following local federal fund award summary is provided (*includes Los Angeles*):

Department of Public Health's Summary of Federal Centers for Disease (CDC) Funds to Locals

Fiscal Year	Grant Amount	Total Paid	Balance
2007-08	$74.4 million	$6.7 million	$67.6 million
2006-07	$98 million	$71.3 million	$26.8 million
2005-06	$78.5 million	$72.3 million	$6.1 million
TOTALS	**$250.8 million**	**$150.3 million**	**$100.5 million**

Department of Public Health's Summary of Federal Hospital Preparedness Funds to Locals

Fiscal Year	Grant Amount	Total Paid	Balance
2007-08	$32.6 million	$72,700	$32.6 million
2006-07	$49.6 million	$22.9 million	$26.7 million
2005-06	$37.8 million	$37.3 million	$501,400
TOTALS	**$120.1 million**	**$60.3 million**	**$59.8 million**

With respect to the above tables, the DPH notes that these figures include Los Angeles which receives funds directly from the federal government, and that federal awards to states were issued late for 2007-08.

However the fiscal information does illustrate the level of funding that Local Health Jurisdictions and related local entities have received for emergency preparedness efforts.

In addition, the DPH utilizes about $32 million (total funds) and 88 positions annually for various emergency preparedness efforts. The state also made considerable investments in 2006 regarding the Surge Initiative and the expenditure of tens of millions for three Mobile Hospitals, alternative site beds, pharmaceuticals, medical supplies, ventilators and related emergency preparedness equipment, personnel and activities.

<u>Subcommittee Staff Recommendation—Eliminate General Fund Support.</u> It is recommended to eliminate all General Fund support for a reduction of $14 million (General Fund) for 2008-09. (This accounts for the net increase of $6.9 million and the $7.1 million base amount.).

Due to the fiscal crisis, the availability of federal funds, including unspent federal funds from prior years, and the fact this General Fund appropriation is discretionary, the elimination of funding is recommended. General Fund moneys can be utilized for other state-operated programs and responsibilities.

<u>Questions.</u> The Subcommittee has requested a response to the following questions.

1. DPH, Please provide a *brief* overview of the federal funding and an explanation regarding its expenditure.

7. Governor's Reduction to Vector Control Program

Issue. The Governor is proposing a reduction of $235,000 (General Fund) to the DPH's Vector Control Program as part of his 10 percent across-the-board reduction.

According to the DPH, this reduction will eliminate 50 percent of the Public Health Vector Control Technician certification examination program to Local Health Jurisdictions on vector-borne disease surveillance, prevention and control. In addition, the reduction will eliminate 50 percent of the workload related to the north-coastal region of California. A total of one position equivalent (half of a Public Health Microbiologist and half of an Associate Public Health Biologist). The program presently has 17 positions.

Background on Vector-Borne Disease Program. The DPH provides consultation services and assistance Local Health Jurisdictions in epidemiologic investigations, surveillance, prevention, and control of vector-borne diseases.

In addition, they administer the Public Health Vector Control Technician certification examination program which certifies vector control government staff. This program requires every government agency employee who handles, applies, or supervises the use of any pesticide for public health purposes to be certified by the DPH.

Constituency Group Concerns. The Subcommittee is in receipt of letters from the (1) Mosquito and Vector Control Association of CA and the (2) CA Association of Environmental Health Administrators expressing concerns with this reduction and recommending an alternative funding proposal.

They are particularly concerned with the reduction to the DPH's Public Health Vector Control Technician certification examination program. They state this program is vital to special districts and is needed to maintain public health and safety regarding the use of pesticides and vector/mosquito abatement. It is of particular concern due to West Nile Virus and its spread to California.

In order to maintain the program, these constituency groups are proposing to increase the fees charged for the certification examination program from $25 to $100 for each certificate.

Subcommittee Staff Recommendation—Hold Open. It is recommended to hold this issue open for the DPH to provide additional information to the Subcommittee prior to the May Revision.

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

1. **DPH**, Please describe the proposed reductions and their potential affect.
2. **DPH**, From a policy perspective would it make sense to increase the fee to appropriately fund the program? Would the increase to a $100 fee provide appropriate funding as stated?

8. Governor's Reduction to the Veterinary Public Health Program

Issue. The Governor is proposing a reduction of $61,000 (General Fund) and trailer bill language to modify this program. Specifically, the reduction would eliminate one staff person who is responsible for fulfilling the permitting and reporting requirements associated with the Rabies Control and Wild Animal Importation and Quarantine programs.

This staff position manages animal and human disease data and provides consultation to animal control agencies statewide, state and federal public health officials, medical and veterinary communities, animal control officers, and the CA Department of Fish and Game.

According to the DPH, each year over 200 rabid animals are reported to the Veterinary Public Health Program. The program receives and evaluates these case reports of rabies for potential human expose. With this reduction, the program will reduce its ability to gather and analyze rabies occurrence data and provide consultation to local animal control agencies.

The DPH states the Wild Animal Importation permitting function will also be impacted. They contend that loss of this program component would mean that an average of 770 animals would not be permitted to enter California. The staff person to be eliminated is responsible for issuing permits and requiring testing and quarantine of animals that may be carrying diseases transmissible to humans and providing consultation to registered primate quarantine facilities, wildlife facilities, and numerous other organizations on the prevalence of zoonotic diseases (diseases transmissible between animals and humans) in California.

The DPH is also proposing trailer bill language which would eliminate the permit process under the Wild Animal Importation and Quarantine Program. According to the DPH it would therefore become illegal to import specified species of animals into California. They state that Zoos, the film industry, theme parks, research institutions and persons needing assistance animals would all be impacted.

Presently state law requires permits for non-human primates, bates, foxes, coyotes, raccoons, skunks, and several large cats (e.g., jaguars) due to the potential public health risks they pose (i.e., rabies, tuberculosis, exotic infectious diseases, Ebola Virus and the like).

Background--Veterinary Public Health Program. This program is responsible for the surveillance, investigation, prevention and control of zoonotic diseases (diseases transmissible between animals and humans). The Veterinary Public Health Program includes Rabies Control, and the Wild Animal Importation and Quarantine.

Subcommittee Staff Recommendation—Modify Proposal. It is recommended to reject the proposed reduction and trailer bill language to eliminate the permit process due to its potential affect on commerce and public health. However, it is recommended to reduce by $61,000 (General Fund) the DPH's overall Temporary Help Blanket to capture equal savings.

Questions. The Subcommittee has requested a response to the following questions.

1. DPH, Please briefly describe the proposed Governor's reduction, including the trailer bill language.

9. Governor's Reduction to Alzheimer's Disease Research Centers

Issue. The Governor is proposing a reduction of $692,000 (General Fund) to the Alzheimer's Disease Research Centers (Centers), or 10 percent, of the $6.9 million General Fund appropriation.

The DPH would allocate this $692,000 reduction as follows:

- Reduce professional training and education services for each Center by $29,250, or 5 percent. These services are normally provided to new and currently practicing health and social service professionals.
- Reduce caregiver training and education services for each Center by $29,250, or 5 percent. Types of services provided to caregivers and families include strategies to cope with the disease and assistance in understanding when institutionalization is appropriate.
- Reduce program evaluation contract by $58,000 or 10 percent. Since 1985 the University of California at San Francisco has provided program evaluation to the Centers.
- Reduce each research contract by an average of $8,217, or 10 percent.

The DPH states that this reduction will reduce the amount dedicated for research grants, potentially delaying multi-year studies. In addition, training and education activities provided by the Centers will be reduced by about 10 percent. The reduction would also reduce collection, analysis, and dissemination of data on patients at the Centers.

Presently the Centers are funded at $6.9 million (General Fund). This appropriation was augmented in the Budget Act of 2006 by $2 million (General Fund). A special fund—the Alzheimer's Disease and Related Disorders Research Fund provides $956,000 in funds for 2008-09.

Background—Alzheimer's Disease Research Centers. Enabling legislation from 1984 directs the state to: (1) establish a network of diagnosis and treatment centers at University medical centers throughout the state and include a provision for program evaluation; and (2) administer a research fund which would increase research into Alzheimer's and related dementias.

The ten Centers include: (1) Stanford University; (2) University of Southern California; (3) University of Southern California at Rancho Los Amigos; (4) University of California, San Francisco; (5) University of California, San Francisco-in Fresno; (6) University of California, Davis; (7) University of California, Davis-in Martinez; (8) University of California, San Diego; (9) University of California, Irvine; and University of California, Los Angeles.

The Centers are to provide:

- State-of-the-art comprehensive diagnosis, treatment and support services to patients, families and caregivers;

- Training and education to health care professionals, students, caregivers, and the general public;
- Development and testing of interventions that can assist in the care and treatment of people with dementia disorders; and
- Development and translation of successful, cutting-edge interventions into community practice settings to improve the level of care provided to people with dementia.

<u>Legislative Analyst's Office Recommendation—Adopt Governor's Reduction.</u> The LAO included this reduction in her alternative budget.

<u>Subcommittee Staff Recommendation—Hold Open.</u> It is recommended to hold this issue open pending receipt of the May Revision.

<u>Question.</u> The Subcommittee has requested the DPH to respond to the following questions.

1. **DPH**, Please provide a brief description of the reduction and its potential effect.

10. Increased Funding for Women, Infants, and Children Program—Two Issues

Issue "A"—Local Assistance. The Subcommittee is in receipt of a Finance Letter which requests two adjustments for the program related to the anticipated receipt of increased federal funds and additional rebate funds for local assistance.

First, an increase of $105.2 million (federal funds) is requested to provide for the anticipated receipt of additional federal funds. This increase is primarily due to increases in program participation (caseload) and foods costs, including food production and transportation costs. The DPH states that 142,000 low-income women, infants and children will receive services with these additional federal funds.

Second, an increase of $67.5 million (WIC Manufacturer Rebate Fund) is requested. California has rebate contracts with the manufacturers of infant formula, juice and infant cereal. The DPH states that manufacturer rebates are increasing for several reasons, including: (1) increasing caseload results in more food being purchased with manufacturers paying more rebates; and (2) increasing food prices result in more rebates because rebates are tied to the wholesale price of products.

With these proposed increases, the WIC Program's local assistance budget for 2008-09 is anticipated to serve 1.4 million low-income women, infants and children. The total budget is now estimated to be $1.357 billion ($1.027 billion federal funds and $329.9 million Rebate Funds) for local assistance.

Issue "B"—State Support. The DPH is also requesting an increase in state support funding of $836,000 (federal funds) to support 13 new state positions. These positions are to be used to replace 7 limited-term positions which expire as of December 2008 and to create 6 additional positions to support services provided in the program.

Background—What is WIC? WIC is a federally funded program for low-income women who are pregnant or breastfeeding and for children under age five who are at nutritional risk. WIC's objective is to provide nutritious foods, nutrition education, breastfeeding promotion and education, and referrals to health and social services programs.

In California, about 1.4 million WIC participants receive food checks each month. WIC offers over 200 different types of food checks, including checks for milk, eggs, cheese, cereal, and infant formula, that vary based on the needs of the individual participants. There are presently over 3,700 WIC authorized grocery stores.

Subcommittee Staff Recommendation—Approve Finance Letter. No issues have been raised.

Questions. The Subcommittee has requested a response to the following question.

1. DPH, Please provide a *brief* summary of the proposed adjustments (local assistance and state support).

2. DPH, How does the WIC Program specifically fight obesity?

3. DPH, How does the WIC Program coordinate with other efforts within the DPH regarding obesity prevention activities?

4. DPH, What key issues are facing the WIC Program in 2008-09?

Outcomes for Senate Subcommittee No. 3: Monday, May 12, 2008

(Please use the Subcommittee Agenda for this day as a guide to this document please.)

VOTE ONLY: DEPARTMENT OF PUBLIC HEALTH (Pages 2 through 10)

- **Action:** The Vote Only Calendar as noted for Department of Public Health was approved, except for issue # 9, on page 6, which was kept "open" pending additional information.
- **Vote 2-0 (Senator Wyland absent)**.

VOTE ONLY: DEPARTMENT OF HEALTH CARE SERVICES (Page 11)

- **Action:** The Vote Only Calendar as noted for Health Care Services was adopted.
- **Vote 2-0 (Senator Wyland absent)**.

VOTE ONLY: MENTAL HEALTH (Pages 12 through 13)

- **Action:** The Vote Only Calendar as noted for Mental Health was adopted.
- **Vote 2-0 (Senator Wyland absent)**.

ISSUES FOR DISCUSSION—HEALTH CARE SERVICES (Page 14)

1. Hospital Outpatient Services Fee Schedule—*Oversight Issue* (Page 14)

No action necessary. The DHCS committed to updating the hospital reimbursement schedule by July 1, 2008.

ISSUES FOR DISCUSSION—MENTAL HEALTH (Page 15)

1. Mental Health Services Oversight Commission (Page 15)

- **Action:** Directed the DOF to establish a separate display item within the Budget Bill to better track the Mental Health Oversight and Accountability Commission expenditures.

- **Vote 2-0 (Senator Wyland absent)**.

2. Mental Health Services Act Housing Initiative (Page 16)

- **Action:** Approved the funding and to adopted the two sets of language as contained on Page 17 of the Agenda.

- **Vote 2-0 (Senator Wyland absent)**.

3. San Mateo Pharmacy and Laboratory Project—Several Issues (Page 18)

- **Action:** Approved the budget adjustments as noted, including the prior year amount and the Governor's 10 percent reduction, and adopted the language as contained on Page 19 of the Agenda.

- **Vote 2-0 (Senator Wyland absent)**.

ISSUES FOR DISCUSSION—PUBLIC HEALTH (Page 20)

1. Licensing & Certification: Implementation of SB 1312 (Alquist) (Page 20)

- **Action:** (1) Approved a total increase of $8.4 million (L&C Fees) to provide for 47.7 positions and to provide $2.9 million (L&C Fees) for the Los Angeles County contract; and (2) Adopted trailer bill language to codify the need for consistent implementation across the state.

- **Vote 2-0 (Senator Wyland absent)**.

2. Governor's Reductions to Programs Serving Teens (Page 22)

- Left OPEN until the May Revision.

3. Governor's Reduction to Black Infant Health Program (Page 24)

- **Action:** Delete the General Fund amount as proposed by the Governor and augmented by $390,000 in Maternal & Child Health Funds as contained in the agenda (i.e., made other MCH-fund adjustments as noted).

- **Vote 2-0 (Senator Wyland absent)**.

4. Governor's Reduction to Tuberculosis (TB) Disease Control (Page 26)

- **Action:** Rejected the Governor's reduction and restored the General Fund.

- **Vote 2-0 (Senator Wyland absent)**.

5. Governor's Reductions to Immunization Programs—*Three Issues* (Page 27)

- **Action:** (1) Eliminated the $2.2 million General Fund for Local Health Jurisdictions since other federal funds are available; (2) Restored the funding for the Community Health Centers and Collaborative grants since these are disadvantaged communities; and (3) Adopted the Governor's reductions for the State Vaccine Program and Immunization Registry.

- **Vote 2-0 (Senator Wyland absent)**.

6. State Support to Local Health Jurisdictions for Pandemic Influenza (Page 31)

- Left OPEN until the May Revision.

7. Governor's Reduction to Vector Control Program (Page 33)

- Left OPEN until the May Revision. The DOF/DPH are to provide the Subcommittee with information regarding the level of fee increase necessary to retain the program.

8. Governor's Reduction to the Veterinary Public Health Program (Page 34)

- **Action:** Rejected the trailer bill language and elimination of the position, and instead reduced by $61,000 (General Fund) the department's temporary help blanket.
- **Vote 2-0 (Senator Wyland absent)**.

9. Governor's Reduction to Alzheimer's Disease Research Centers (Page 35)

- Left OPEN until the May Revision.

10. Increased Funding for Women, Infants, and Children Program (Page 37)

- Action: Approved both of the proposed adjustments.
- **Vote 2-0 (Senator Wyland absent)**.

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

Chair, Senator Elaine K. Alquist

Senator Alex Padilla
Senator Mark Wyland

May 21, 2008

10:30 AM

Room 4203
(John L. Burton Hearing Room)

Agenda

(Diane Van Maren)

Item	**Department Listing**
4120	**Emergency Medical Services Authority**
4170	**CA Medical Assistance Commission (CMAC)**
4260	**Department of Health Care Services**
4265	**Department of Public Health**
4300	**Department of Developmental Services**
4400	**Department of Mental Health**

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.

In addition: **(1)** All previous actions taken by the Subcommittee remain, unless the Subcommittee otherwise modifies the proposal at this 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 under the staff recommendation section.

Issues will be discussed in the order as noted in the Agenda unless otherwise directed by the Chair. *Please* see the Senate File for dates and times of subsequent hearings, both Subcommittee and full Committee. Thank you.

I. VOTE ONLY CALENDAR

A. Vote Only-- 4120 Emergency Medical Services Authority

Issue. The Subcommittee is in receipt of a Finance Letter from the Administration requesting that Item 4120-495 be added to revert unexpended General Fund money from the Budget Act of 2006 from within the Emergency Medical Services Authority. A total of $99,000 (General Fund) is identified for reversion. Of this amount, $24,000 is from local assistance and $75,000 is from state support.

Subcommittee Staff Recommendation—Adopt May Revision. These are unexpended funds from 2006. No issues have been raised.

B. Vote Only—4260 Department of Health Care Services

1. CA Discount Prescription Drug Program—Delete Funding and Defer Implementation

Issue. Due to the fiscal crisis, the Senate has prioritized core, direct services programs as being key programs to fund. As such, new programs and pilot programs are being eliminated from the budget.

The Budget Bill of 2007 appropriated a total of $8.8 million to implement AB 2911 (Nunez), Statutes of 2006. However, it was vetoed by the Governor. For 2008-09, the DHCS proposes funding of $5.870 million (General Fund) to proceed with implementation.

Under this new program, the DHCS would conduct drug rebate negotiations, perform drug rebate collection and dispute resolution, and develop program policy, while a contractor would operate and manage the enrollment and claims processing functions.

Overall Background—AB 2911 (Nunez), Statutes of 2006. This legislation created the CA Drug Discount Prescription Drug Program to address concerns regarding the lack of access to affordable prescription drugs by lower-income Californians. This program is a drug discount program, not a benefit. The general structure of the program is for the state to negotiate with drug manufacturers and pharmacies for rebates and discounts to reduce prescription drug prices for uninsured and underinsured lower-income individuals.

Participation in the program is eligible uninsured California residents with incomes below 300 percent of the federal poverty, individuals at or below the median family income with unreimbursed medical expenses equal to or greater than 10 percent of the family's income, share-of-cost Medi-Cal enrollees, and Medicare Part D enrollees that do not have Medicare coverage for a particular drug.

Enrollment in the program is to be simple and most likely will occur through local pharmacies. The only fees charged to individuals will be a $10 enrollment fee for processing the initial program application and an annual $10 re-enrollment fee. The legislation allows pharmacies and providers to keep the $10 enrollment fee as payment for their assistance to enroll clients in the program.

Subcommittee Staff Recommendation—Defer Implementation. Though implementation of this new program has merit, due to the fiscal crisis it is recommended to delay implementation of this program for 2008-09 and to delete the entire 2008-09 funding amount. The state is not in a position to commence with a new program when existing core programs, such as Medi-Cal and Healthy Families are being proposed for reduction. By deferring this program the state will save $5.870 million General Fund. This includes eliminating all applicable funding to the Fiscal Intermediary as well.

This recommendation is proposed without prejudice to funding in the future contingent upon appropriation in the annual Budget Act or other legislation. No statutory changes are proposed.

2. Technical Adjustment for Resources to Improve Chronic Health Conditions

Issue. The Governor's May Revision (DOF issues #149, #150 and #151) proposes a series of technical adjustments which reflect funding shifts across state support items within the Department of Health Care Services in order to utilize federal funds for specified activities as directed by the Legislature in the Budget Act of 2007 with regards to improving Medi-Cal services for seniors and persons with disabilities and chronic conditions.

This action results in savings of $417,000 (General Fund) implications to these shifts.

Subcommittee Staff Recommendation—Approve. The DHCS should have taken current year action on this shift to more effectively utilize these federal funds but at least it is being done now. No issues have been raised.

In the Budget Act of 2007, the Legislature appropriated $775,000 (federal Maternal and Child Health Title V Funds) for the Department of Health Care Services to more comprehensively address performance and quality standards regarding Medi-Cal Managed Care and special populations, including seniors and people with developmental disabilities. Due to the department split and concerns regarding the use of these federal funds for this purpose, the Administration needed to shift funds across state items to use the money in a manner that met federal guidelines for the use of these funds, as well as the intent of the Legislature.

3. Trailer Bill Language for Public Assistance Reporting Information--Pilot

Issue. The DHCS is proposing trailer bill language to implement the Public Assistance Reporting Information System (PARIS) pilot project. The purpose of this system is to improve the identification of the subset of Medi-Cal enrollees who are also veterans and who may be eligible for duplicative services. The DHCS will implement this project within existing resources beginning in 2008-09. As such, there are no General Fund implications for this proposal in 2008-09.

This proposal would amend existing statute to provide the authority for the DHCS to operate a two-year pilot program to test the cost effectiveness of the PARIS-Veterans match in three counties. While the DHCS currently identifies veterans enrolled in the Medi-Cal Program, the existing process is paper driven, inefficient and could be enhanced.

Improved veteran identification may increase the state's ability to shift health care costs from the Medi-Cal Program to the U.S. Department of Veterans Affairs, thereby lowering Medi-Cal Program expenditures and increasing the number of veterans that participate in veteran benefit programs to which they are entitled.

This DHCS proposal is in response to issues raised by the Legislative Analyst's Office (LAO) in her Analysis of 2007.

Background. The federal Public Assistance Reporting and Information System (PARIS) is an information sharing system operated by the U.S. Department of Health and Human Service's Administration for Children and Families which allows states and federal agencies to verify public assistance client circumstances. PARIS would provide the DHCS with an improved method to identify veterans who are enrolled in Medi-Cal.

Subcommittee Staff Recommendation—Adopt Administration's Language as Placeholder. It is recommended to adopt the Administration's draft trailer bill language as placeholder language. No issues have been raised at this time.

4. Governor's May Revision Defers SB 487 (Escutia) Pilot Projects

Issue. The Governor is proposing to defer implementation of the pilot projects as contained in SB 487 (Escutia), Statutes of 2006, which results in a reduction of $13.6 million (General Fund) within the Medi-Cal Program.

Under this pilot, two counties—Santa Clara and Orange—would have conducted "self-certification" pilot projects for both the Medi-Cal and Healthy Families Program. Under this approach, as contained in statute, applicants and enrollees in certain categories of eligibility would self-certify income and assets for purposes of enrolling in these two programs.

The purpose of these pilots is to obtain data regarding the potential for streamlining program enrollment functions and to focus limited funds towards health care services and not administration and eligibility processing.

Background—Description of Senate Bill 437 (Escutia), Statutes of 2006. Among other things. this legislation includes strategies to promote and maximize enrollment in the Medi-Cal Program and the Healthy Families Program (HFP), improve the retention of children already enrolled, and strengthen county-based efforts to enroll eligible children in existing public programs. These strategies include the following:

- *Self Certification for the Medi-Cal Program.* The Department of Health Care Services is required to implement a process that allows applicants and enrollees of certain categories of eligibility to self-certify income and assets. This process is to be implemented in two phases. The first phase is a two-year Pilot project to be operated in two counties. Orange County has been selected to be a pilot and so has Santa Clara County. After an evaluation of the Pilot, a statewide rollout can be conducted.

- *Self Certification for the Healthy Families Program.* The Managed Risk Medical Insurance Board is required to implement processes by which applicants at the time of annual eligibility review may self-certify income rather than provide income documentation. The MRMIB will establish rules concerning which applicants will be permitted to certify income and the circumstances in which supplemental information may be required by January 2009.

Subcommittee Staff Recommendation—Adopt the May Revision. Due to the fiscal crisis, it is recommended to adopt the Governor's May Revision and delete the local assistance funding within the Medi-Cal Program. (Funding for the Healthy Families Program is contained with the Managed Risk Medical Insurance Board, as noted later in this Agenda.)

5. Eliminate Funding for State Staff Associated with SB 487 Pilot Projects

Issue and Subcommittee Staff Recommendation—Delete Funding and Positions. As noted above, the Governor is proposing to eliminate local assistance funding for two pilot projects which were to begin in 2008-09.

However, the Administration inadvertent did not also propose elimination of two DHCS positions for a reduction of $209,000 ($104,000 General Fund). Therefore, Subcommittee staff recommends reducing the DHCS state support budget by this amount.

6. Technical Adjustment between DHCS and DPH for Family PACT Program

Issue. According to the Administration, due to their oversight, a technical adjustment is needed to shift $250,000 (General Fund) from the Medi-Cal budget (Item 4260-101-001) to the Department of Public Health's Family PACT Program for local assistance contracts.

There is no net increase in General Fund expenditures from this transfer. It is purely technical to properly align the program due to the split of the Department of Health Services into the Department of Health Care Services and the Department of Public Health.

Subcommittee Staff Recommendation—Approve this Shift By Reducing this Item. It is recommended to reduce the DHCS budget and to transfer the $250,000 (General Fund) amount to the DPH for expenditure in Item 4265-111-001 within the Family PACT Program for local assistance contracts.

7. Reduction to Child Health & Disability Prevention Program (CHDP)

Issue. The Governor's May Revision is proposing a revised reduction of $590,000 (General Fund), or a 10 percent reduction, to the funds provided to Local Health Jurisdictions for county case management. (This reduction was proposed in January and has been updated for the May Revision to be a lesser reduction.)

The DHCS states that Medi-Cal provides $37.5 million ($13.2 million General Fund) in funding for support of staff in local Child Health & Disability Prevention Programs (CHDP) which serve Medi-Cal eligible children who receive CHDP screening and immunization services.

County/city local health jurisdictions manage CHDP at the local level working directly with private and public providers of services. Specifically, Local Health Jurisdictions are required to perform care coordination, including approval, enrollment and oversight of providers, and outreach and education.

Background—What is the Child Health & Disability Prevention Program (CHDP)?
The CHDP 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.

CHDP services play a key role in children's readiness for school. All children entering first grade must have a CHDP health exam certificate or equivalent.

This program serves as a principle provider of vaccinations and facilities enrollment into more comprehensive health care coverage, when applicable, via the CHDP gateway.

Subcommittee Staff Recommendation—Adopt May Revision. Due to the fiscal crisis, it is recommended to adopt the Governor's May Revision estimate for the CHDP, including the reduction to case management.

8. DHCS Medi-Cal Program—HIV/AIDS Pharmacy Pilot Program

Issue—Adjustment to Prior Subcommittee Action. In the Subcommittee hearing of April 14th, the Subcommittee adopted the LAO proposal to eliminate funding for this since the Pilot Program is scheduled to end as of June 30, 2008, and to prioritize funding for the AIDS Drug Assistance Program (ADAP). The Subcommittee approved the LAO recommendation on a 3-0 vote.

The Governor's May Revision has modified their approach to this Pilot. They are proposing to fund it at a total of $1.1 million ($1.059 million General Fund) and to only provide the higher dispensing fee for certain types of AIDS drugs, and not all dispensed drugs as before.

Legislative Analyst's Office Recommendation—Deny Extending Pilot. The LAO recommends to deny extension of this pilot project and to instead, redirect the General Fund augmentation towards backfilling the Governor's reductions proposed within the Office of AIDS for the ADAP Program.

The LAO notes their recommendation is consistent with the Legislature's intent to sunset the program as of June 30, 2008. While the LAO recognizes the merits of having pharmacists coordinate HIV/AIDS patient's therapeutic drug regimens, they believe that the provision of direct services is a higher priority than continuing t fund a pilot project beyond the time period. Therefore, the priority for funding should be the ADAP to ensure that drug treatment is provided.

Subcommittee Staff Recommendation—Conform Prior Subcommittee Action with Revised Dollars. It is recommended to conform the Subcommittee's prior action—to reject the continuation of this pilot project—with the level of funding contained in the May Revision. Since the May Revision for the Pilot project is a total funding level of $1.059 million ($1.039 million General Fund), it is recommended to recognize this amount for savings to use in other HIV/AIDS programs (such as the AIDS Drug Assistance Program or the Therapeutic Monitoring Program). This is not a year to start new Pilot projects or to further extend existing ones.

C. Vote Only—4265 Department of Public Health

1. Trailer Bill Legislation for Emergency Physicians & Proposition 99 Funds

Issue. For the past nine years or so, the Legislature and Administration annually adopt trailer bill legislation to provide up to $24.8 million (Cigarette and Tobacco Produce Surtax Funds—Proposition 99 Funds) for uncompensated physician emergency medical services within the CA Healthcare for Indigent Persons Program and the Rural Health Services Program. These funds are used to reimburse physicians for uncompensated emergency medical services to persons who cannot afford to pay for such services.

The proposed language is identical to language which was adopted in last year's Omnibus Health Trailer bill (AB 203, Statutes of 2007).

Subcommittee Staff Recommendation—Adopt Trailer Bill with Appropriation. It is recommended to adopt the trailer bill language which contains the appropriation. No issues have been raised.

2. Delete Augmentation for Staff in Communicable Disease

Issue. In the Budget Act of 2007, the Governor vetoed $1.314 million (General Fund) to support 9 state positions within the Communicable Disease area of the Department of Public Health for implementation of Senate Bill 739 (Speier), Statutes of 2006. Specifically the veto message stated that this funding would be delayed for one-year due to the fiscal crisis and the need to build a prudent reserve.

The Administration has *resorted* funding for this effort in its baseline budget for 2008-09.

Subcommittee staff believes that due to the fiscal crisis, it should be deleted. Now is not the time to start new projects and hire more state staff.

Background—Senate Bill 739, Statutes of 2006. This legislation requires the Department of Public Health (DPH) to: (1) implement a healthcare associated infection surveillance and prevention program; (2) investigate the development of electronic reporting, adopt new administrative regulations; and (3) evaluate the compliance of facilities with policies and procedures to prevent healthcare associated infections.

Subcommittee Staff Recommendation—Delete $1.3 million (General Fund). Due to the fiscal crisis, it is recommended to delete this new funding within the Communicable Disease area. There are other state efforts within the DPH which are addressing infectious disease issues, as well as efforts at the local level.

In addition, the budget for 2008-09 does include funding to address aspects of the legislation that directly pertains to hospitals and hospital oversight. A total of $431,000 (Licensing and Certification Funds) to support Health Facility Evaluator surveys in hospitals has been provided for 2008-09. These positions will be used to conduct the core functions of this legislation. Including the following action items:

- Serve as the program's principal infection control resources for enforcement activities, regulations interpretation and development, and staff training and development.
- Review, interpret and revise the California Code of Regulations related to infection control.
- Prepare and present instructional materials and conduct ongoing training related to infection surveillance, prevention and control for internal training of surveyors.
- Conduct statistical analyses of and provide reports on licensing and certification data on healthcare associated infections and infection control.

Therefore, it is recommended to delete the $1.3 million (General Fund) for the Communicable Disease area and to **retain** the $431,000 (Licensing and Certification Fund) for the Licensing and Certification Division activities.

3. Real ID Demonstration Grant Program—Deny Proposal

Issue. Through the May Revision process, the Department of Public Health (DPH) is requesting an increase of $1.3 million (Reimbursements) to fund 18 new positions (limited-term) to implement various aspects of the Real ID Demonstration Grant Program which has been applied for in partnership with the Department of Motor Vehicles (DMV).

If awarded, the grant would allow the DPH to accelerate the conversion of California's birth and death records so a more complete data set will be available for authentication of birth certificates used to identify personal identity. The DPH would also use grant funds to support staff working with the DMV for electronic verification of birth records.

According to the Administration, the DPH positions would be used by the Health Statistics area within the DPH to:

- Increase the quantity and quality of California's vital events data for use in the verification of vital events;
- Develop a CA vital events database and communications infrastructure that meets national requirements for the electronic verification of vital events, including a Feasibility Study Report to evaluate and analyze requirements and on-going maintenance needed to connect DMV to the DPH;
- Create a multi-department CA Vital Events Verification Workgroup to establish intrastate project governance, verification protocols, and privacy, security, technical and financial policies and procedures; and
- Make California's vital events data available to the DMV for birth certificate purposes.

Subcommittee Staff Recommendation—Reject May Revision. The DPH's proposal is complex and should be discussed more comprehensively through the legislative process. The Legislature was not provided with a copy of the grant application nor is it clear how the DPH intends to proceed with the various components as noted above. As such, more sunshine is needed on this issue versus being presented with a May Revision proposal at the last minute. Further, the appropriation can wait since the DPH/DMV just submitted its proposal and they do not know if a federal award will even be forthcoming.

4. Genetic Disease Screening Program—Special Funds

Issue. The Subcommittee is in receipt of a May Revision estimate for the Genetic Disease Screening Program which provides screening for all newborns for genetic and congenital disorders that are preventable or remediable by early intervention. It also provides screening of all pregnant women who consent to screening for serious birth defects. The program is self-supporting through fees collected from screening participants through the hospital of birth, third party payers, or private parties using a special fund—the Genetic Disease Testing Fund.

The May Revision proposes total expenditures of $119.8 million (Genetic Disease Testing Fund) which reflects a reduction of $2.159 million (Genetic Disease Testing Fund) to correct for an erroneous adjustment regarding operating expenditures and equipment within caseload-driven expenditures associated with the Newborn Screening and Prenatal Screening programs.

Subcommittee Staff Recommendation—Adopt May Revision. It is recommended to adopt the May Revision to account for the technical correction. No issues have been raised.

5. Technical Adjustment between DPH and DHCS for Family PACT Program

Issue. According to the Administration, due to their oversight, a technical adjustment is needed to shift $250,000 (General Fund) from the Medi-Cal budget (Item 4260-101-001) to the Department of Public Health's Family PACT Program for local assistance contracts.

Therefore, an increase of $250,000 (General Fund) is needed within the Department of Public Health to properly align the Family PACT Program.

There is no net increase in General Fund expenditures from this transfer. It is purely technical.

Subcommittee Staff Recommendation—Approve this Shift By Increasing this Item. It is recommended to increase the DPH budget by $250,000 (General Fund) for expenditure in Item 4265-111-001 within the Family PACT Program for local assistance contracts. This is just a technical fund shift between departments. No additional General Fund is being added.

6. Eliminate Funding for State Staff Associated with SB 487 Pilot Projects

Issue. The DPH proposes a reduction of $244,000 ($123,000 General Fund) and deletion of two staff positions to conform with the Governor's May Revision proposal to delay implementation of the pilot projects as contained in SB 437 (Escutia), Statutes of 2006, as discussed under the Department of Health Care Services, above in this Agenda.

Subcommittee Staff Recommendation—Adopt the Reduction. It is recommended to adopt this reduction in staff due to the deferral in implementing the projects due to the fiscal crisis. No issues have been raised.

7. Preventive Health Care for Adults

Issue and Background. The Governor is proposing a 10 percent reduction of $100,000 (General Fund) to the Preventive Health Care for Adults Program. According to the DPH, a total of $1.252 million (General Fund) is presently expended on this program.

The Preventive Health Care for Adults Program was established by AB 1607, Statutes of 1973 (Section 18375 of Welfare and Institutions Code). It is a health promotion program for *non*-frail adults age 50 and older who self-select to come to the program (i.e., it is *not* means tested for income). Participants are *not* screened for eligibility or other criteria to receive the service. Participants receive a comprehensive health screen.

Under the program, the DPH provides 11 counties grants (amounts of $45,000, $75,000, or $105,000) and the counties provide an equal match to operate the program. Public health nurses provide free health assessments, screenings (such as for cholesterol, blood pressure, and bone density), education and counseling in community locations, such as community centers, churches, senior centers and the like.

The 11 counties are: El Dorado, Humboldt, Kern, Kings, Madera, Orange, San Bernardino, Shasta, Stanislaus, Tulare, and Ventura.

Subcommittee Staff Recommendation—Delete Entire State Funding. Due to the fiscal crisis, it is recommended to delete all state General Fund support for this program (a total of $1.252 million, or $1.152 million that remains after the Governor's 10 percent reduction). *In addition*, any state support funding associated with this program is also recommended for deletion if supported by state General Fund resources.

Though this program provides a public benefit to local communities, it is a discretionary program in which the state does not need to participate. Counties may choose to continue this program on their own or they may be able to obtain foundation grant funding as a match.

Further, it is a program that was established prior to the development of other local public health services and programs. It is not a means tested program and provides health screens that may be provided (or sponsored) by others, including community hospitals, clinics, Local Health Jurisdictions or local foundations.

The state needs General Fund support for entitlement programs and programs that serve more involved populations and families.

8. Governor's Reductions to Various Programs Serving Teens

Issue and Prior Subcommittee Hearing. The Governor is proposing reductions in several programs which serve to (1) mitigate teen pregnancy and unintended fatherhood; (2) provide information and education regarding reproductive health services; (3) develop life skills and sense of self-accountability; and (4) make conduct outreach to individuals at high risk for pregnancy and sexually transmitted infections. The Governor's proposed reductions are shown in the table below. These programs and their effectiveness were discussed in the Subcommittee on May 12th.

Governor's Reductions to Teen Public Health	Governor's Reductions	Potential Affect of Reductions
1. Adolescent Family Life Program (AFLP). The AFLP operates in 37 counties and serves about 18,000 pregnant and parenting teens annually. AFLP goals are to promote healthy birth outcomes for pregnant teens, prevent low-weight and premature births, completion of high school, and to mitigate future unintended pregnancies. Teens are referred to AFLP through high schools, hospital emergency rooms, churches, county social service agencies and other organizations. AFLP case managers work with each teen and develop an Individual Service Plan to meet the needs of that teen. The AFLP has had independent analysis conducted and has shown to be cost-beneficial.	-$1.194 million GF	This proposal would reduce the number of pregnant and parenting teens accessing local programs by about 1,100 teens. DPH states that 41 local assistance contracts would be reduced by about six percent each. (Los Angeles County is served by multiple contractors.)
2. Information & Education Project Grants. DPH has 27 grantees which serve 75,000 teens and parents/caregivers annually. The grantees provide teens with mentoring, referral to reproductive health services, and provide information to develop life skills and sense of self-accountability. This program presently receives $1.2 million (General Fund).	-$159,000 GF	An estimated 5,000 teens and parents of teens will not receive services.
3. Teen Smart Outreach. DPH has 21 grantees in this program that focus on teens that are at high risk for pregnancy and sexually transmitted infections. Outreach workers also focus on removing barriers for teens to access comprehensive reproductive health services. About 154,000 teens are annually served. This program presently receives $1.8 million ($900,000 GF).	-$182,000 (-$91,000 GF)	An estimated 30,000 teens would not receive services.
4. Male Involvement Program. DPH funds 21 grantees for the Male Involvement Program which serves about 30,000 adolescents and young males annually. Grantees provide program activities aimed to increase the involvement of young males in the prevention of teen pregnancy and unintended fatherhood. A variety of settings are used including mainstream and alternative schools, social services agencies, and youth centers.	-$115,000 GF	An estimated 2,400 young men will not receive services.
TOTAL REDUCTION	-$1.650 million (-$1.459 m GF)	

Subcommittee Staff Recommendation—Modify Governor's Proposal. It is recommended to take the following actions:

- *Adolescent Family Life Program*. Reject the Governor's reduction for the Adolescent Family Life Program (AFLP). This program has been flat funded since the late 1990's. It is a very effective program and has been evaluated for its outcomes.

  To fund this restoration, it is recommended to eliminate $675,000 (federal title V Maternal and Child Health funds--the remaining amount) from the Maternal Mortality Project, established by the DPH in 2006 to analyze maternal deaths, and provide it to the AFLP (a direct services program). In addition, it is recommended to provide $517,000 (General Fund) to complete the restoration to the AFLP.

- *Information and Education Projects*. Adopt the Governor's 10 percent reduction of $159,000 due to the fiscal crisis.

- *Teen Smart Projects.* Reject the Governor's reduction and restore the $91,000 (General Fund). This restoration will also maintain federal funds of a like amount.

- *Male Involvement Program.* Reject the Governor's reduction and restore the $115,000 (General Fund). This program has been effective and it is one of the few programs which are focused on males and their role in reproductive health issues.

9. Governor's 10 Percent Reduction to Prostate Cancer Treatment

Issue. The Governor is proposing a reduction of $365,000 (General Fund) to this program. Of this amount $88,000 would be reduced from DPH State Support and $277,000 (General Fund) would be reduced from a contract with the University of CA at Los Angeles (UCLA).

With respect to the $277,000 in contract funding to be reduced from UCLA, the DPH states that $43,000 would be reduced from their administrative oversight and $234,000 from the treatment program.

Background—Improving Access, Counseling and Treatment for Californians (IMPACT) Program. The IMPACT Program has been implemented through a contract with UCLA since its inception in 2001. Originally this program was funded using foundation grant funds.

This program was designed to be a comprehensive delivery model including treatment costs as well as nutrition counseling, transportation, extensive nurse case management, essential medical supplies, and culturally appropriate patient education materials. Enrolled men are assigned case managers who coordinate care, provide emotional support, education and counsel men on symptom management and nutrition.

Eligible low-income, uninsured men with prostate cancer who are enrolled in this treatment program will receive treatment services.

Senate Bill 650 (Ortiz), Statutes of 2005 re-established the IMPACT Program and required that 87 percent of any state appropriation for the program be expended on direct medical care with the remaining amount to be spent on various administrations. Additionally, the program must now use Medi-Cal rates for treatment services.

Subcommittee Staff Recommendation—Adopt Governor's Reduction. It is recommended to adopt the Governor's proposal.

Most of the reduction will be from administrative functions. Further, UCLA could choose to provide more in-kind services to seek funding from one of the many California foundations that have provided funding for this program in the past. Individuals are also likely eligible for county indigent health programs.

The Governor did veto this entire program in 2006 but it was stored through legislation.

10. Dental Prevention Program

Issue. The Governor is proposing a 10 percent reduction of $326,000 (General Fund) to this program. Presently, it is funded at $3.2 million (General Fund). The reduction would be taken across the board on all contracts.

The Children's Dental Disease Prevention Program is a school-based program that operates in 31 counties. Local programs receive $10 per student to provide a dental disease prevention program.

This program offers a community dental disease prevention program to school children in preschool through sixth grade. The program includes but is not limited to the following: (1) fluoride supplementation; (2) brushing and flossing instruction; (3) oral health education; (4) dental sealants; and (5) the requirement to convene a local advisory committee.

According to the DPH, most of the children who participate are selected and qualified by their participation in the federal Free School Lunch Program.

Subcommittee Staff Recommendation—Adopt Governor's Reduction. It should be noted that local school districts, as well as Local Health Jurisdictions can choose to provide assistance to this program. In addition, the CA Dental Foundation or other foundations could also choose to provide assistance. Though this program provides some benefits, it is a discretionary program and can obtain funds from other sources.

11. Housing Assistance for AIDS

Issue. A reduction of $122,000 (General Fund) is proposed by the Governor for this program. The Office of AIDS states that this reduction would reduce funding for the Fresno and Solano Counties Housing Programs and for seventeen sites receiving funds for Residential AIDS Licensing Facilities.

AIDS housing assists with the stable housing needs of persons living with HIV/AIDS through the development of rental housing projects and long-term affordable housing units. This program works in conjunction with the federally funded Housing Opportunities for Persons with AIDS Program. The AIDS Housing Program contracts with Fresno and Solano Counties to assist with the stable housing needs of 286 clients and their families.

The Residential AIDS Licensing Facilities Program is designed to address the ongoing operational subsidy of existing facilities for the chronically ill serving clients with HIV disease. Currently, these funds are allocated based on the number of bed nights each facility has available for chronically ill individuals with HIV/AIDS. There are 17 sites in the following areas: Los Angeles, Santa Barbara, San Francisco, Sacramento, Alameda, Riverside, and San Diego. The program serves over 270 clients with 98,550 bed nights per year.

Prior Subcommittee Hearing. This issue was discussed in our April 14th hearing.

Subcommittee Staff Recommendation—Adopt Governor's Reduction. The Governor's funding reduction may require Fresno and Solano to backfill with federal Housing for People with AIDS funding (HOPWA).

According to the Office of AIDS, a total of $3.7 million in federal funds is available for HOPWA.

12. HIV Counseling and Testing

Issue. A reduction of $600,000 (General Fund) is proposed by the Governor. The Office of AIDS states that this reduction would reduce the contracts with Local Health Jurisdictions. Specifically, the reduction would reduce HIV testing by about 8,060 tests annually and opportunities to provide counseling services to HIV positive or high risk individuals.

The total amount available from the state for HIV Counseling and Testing would be $9.860 million ($8.225 million General Fund) for 2008-09, assuming this reduction.

Prior Subcommittee Hearing. This issue was discussed in our April 14th hearing.

Subcommittee Staff Recommendation—Adopt Governor's Reduction. It is recommended to adopt the Governor's reduction due to the fiscal crisis. It should be noted there are options for HIV testing outside of this program, including at community clinics on a sliding-fee scale basis, selective free clinics and home testing kits. Local funds can also be used for this purpose.

13. Early Intervention Sites

Issue. A reduction of $200,000 (General Fund) is proposed by the Governor. The Office of AIDS states that this reduction would result in each contract being reduced by $5,600 each.

The Early Intervention Program (EIP) sites provide HIV medical care and treatment as well as transmission prevention interventions for HIV-infected persons within the context of their clinical care. There are 36 EIP clinics statewide that serve 8,000 clients. The goals of the program are to interrupt the transmission of HIV. In addition to ongoing medical care, periodic client assessments, case conferencing and individual services plans are used to maximize client outcomes.

The Early Intervention Sites would receive $14.9 million ($8.1 million General Fund and $6.8 million federal funds) for 2007-08 and $14.4 million ($7.4 million General Fund and $6.9 million federal funds) if this reduction occurred.

Prior Subcommittee Hearing. This issue was discussed in our April 14th hearing.

Subcommittee Staff Recommendation—Adopt Governor's Reduction. It is recommended to adopt the Governor's reduction due to the fiscal crisis. Further as noted in the May Revision, the Early Intervention Sites are to receive a small increase in federal funds of almost the same amount as the General Fund reduction.

14. Home and Community Based Care for HIV/AIDS

Issue. A reduction of $400,000 (General Fund) is proposed by the Governor. The Office of AIDS states that this reduction would reduce the number of HIV/AIDS clients receiving case management services.

This area provides comprehensive case management and direct care services to over 1,300 persons with AIDS to allow individuals to remain in their homes. Forty-four agencies receive funding to provide case management services.

The Home and Community Based Care Program would receive $11.9 million ($6.3 million General Fund and $5.5 million federal funds) for 2008-09.

It should be noted that this program did receive an increase of $3.5 million (federal funds) in 2007-08. For the budget year, a total of $5.5 million in federal funds is available which reflects a slight decrease of $100,000 (federal funds) from 2007-08. So this program was increase within the last two years due to federal funding availability.

Prior Subcommittee Hearing. This issue was discussed in our April 14th hearing.

Subcommittee Staff Recommendation—Adopt Governor's Reduction. It is recommended to adopt the Governor's reduction due to the fiscal crisis. Further as noted that this program, which is very effective, has recently received increases due to federal funding availability.

15. Governor's Proposed Reductions to Clinic Programs

Issue. The Governor is proposing a *total reduction of $3.5 million* (General Fund) across several clinic programs administered by the Department of Health Care Services (DHCS). The Governor's proposed reduction reflects a 10 percent General Fund reduction.

In addition, the Governor is proposing trailer bill language to state that all of these programs are contingent upon appropriation in the annual Budget Act.

Generally, these clinic programs provide assistance to almost 400 clinics. Some clinics are more reliant on these state-supported funds than others, contingent on the community population whom they serve. All clinics that receive funding provide for some portion of uncompensated care in their communities. The proposed reductions are as follows:

DHCS Clinic Program Name	Governor's Proposed Reduction	Proposed 2008-09 General Fund (with reduction)	Proposed 2008-09 Total Funds (GF, Prop 99, federal)
1. Seasonal Agricultural Migratory Worker Clinics	-$687,000	$6,184,000	$6,184,000
2. Rural Health Services Development Clinics	-$820,000	$7,383,000	$7,383,000
3. American Indian Health Clinics	-$650,000	$5,817,000	$6,241,000
4. Expanded Access to Primary Care Clinics	-$1,350,000	$12,150,000	$25,666,000
5. Grants-In-Aid	-$44,000	$397,000	$601,000
TOTAL (Rounded)	**-$3.5 million**	**$31,931,000**	**$46,075,000**

According to the DHCS, the reduction would have the following affect on clinic visits:

- 21,750 less clinic visits in the Seasonal Agricultural Migratory Worker Clinics.
- 40,590 less clinic visits in the Rural Health Services Development Clinics.
- 37,100 less clinic visits for medical services, 19,500 less dental visits, and 16,900 less public nurse visits in the American Indian Health Clinics.
- 18,800 less clinic visits in the Expanded Access to Primary Care Clinics.
- 1,700 less clinic visits in the Grants-In-Aid Program.

Background—Seasonal Agricultural Migratory Workers Clinics. Under this program, a total of 79 clinics receive funds to provide comprehensive primary care to uninsured individuals who are seasonal, agricultural, and migrant workers. According to the DHCS, these clinics provided 217,665 medical, dental and health education/nutritionist visits.

Background—Rural Health Services Development Clinics. Under this program, a total of 122 clinics receive funds to provide comprehensive primary medical and dental care to rural populations. According to the DHCS, these clinics provided 405,924 medical, dental and health education visits.

Background—American Indian Health Clinics. Under this program, a total of 75 clinics receive funds to provide comprehensive primary medical and dental care, and public health nurse visits to American Indians. According to the DHCS, these clinics provided 370,912 medical visits, 194,487 dental visits and 169,302 public health nursing visits.

Background—Expanded Access to Primary Care Clinics. Under this program, primary care clinics are reimbursed for uncompensated care provided to uninsured persons with incomes at or below 200 percent of the federal poverty level. Uncompensated care visits are reimbursed at a rate of $71.50. According to the DHCS, 423,160 uncompensated primary care visits were provided at 484 clinics.

It should be noted that the Governor's May Revision for Proposition 99 Funds significantly reduces funding to this important program. The reduction is from a decline in revenues and increases in caseload driven programs such as the Access for Infants and Mothers Program (for pregnant women) and the Managed Risk Medical Insurance Program (a high risk pool for people with medical needs who cannot obtain insurance).

Prior Subcommittee Hearing. The Subcommittee discussed this issue in its April 28th hearing.

Subcommittee Staff Comment and Recommendation— Modify the Governor's Proposal. All of these clinic programs are well established and have been operating efficiently and effectively for many, many years. These programs provide assistance to clinics in rural areas and urban areas, and often serve special populations in need of primary care and dental services.

It should be noted that some of the clinics participating in these programs are also classified as "Federally Qualified Health Centers" which means they can obtain a more comprehensive Medi-Cal rate by federal law. However, these clinics still provide a substantial amount of uncompensated care and their funding levels have substantially not increased over the many years.

But in an effort to consolidate programs and make some reductions, it is recommended to **(1)** reject the proposed trailer bill language since no statutory change is necessary; and **(2)** make the following General Fund adjustments:

- **(a)** Eliminate the Grants-In-Aid Program and *move* this $601,000 (General Fund) to the Expanded Access to Primary Care Program (EAPC);
- **(b**) Increase the EAPCP by $339,000 (Proposition 99 Funds) as referenced in item 18, below, in this Agenda;
- **(c)** Increase the EAPC by $410,000 (General Fund) to provide the remaining backfill for the 10 percent reduction as proposed by the Governor; and
- **(d)** Restore the funding for the remaining programs, including the Seasonal Agricultural Migratory Worker Clinics ($687,000); American Indian Clinics ($650,000); and Rural Health Services Clinics ($820,000), which equates to $2.157 million;

This action would reduce General Fund support by a total of $940,000 (General Fund), but would still maintain core programs.

17. Cigarette & Tobacco Product Surtax Funds—Proposition 99 Funding

Issue. The Governor's May Revision reflects a continued decline in Proposition 99 revenues for both 2007-08 and 2008-09. Specifically, the current year is estimated to be reduced further by $7 million and 2008-09 is estimated to be reduced by $15 million.

The DOF states that the projected decrease in revenues is primarily attributable to larger annual declines in cigarette consumption than had been assumed previously based on an analysis of historical consumption data. In addition, the forecast reflects a modest downward adjustment in the 18 to 64 population. The revised 2007-08 projection also incorporates updated data on cash collections.

Due to the decrease in revenues, the Governor's May Revision reflects decreases in funding for the California Healthcare for Indigents Program (CHIP) and the Rural Health Services Program totaling $3 million in 2007-08 and $9.8 million in 2008-09.

Key programs as proposed by the Governor's May Revision are as follows:

- *CA Healthcare for the Indent Program.* The Administration decreases this program from a total of $31.4 million in January to a total of $22.3 million at the May Revision. This is due to a decline in revenues and a need to maintain caseload adjustments in other programs, most notably the Access for Infants and Mothers (AIM) Program which provides pregnancy services under the Managed Risk Medical Insurance Board.

  It should be noted that funding assistance for uncompensated physician emergency medical services within the CA Healthcare for Indigent Persons Program and the Rural Health Services Program is maintained at $24.8 million

- *Breast Cancer Early Detection*. No changes.

- *Expanded Access to Primary Care Clinics.* No changes from January 2008-09 budget. But the 2008-09 level is $13.2 million (Proposition 99 Funds) less than provided in the current year. This is due to the revenue decline and caseload increases in the Access for Infants and Mothers Program, as well as funding the Managed Risk Medical Insurance Program.

- *Asthma.* No changes.

- *Children's Hospitals.* No changes.

- *Orthopedic Hospital Settlement.* No changes.

- *Various Health Education Programs*. No changes.

Subcommittee Staff Recommendation—Modify the May Revision. As noted, Proposition 99 revenues continue to decline. As such, it is important to utilize these funds as efficiently and as effectively as possible.

To this end, it is recommended to delete the $339,000 (Proposition 99 Funds) provide to Children's Hospitals and to direct these funds to the Expanded Access to Primary Care Clinics (EAPC). This action would help backfill for the General Fund reduction to the EPAC Program, as identified in issue #17, above in the Agenda. These funds can provide almost 5,000 clinic visits.

It is also recommended to approve the Governor's reduction to the CHIP Program as noted above due to revenue shortfalls.

18. Fatal Child Abuse and Neglect Surveillance

Issue. The Governor is proposing a $15,000 (General Fund) reduction, or 10 percent, to the Fatal Child Abuse and Neglect Surveillance Program. Presently this program is funded at $150,000 (General Fund).

According to the DPH, the Governor's reduction would be assessed on all 58 counties by taking 10 percent of each of their contracts for this program. The counties are funded at an average of $2,500 each, depending on size. Therefore, the reductions would range from $40 for the smallest county to $5,000 for the largest county.

Under the program, the Department of Public Health (DPH) coordinates and integrates state and local efforts to address fatal abuse and neglect and creates a body of information that could be used to prevent child deaths. This program maintains a statewide tracking system incorporating information collected by local child death review teams who are reimbursed for submitting this data. The DPH collects this data to report to the State Child Death Review Council.

Subcommittee Staff Recommendation—Modify. The DPH is presently administering a special project within the federal Maternal and Child Health branch called the Fetal Infant Mortality Review Program. This program is funded at $500,000 and has been in operation for several years. This program is very similar to the Fatal Child Abuse and Neglect Surveillance Program in is approach of analyzing data and working with counties to obtain data.

Therefore, it is recommended to eliminate the $150,000 (General Fund) for the Fatal Child Surveillance Program and to use federal Maternal and Child Health funds to backfill for this amount. Hopefully the DPH can consolidate the programs and bring about some efficiency in their data collection. The $150,000 in federal Maternal and Child Health funds would be redirected from state support to local assistance for this purpose. The DPH may choose to reduce operating expenses or delete state positions for this purpose. No local assistance contracts would be reduced from this action.

D. Vote Only-- 4270 CA Medical Assistance Commission (CMAC)

1. Governor's 10 Percent Reduction—May Revision Federal Adjustment

Issue. The May Revision makes a technical conforming adjustment to the federal fund portion of the Governor's 10 percent reduction.

This 10 percent reduction was already taken by the Subcommittee.

Subcommittee Staff Recommendation—Adopt May Revision. No issues have been raised regarding the May Revision federal fund adjustment. The General Fund is not affected by this action.

E. Vote Only—4300 Department of Developmental Services

1. Governor's 10 Percent Reduction—Adjustments for May Revision

Issue. The Subcommittee is in receipt of a technical Finance Letter that contains a series of adjustments to the Governor's 10 percent reductions as updated for the May Revision which *only* pertains to special fund adjustments (i.e., federal funds and reimbursements). There are no General Fund impacts.

This technical letter makes adjustments needed to correct the Governor's budget which were adopted in Special Session and in previous Subcommittee actions.

Subcommittee Staff Recommendation—Adopt May Revision. These are technical adjustments regarding receipt of federal funds and reimbursements only. There is no General Fund impact.

2. Governor's Reversion Language for Current Year Regional Center Savings

Issue. The Subcommittee is in receipt of a Finance Letter requesting the adoption of Budget Bill Language to revert an estimated $88.8 million (General Fund) for 2007-08 for the budget for the Regional Centers.

The DDS states that this is do to a re-estimation of Regional Center Operations and the Purchase of Services (POS) expenditures.

The proposed Budget Bill Language is as follows:

> 4300-495 Reversion, Department of Developmental Services. As of June 30, 2008, the balances of the appropriations provided in the following citations shall revert to the funds from which the appropriations were made.
>
> 0001—General Fund
>
> (1) Item 4300-101-0001, Budget Act of 2007 (Chapters 171 and 172, Statutes of 2007). Up to $88,772,000 appropriated in Program 10.10.010—Operations, Program 10.10.020-Purchase of Services, and Reimbursements.
>
> (2) Item 4300-101-0001, Budget Act of 2007 (Chapters 171 and 172, Statutes of 2007). Up to $20,000 appropriated in Program 10.10.020—Regional Centers: Purchase of Services, Risk Pool, Self-Directed Services.

Subcommittee Staff Recommendation—Adopt Governor's Language. It is recommended to adopt this language and to recognize $88.7 million (General Fund) in unexpended General Fund support. Based on information provided by the DDS, these funds will *not* be needed in the current-year (2007-08) to provide services and supports to individuals with developmental disabilities.

3. Governor's Reduction to Supported Employment Programs

Issue. The Governor is proposing a reduction of $9.6 million ($7.7 million General Fund) to reduce the 24 percent rate increase provided to Supported Employment Programs in the Budget Act of 2006, by 10 percent.

The Governor's proposed 10 percent reduction would reduce the rate for job coach services from $34.24 to $30.82 per hour. Trailer bill language would be needed to implement this reduction. The savings level assumes a July 1, 2008 effective date.

The Budget Act of 2006 provided a 24 percent increase in Supported Employment Programs to assist in the development of employment services for persons with developmental disabilities. Specifically, it was increased from $27.62 per hour to $34.24 per hour. This rate increase was expected to assist in the development of 600 additional new jobs annually.

Background—Supported Employment Programs. 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. Supported Employment Programs provide services for individually employed consumers (individual placements), as well as consumers employed in group settings (group employment.). The caseload is affected by Regional Centers 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.

Legislative Analyst's Office Recommendation—Adopt Governor's Reduction. The LAO recommends adoption of the Governor's 10 percent reduction.

Prior Hearings. This issue was discussed in full committee on February 4th and in Subcommittee on April 17th.

Subcommittee Staff Recommends—Adopt the Governor's 10 Percent. Due to the fiscal crisis, it is recommended to adopt the Governor's reduction. These programs would still sustain almost a 15 percent rate increase as compared with the Budget Act of 2006 (when they received the 24 percent increase).

F. Vote Only—4400 Department of Mental Health

1. Governor's Elimination of Community Treatment Facilities (January Proposal)

Issue. The Governor proposes to eliminate the state's share of a supplemental rate paid to CTFs for a total reduction of $1.2 million (General Fund). This was part of the Governor's January proposal and it assumed a March 1, 2008 implementation date. The Administration is requesting statutory change to implement this proposal.

Prior Hearings. This issue was discussed in the full Committee on February 4th and in the Subcommittee in March. Public testimony was obtained at both hearings.

Background on CTFs. Community Treatment Facilities (CTFs), provide secured residential care for the treatment of children diagnosed as being seriously emotionally disturbed (SED). These are locked facilities that provide intensive treatment. CTFs were created as an alternative to out-of-state placement and state hospitalization for some children. The DMH and Department of Social Services have joint protocols for the oversight of these facilities.

The Budget Act of 2001 and related legislation provided supplemental payments to CTFs. These supplemental payments consist of both state (40 percent) and county (60 percent) funding. There were five CTFs in CA at the time of the development of the state's $1.2 million (General Fund) portion. These CTFs were as follows: (1) San Francisco Community Alternatives; (2) Seneca-Oak Community Alternatives in Concord; (3) Starlight Adolescent Center in San Jose; (4) Starview Children & Family in Santa Clara; and (5) Vista Del Mar Child & Family Services in Los Angeles. Two of these facilities recently closed in 2008 for various reasons.

Subcommittee Staff Recommendation—Modify Proposal to Reflect CTF Closures. At the time the $1.2 million supplemental rate was provided there were five CTFs with a total of 140 beds. There are now three CTFs with a total of 86 beds.

Due to the reduction in beds, Subcommittee staff recommends to provide **a total appropriation of $750,000 (General Fund)** in lieu of the Governor's complete elimination or the full restoration of $1.2 million which is not warranted. This level of funding will provide the same amount on a per bed basis as previously allocated.

In addition, trailer bill language is not necessary since existing statute was only applicable for past year levels and is silent regarding any ongoing funding level. It is recommended to adopt Budget Bill Language to identify the amount and purpose of the expenditure as follows:

> Provisional Language:
>
> x. Of the amount appropriated in this Item, $750,000 shall be used to provide a supplemental payment to Community Treatment Facilities for 2008-09.

2. Adjustments for Conditional Release Program (CONREP) (Finance Letter)

Issue. The Subcommittee is in receipt of a Finance Letter to increase the CONREP by $600,000 (General Fund) to support up to four court-ordered alternative placements for Sexually Violent Predators (SVPs). This funding level reflects the existing methodology.

The DMH contracts with Liberty Healthcare for the ongoing operation of this component of CONREP, including direct service costs for the patients' living arrangements, treatment and supervision. Statute requires that SVPs be conditionally released into their county of domicile, thus Liberty Healthcare must receive sufficient funding to be able to provide treatment and supervision services when an SVP is court-ordered conditionally released to a county.

Background—CONREP. 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.

In addition to the services provided through the contracts as referenced above, the DMH administers the State Transitional Residential Program (STRP) which is another component of the CONREP continuum of care. This program operates 40 beds located in three licensed non-medical facilities providing a highly structured residential program assisting patients' transition from the State Hospital system to the community. Typically, patients in a STRP facility stay about three to four months.

Subcommittee Staff Recommendation—Approve. No issues have been raised with this proposal. It is recommended to approve the increase for the budget year.

3. Healthy Families Program for Supplemental Mental Health (Finance Letter)

Issue. The May Revision for the supplemental mental health services provided under the Healthy Families Program (HFP) as administered by the Department of Mental Health (DMH) reflects *two* adjustments.

First, it continues the Governor's proposed 10 percent reduction to the program as recalculated using under the May Revision. Therefore, the updated 10 percent reduction is $52,000 (General Fund), versus the proposed reduction of $71,000 (General Fund) from January.

Second, the baseline program has been updated for May Revision, including adjustments for caseload and expenditures which would occur on the natural. These adjustments reflect a reduction of $6,449,000 (reduction of $190,000 General Fund and reduction of $6,259,000 in reimbursements).

Background—What is the HFP and How are Supplemental Mental Health Services Provided? 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.

Prior Subcommittee Action (March 24th). In this hearing the Subcommittee rejected the Governor's 10 percent reduction and therefore, increased by $71,000 (General Fund). (This figure has been updated per the Governor's May Revision.)

Subcommittee Staff Recommendation—Reject 10 Percent and Adopt Caseload Adjustments. It is recommended to **(1)** reject the Governor's 10 percent reduction as modified by the May Revision; *and* **(2)** adopt the proposed caseload adjustments for the budget year.

(**Technical note to the DOF**: Delete the amendment from the prior Subcommittee action for the 10 percent and reflect the rejection of the 10 percent per the updated May Revision amount.)

4. Caregiver Resource Centers (January Proposal)—Conform to Assembly

Issue. The Governor proposes a 10 percent reduction to the CA Caregiver Resource Center system which includes a $400,000 (General Fund) reduction in the current year *and* a $1.2 million (General Fund) reduction for 2008-09. The program was originally funded at $11.7 million (General Fund).

As noted below, the Legislature did adopt the Governor's current-year reduction of $400,000. Further, the Assembly Subcommittee #1 has also adopted the Governor's reduction of $1.2 million (General Fund). The DMH states that it is their intent to make the reduction to the Centers in a manner intended to mitigate any affects on direct services.

Prior Hearings. This issue was discussed on February 4th in the full Committee and on March 24th in the Subcommittee. Public testimony was heard in both hearings.

Special Session Action—Current Year Reduced. Due to fiscal constraints, the Legislature adopted the Governor's 10 percent reduction of $400,000 (General Fund) for the current year. This action reduced the current-year appropriation to a revised total of $11.3 million (General Fund).

Background. The CA Caregiver Resource Center system provides assistance to about 13,000 families who are caring for an adult family member at home. Assistance includes consultation and care planning, counseling and support planning groups, education and training, legal and financial planning, respite care, and other mental health interventions.

The DMH contracts with 11 agencies statewide for these services. The availability of this assistance assists to delay if not eliminate the admission of family members to long-term care institutions.

Legislative Analyst's Office Recommendation—Adopt Governor's Reduction. The LAO did include this reduction in her alternative budget. The Assembly Subcommittee #1 has also adopted the budget year reduction of $1.2 million (General Fund).

Subcommittee Staff Recommendation—Adopt Governor's Reduction . Due to the fiscal crisis, it is recommended to conform to the Assembly and adopt the Governor's $1.2 million (General Fund) reduction.

5. Medi-Cal Mental Health Managed Care—May Revision & Governor's Reductions

Issue. For the May Revision, the Administration is proposing to continue the Governor's 10 percent reduction of $23.8 million (General Fund) to the amount the state provides in support of Medi-Cal Mental Health Managed Care.

However, the DMH is now proposing an "unallocated" reduction approach to this proposed reduction. In January the DMH had specifically targeted elimination of the minor consent program, a 5 percent rate reduction and elimination of state support for certain federal regulation assistance.

In addition, the DMH is proposing a minor adjustment of $22,000 (General Fund) to account for standard baseline adjustments which would occur on the natural, such as for caseload and related items.

Therefore, the DMH is proposing a total appropriation of $214.4 million (General Fund), including the 10 percent unallocated reduction of $23.8 million.

Background—How Mental Health Managed Care is Funded: Under this model, County Mental Health Plans (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 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 47 percent match while the state provided a 53 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.)

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—Previous Rate Reduction to Mental Health Managed Care Program. The Mental Health Managed Care Program, along with rates paid to other Medi-Cal Program providers, was reduced by 5 percent for a two-year period (from 2003 to 2005) as contained in legislation. Though the rates paid to providers of health care services under the Medi-Cal Program were restored in 2005, efforts to restore the five percent for this program have not succeeded. In addition, adjustments for certain medical cost-of-living-adjustments have not been provided by the state to County MHPs since 2000.

The Subcommittee is in receipt of a letter from several constituency groups expressing concern with the Governor's proposed reductions. Among other things, they 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 or backfill for General Fund support.

Subcommittee Staff Recommendation—Modify the May Revision. The Governor's ten percent unallocated reduction for this program raises *potential* concerns regarding maintenance of effort provisions as contained in the Mental Health Services Act (Proposition 63), Statutes of 2004. It is therefore recommended to reject this approach.

However, Subcommittee staff recommends a reduction of $5.350 million (General Fund) provided to County Mental Health Plans for administration of federal regulations which were issued several years ago regarding providing informing materials to Medi-Cal enrollees regarding mental health treatment services. This reduction is recommended for the following reasons:

- Implementation of the federal regulations initially required more expenditure as the process was newly established and required more workload;
- The Administration is in the process of re-negotiating California's Medi-Cal Mental Health Waiver and has the opportunity to streamline these requirements;
- County Mental Health Plans need to provide a certain modicum of support for informing materials and related aspects to the federal requirements; as such, it is reasonable to expect that they would share in the cost and even be deemed to be meeting many of the requirements by what they provide in the first place; and
- If needed, additional sources of funding could be obtained, such as from foundations for special projects related to consumer awareness and choices.

Further, the Mental Health Services Act has been very beneficial in providing information regarding mental health services and treatment and has undoubtedly facilitated in this process on the natural. The DMH should discuss this aspect with the federal CMS in their negotiations.

Therefore it is recommended to **(1)** reject the Governor's 10 percent unallocated reduction of $23.8 million (General Fund); **(2)** adopt the technical baseline adjustment increase of $22,000 (General Fund); and **(3)** reduce by $5.350 million (General Fund) to delete state support for the federal regulations.

6. San Mateo Pharmacy Project—Two Technical Issues

Issues. First, the Department of Finance has requested through the May Revision process technical provisional language which allows for the allocation of General Fund moneys, as already provided for by the Subcommittee, to pay prior years' claims from 2004-05 and 2005-06. This language will simply serve to provide a historical technical reference that funds were provided for this purpose (in the event the State Controller or others have questions).

The DOF proposed language is as follows:

> "Of the amount appropriated in this Item, a portion is for costs and claims incurred by the San Mateo Pharmacy and Laboratory Services Program in the 2004-05 and 2005-06 fiscal years."

Second, the DMH needs to adjust the 10 percent reduction proposed for the Project and adopted by the Subcommittee. The May Revision proposes a reduction of $928,000 (General Fund) not $964,000 (General Fund) as proposed in January.

Subcommittee Staff Recommendation—Adopt the Proposed Language and Technical Adjustment. No issues have been raised. It is recommended to approve the above language and to adopt the May Revision adjustment for the 10 percent reduction. All other previous Subcommittee actions remain the same.

7. Administration's Technical Scheduling Correction

Issue. The DOF has informed the Subcommittee that a technical scheduling shift between state support items within the DMH needs to be done to appropriately reflect an administrative reduction as proposed through the Governor's 10 percent reduction process and as adopted by the Subcommittee. The adjustment pertains to administrative services and information technology projects.

Subcommittee Staff Recommendation—Adopt Scheduling Change. No issues have been raised.

8. May Revision Adjustments for the State Hospitals

Issues. The Governor's May Revision contains various adjustments for the State Hospitals as they pertain to patient population and expenditures. Several of these adjustments correspond to reductions already taken by the Subcommittee based on Legislative Analyst's Office (LAO) recommendations. Other adjustments are technical and relate to staffing compliments that are needed to appropriate address patient care as well as facility operations, such as food service, plant operations and related functions.

The four key adjustments include the following:

- Decrease of $24.742 million and 245 positions to reflect the full-year impact of current-year reductions in patient population (DOF issue #220);

- Decrease of $328,000 to reflect a decrease in the number of positions associated with the continued activation of Coalinga State Hospital (DOF issue #221);

- Decrease of $13.3 million and 130 positions to reflect a net decrease in the Judicially Committed/Penal Code population of 188 patients (DOF issue #223); and

- Increase of $6.7 million and 50 positions to support a 64-bed expansion of the Salinas Valley Psychiatric Program as required by the Coleman Court.

The LAO concurs with these revised adjustments.

Subcommittee Staff Recommendation—Adopt May Revision. It is recommended to rescind the Subcommittee's March 24th action to reduce as recommended by the LAO and to instead, adopt the May Revision estimate.

Though the LAO recommendation was very valuable, due to other technical adjustments in the Administration's May Revision package, this recommended action will provide for a more accurate base for 2008-09.

II. ISSUES FOR DISCUSSION

A. Department of Mental Health

1. Adjustments to the Early and Periodic Screening, Diagnosis & Treatment

Issues. There are a series of adjustments that are needed for the EPSDT Program. These adjustments pertain to **(1)** the Governor's reduction proposals from January and adjusted for the May Revision; **(2)** an alternative to one of the reduction proposals; **(3)** adjustments to actions taken in the Special Session which affect budget year that need technical adjustments due to the May Revision; and **(4)** other "baseline" adjustments to the EPSDT Program that are occurring due to the May Revision. All of these issues are discussed below.

In his January budget, the Governor proposed significant reductions to the Early and Periodic Screening, Diagnosis and Treatment (EPSDT) Program through the Special Session and for the budget year. These reductions consisted of several distinct proposals.

These reductions were discussed in detail in the full Committee on February 4th and in the Subcommittee on March 24th.

The Legislature did adopt two of the Governor's proposals, as noted below in the table regarding Special Session actions, which are being updated for May Revision to account for caseload and expenditure adjustments that would normally occur.

The remaining two "open" issues from the Governor's reduction package include: **(1)** to reduce the Schedule of Maximum Allowances (a complex rate methodology); and **(2)** to require a six-month reauthorization for Day Treatment Services.

With respect to the Schedule of Maximum Allowances, it is the belief of Subcommittee staff that this proposal would likely lead to litigation and would be problematic to implement. It is recommended to *reject* this reduction proposal.

Regarding the Administration's proposal to require a six-month reauthorization for Day Treatment Services, in both hearings it was evident that the proposal was not plausible and would in fact eliminate 2,003 children with serious emotional disturbances from receiving Day Treatment services.

As such, the DMH has been meeting with constituency groups to see if other options are available to provide EPSDT Day Treatment Services with a more enhanced evidence-based approach to progress a child's treatment. Due to the time limitations with the Governor's May Revision, a comprehensive package could not be developed for release last week by the Administration.

As such, Subcommittee staff is proposing to utilize components of the DMH's work with constituency groups to propose an alternative as **outlined below**:

<u>"Alternative"—EPSDT Statewide Performance Improvement Project</u>

Using APS Healthcare, the DMH's contractor used for conducting quality reviews as required for Medi-Cal purposes, a statewide performance improvement project approach would be used to review the services being provided under the EPSDT Program for the highest 3 percent of service users, as determined by their average monthly dollar value of approved claims. These reviews would evaluate the spectrum and amount of services provided to these high-end users in order to streamline and coordinate care for quality purposes.

Therefore, on the natural, cost savings would be achieved through administrative and service strategies/interventions targeting coordination and integration of care though appropriate case management. The interventions applied would result in more efficient EPSDT service delivery while reducing total program costs for high-end users.

The DMH has completed some preliminary analysis of EPSDT data and the highest 3 percent group, as referenced above, was found to represent 5,518 clients who have an average monthly cost for services equal or greater than $3,000. These clients were found to have received services costing $242 million (total funds), or about 25 percent of the total annual expenditures for the program.

The DMH has consulted with representatives from various key constituency groups and stakeholders, including individuals with clinical expertise and evidence-based practice expertise. Based on these varied discussions, it appears that an overall program reduction of 12 percent can occur from increasing quality, effectiveness and efficiency of service delivery to children.

With respect to an **operational plan** for this alternative *EPSDT Statewide Performance Improvement Project,* the following components are provided:

- County Mental Health Plans would identify children enrolled in the EPSDT (i.e., the 3 percent target grouping).
- The APS Healthcare and CA Institute for Mental Health would provide monitoring and technical assistance to the project. (The DMH has existing contracts with these entities for "performance improvement projects" already and this project can be substituted for others as applicable/appropriate.)
- The project would be guided by a quality improvement process and a "plan-do-check-act" cycle where strategies/interventions are implemented and then data are examined again to determine the effectiveness of the quality and cost-reduction strategies.
- Each county would design strategies and interventions specific to their needs in achieving quality and efficiency goals. They will also need to conduct frequent utilization reviews in order to inform the process ongoing.

This would be done in *lieu* of the Administration's six-month reauthorization for Day Treatment Services (i.e., reject the Administration's six-month reauthorization and adopt the "alternative").

Subcommittee staff would recommend the following *placeholde*r trailer bill language to implement this proposal.

> **Add to Section 5777 (g)** (i.e., pertains to Medi-Cal Waiver contracting activities) the following:
>
> (1) Commencing July 1, 2008, county Mental Health Plans, in collaboration with the department, the federally required external review organization, providers and other stakeholders, shall establish an advisory statewide performance improvement project (PIP) to increase the quality, effectiveness and efficiency of service delivery to children receiving at least $3,000 per month in EPSDT services. The statewide PIP will replace one of the two required PIPs that county Mental Health Plans must perform under federal regulations outlined in the Mental Health Plan contract.
>
> The federally required external quality review organization shall provide independent oversight and reviews with recommendations and findings or summaries of findings, as appropriate, from a statewide perspective. This information shall be accessible to county mental health plans, the department, county welfare directors, providers and other interested stakeholders in a manner that both facilitates and allows for a comprehensive quality improvement process for the EPSDT Program.
>
> Each July, the department, in consultation with the external quality review organization and the county Mental Health Plans, shall determine the average monthly cost threshold for counties to use to identify children currently receiving services whose care costs of EPSDT services exceed that monthly cost on average over the total consecutive months in which services were delivered. The department shall consult with representatives of county mental health directors, county welfare directors, providers and the federally required external quality review organization in setting the annual average monthly cost threshold and in implementing the statewide PIP. The department shall provide an annual update to the Legislature on the results of this statewide PIP by October 1 of each year for the prior fiscal year.
>
> It is the intent of the Legislature for the EPSDT PIP to increase the quality, effectiveness and efficiency of service delivery to children receiving EPSDT services and to facilitate evidence-based practices within the program to ensure that children are receiving appropriate mental health services for their mental health wellness.
>
> This provision shall sunset on September 1, 2011 and shall be repealed by December 31, 2011 unless subsequent legislation is enacted to extend it.

It is *estimated* that a savings of about 12 percent could be achieved from implementation of the EPSDT PIP, or $29.1 million ($12.150 million General Fund, $2.3 million County Funds and $14.5 million federal funds).

Special Session Actions by Legislature and Updated May Revision Amounts. The Legislature did adopt two of the Governor's reduction proposals in Special Session as shown in the table below. The Subcommittee will need to adopt the May Revision amounts for these two actions due to technical adjustments for caseload and expenditures that naturally occur when the program is recalculated at May.

Governor's Proposal	Current Year (General Fund) Special Session	January Estimate 2008-09 (General Fund)	**May Revision 2008-09 (General Fund)**
Elimination of COLA	-$1,878,000	-$7,516,000	**-$7,389,000**
Reduce Costs from DMH Monitoring	-$1,768,000	-$7,092,000	**-$6,498,000**
Total Amounts	**-$3,646,000**	-$14,608,000	**-$13,887,000**

"Baseline" EPSDT Adjustments for May Revision Reflects Reduction. The EPSDT Program is re-estimated at the May Revision to reflect updated caseload information and costs.

According to the DMH, a reduction of $12.108 (General Fund) is needed to reflect this update to the baseline program. This reflects baseline adjustments according to a standard methodology.

Subcommittee Staff Recommendation. Based on the above information, the following actions are recommended:

- Reject the Governor's proposal to change the Schedule of Maximum Allowances.
- Adopt the "Alternative" EPSDT Statewide Performance Improvement Project *in lieu* of the Administration's six-month reauthorization for Day Treatment Services proposal. this requires the following *two* technical actions:

  (1) Reduce by $12.150 million (General Fund) to reflect adoption of the "Alternative" EPSDT PIP proposal;

  (2) Adopt the proposed *placeholder* trailer bill language as contained in the Agenda above.
- Adopt the May Revision adjustments for the two Special Session actions adopted by the Legislature as shown in the table above to reflect the 2008-09 *on-going* effects of the reductions enacted.
- Adopt the May Revision "baseline" adjustment for May Revision which reflects a decrease of $12.108 million (General Fund).

The table below provides a summary of the General Fund piece of these recommended adjustments for **2008-09**.

Description of Adjustments in Subcommittee Proposal	2008-09 General Fund Amount
Adjusted Baseline for EPSDT for 2008-09	$505,447,000
Reject Governor's Schedule of Maximum Allowances Changes	0
Adopt "Alternative" EPSDT Performance Improvement Project	-$12,150,000
Special Session Actions, adjusted for May Revision. (This includes the elimination of the COLA and the increased monitoring by the DMH.)	-$13,887,000
Baseline EPSDT Program adjustments for May Revision	-$12,108,000
TOTAL Revised General Fund Amount for 2008-09	**$467,302,000**

(Adjustments are per the May Revision Update)

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

1. DMH, Please comment on the "Alternative" EPSDT Statewide Performance Improvement Project. Is it workable?

2. Increased Budget Authority for Mental Health Services Act Funding

Issue. The Subcommittee is in receipt of information from various stakeholders requesting an adjustment to the Department of Mental Health's (DMH) budget for the statewide initiatives adopted in the Subcommittee on May 12th as contained in a Finance Letter.

Based on discussions, there appears to be a consensus that the appropriation authority of the DMH needs to be increase by a total of $25 million (Mental Health Services Act Funds) in order to meet the needs identified for the statewide projects, as well as timelines that have been identified.

All of these funds would flow from local assistance (i.e., counties) to the DMH for expenditure since these are statewide initiatives. Under current legal interpretation of the MHSA Act, counties must first receive the MHSA Funds and can then reassign them to the state, such as in this case for the identified statewide initiatives. Therefore, DMH expenditure authority is needed to fully utilize the funds.

The statewide projects and the requested increases in Mental Health Services Act Funds are each described below.

- Student Mental Health Initiative. An increase of $7 million (Mental Health Services Act Funds) is needed to fully fund this initiative. Of this increase, $6.5 million would be for K-12, and $500,000 would be for higher education.

  The Mental Health Services Oversight and Accountability Commission (OAC) approved $15 million annually for four years for this initiative. Of this amount, it dedicated $8.5 million to higher education and $6.5 million to K-12 education. However, the Finance Letter only provided authority for $8 million. In order for the OAC to direct DMH to fully implement this initiative the additional $7 million (Mental Health Services Act) is needed.

  This initiative incorporates strategies to identify students with potential mental health problems in K-12 settings and to support those with diagnosed mental illnesses as part of a comprehensive student mental health strategy. Practical experience and academic literature demonstrate that mental health problems that can lead to school violence begin early, in primary, middle and high schools.

- Statewide Initiative on Stigma and Discrimination Reduction. An increase of $15 million (Mental Health Services Act Funds) is needed to fully fund this initiative.

  The Mental Health Services Oversight and Accountability Commission (OAC) has approved a total of $30 million annually for four years for this initiative. However, only $15 million has been appropriated for this purpose. Therefore, an additional $15 million is needed.

- Statewide Initiative on Suicide Prevention. An increase of $3 million (Mental Health Services Act Funds) is needed to fully fund this initiative.

  The Mental Health Services Oversight and Accountability Commission (OAC) approved $14 million annually for four years for this initiative. The OAC dedicated $4 million of this amount to the Student Mental Health Initiative, leaving $10 million for the Statewide Initiative on Suicide Prevention. The Finance Letter included only $7 million to implement this. Therefore, the DMH needs an increase of $3 million (Mental Health Services Act Funds).

In addition to the proposed increase of $25 million (Mental Health Services Act Funds), the following uncodified trailer bill language is proposed to ensure that the Mental Health Services Oversight and Accountability Commission (OAC) has timely access to data from these statewide initiatives. The proposed trailer bill language is as follows:

> "The Department of Mental Health shall provide the Mental Health Services Oversight and Accountability Commission (OAC) with data, as specified and requested by the OAC, for the purpose of the OAC to utilize in its oversight, review and evaluation capacity regarding projects and programs funded with Mental Health Services Act funds."

B. Department of Public Health

1. Licensing and Certification: Governor's Fee Increases

Issue. In its April 28th hearing, the Subcommittee discussed the Governor's substantial Licensing and Certification (L&C) Fee increases and took some actions to mitigate these proposed increases to various health care facilities. The purpose of this hearing is to make additional adjustments to reduce fees while maintaining appropriate patient safety and protections.

Commencing with the Budget Act of 2006, the Governor has *annually* proposed significant increases in the fees paid by health care facilities and agencies (i.e., "Non-State" health facilities).

Through a number of means, the Legislature has annually acted to mitigate the Administration's substantial fee increases, including requiring improved time keeping systems, the unbundling of facility types to more appropriately allocate costs, adjusting state staffing requirements, recognizing other revenues collected by the L&C Division to offset L&C Fees, and providing a small General Fund subsidy for certain non-profit community-based facilities.

The Governor's proposed L&C Fee increases are shown in the table below, as compared to those approved by the Legislature through the Budget Act of 2007. As noted below, in most instances the Governor is proposing *substantial fee increases* for 2008-09.

Governor's Proposed Licensing and Certification Fee Schedule Increases

Facility Type	Fee Category	2007-08Fee (Budget Act 2007)	**Governor's 2008-09 Fee**	Difference (+/-) *(Rounded)*	Percent Change *(Rounded)*
Referral Agencies	per facility	$6,798.11	$6,216.49	-$582	-8.6%
Adult Day Health Centers	per facility	$4,383.14	$5,030.16	$647	14.7%
Home Health Agencies	per facility	$3,867.14	$5,260.47	$1,393	36%
Community-Based Clinics	per facility	$871.13	$1,349.93	$479	55%
Psychology Clinic	per facility	$2,296.58	$3,565.26	$1,268	55%
Rehabilitation Clinic (for profit)	per facility	$402.20	$1,103.60	$702	172%
Rehabilitation Clinic (non-profit)	per facility	$402.20	$1,103.60	$702	172%
Surgical Clinic	per facility	$2,842.08	$2,694.73	-$148	-5.2%
Chronic Dialysis Clinic	per facility	$3,238.98	$3,405.79	$166	5.1%
Pediatric Day Health/Respite	per bed	$138.30	$195.89	$58	4.2%
Alternative Birthing Centers	per facility	$1,710.20	$2,983.92	$1,274	74.5%
Hospice (2-year license)	per facility	$723.86	$2,221.40	$1,497	206%
General Acute Care Hospitals	per bed	$309.07	$255.46	-$54	-17.5%
Acute Psychiatric Hospitals	per bed	$309.07	$255.46	-$54	-17.5%
Special Hospitals	per bed	$309.07	$255.46	-$54	-17.5%
Chemical Dependency Recovery	per bed	$200.29	$177.49	-$23	-11.5%
Congregate Living Facility	per bed	$250.77	$292.20	$41	16.3%
Skilled Nursing	per bed	$250.77	$292.20	$41	16.3%
Intermediate Care Facility (ICF)	per bed	$250.77	$292.20	$41	16.3%
ICF-Developmentally Disabled	per bed	$469.81	$1,307.72	$837	178%
ICF—DD Habilitative, DD Nursing	per bed	$469.81	$1,307.72	$837	178%
Correctional Treatment Centers	per bed	$806.53	$832.67	$26	3.3%

Prior Subcommittee #3 Hearings. The Subcommittee took several actions in its April 28th and May 12th hearings to make reasonable adjustments to the L&C Fees, while providing increased staff—most specifically Health Facility Evaluator positions—for licensing and certification purposes including for Senate Bill 1312 (Alquist), Statutes of 2006.

Key actions taken at these hearings include:

1. Elimination of $478,000 (L&C Fees) to provide the L&C Division with more funding for operating expenses and equipment.
2. Approving $431,000 (L&C Fees) for positions to implement L&C Division requirements as contained in Senate Bill 739 (Speier) for hospital infection enforcement.
3. Adopted trailer legislation to provide more information regarding how the L&C Fees are developed.
4. Made adjustments to use the 1,800 hour standard for productivity for L&C positions, in lieu of the 1,364 hour standard, which resulted in a lowering of the number of staff needed for conducting certain L&C work and thereby lowered the fee to be paid.
5. Made adjustments to ensure that SB 1312 (Alquist), Statutes of 2006 was implemented statewide. This included increasing the contract for Los Angeles County L&C work and adopting trailer bill language accordingly.

All of these actions remain as part of the Senate's version of the Budget Bill. However, additional adjustments are needed to address the overall L&C Fee schedule for 2008-09.

Subcommittee Staff Recommendation. First, it should be recognized that the L&C Division has provided very valuable technical assistance to the Subcommittee regarding the modeling of various L&C Fee options (thank you).

The table below of proposed L&C Fee adjustments for 2008-09, as recommended by Subcommittee staff, includes the following assumptions:

- No General Fund subsidy for any health care facility. This results in savings of $2.3 million (General Fund) as compared to the Governor.
- Applies expenditures of $431,000 (L&C Fees) for SB 739 (Speier) for hospital infection enforcement within the hospital categories only.
- Deletes the $478,000 (L&C Fee) price increase.
- Revises the funding credits for change of ownership, initial application fees, and late fees so that these additional revenues are applied towards reducing the L&C Fee (no increases were done to any of the credit categories). This updated revenue offset to the L&C Fees is $3.9 million.
- Assumes the higher productivity level for staffing for SB 1312.

- Applies $7.7 million in salary savings relief which reduces the L&C Fees. These salary savings are spread across most of the health facility categories as directed by Subcommittee staff.

As noted in the Table below, the above assumptions result in lower L&C Fees for 2008-09 for all categories, except for a small increase for hospitals.

Proposed L&C Fees by Subcommittee

Facility Type	Fee Category	2007-08 Fee Current Year	**Governor's 2008-09 Fee**	**Proposed Fee Subcommittee**	***Difference***
Referral Agencies	per facility	$6,798.11	$6,216.49	$3,564.16	-$2,652.33
Adult Day Health Centers	per facility	$4,383.14	$5,030.16	$3,995.61	-$1,034.55
Home Health Agencies	per facility	$3,867.14	$5,260.47	$4,159.42	-$1,101.05
Community-Based Clinics	per facility	$871.13	$1,349.93	$600.00	-$749.93
Psychology Clinic	per facility	$2,296.58	$3,565.26	$1,100.00	-$2,465.26
Rehabilitation Clinic (for profit)	per facility	$402.20	$1,103.60	$200.00	-$903.60
Surgical Clinic	per facility	$2,842.08	$2,694.73	$1,918.00	-$776.73
Chronic Dialysis Clinic	per facility	$3,238.98	$3,405.79	$2,932.86	-$472.93
Pediatric Day Health/Respite	per bed	$138.30	$195.89	$154.62	-$41.27
Alternative Birthing Centers	per facility	$1,710.20	$2,983.92	$2,430.90	-$553.02
Hospice (2-year license)	per facility	$723.86	$2,221.40	$1,875.47	-$345.93
General Acute Care Hospitals	per bed	$309.07	$255.46	$257.77	+$2.31
Acute Psychiatric Hospitals	per bed	$309.07	$255.46	$257.77	+$2.31
Special Hospitals	per bed	$309.07	$255.46	$257.77	+$2.31
Chemical Dependency Recovery	per bed	$200.29	$177.49	$144.59	-$32.90
Congregate Living Facility	per bed	$250.77	$292.20	$285.65	-$6.55
Skilled Nursing	per bed	$250.77	$292.20	$285.65	-$6.55
Intermediate Care Facility (ICF)	per bed	$250.77	$292.20	$285.65	-$6.55
ICF-Developmentally Disabled	per bed	$469.81	$1,307.72	$1,008.39	-$299.33
ICF—DD Habilitative, DD Nursing	per bed	$469.81	$1,307.72	$1,008.39	-$299.33
Correctional Treatment Centers	per bed	$806.53	$832.67	$274.03	-$558.64

In addition to the above L&C Fee adjustments, the Department of Finance (DOF) is also requesting a technical adjustment to the L&C Division's baseline budget. Specifically they are proposing a reduction of $2.273 million (L&C Fees) to the January baseline budget to align baseline expenditures. No concerns have been raised regarding this bottom line reduction. According to the Administration there is no affect on L&C Fees from this technical adjustment. It is therefore recommended to approve this adjustment too.

Therefore, it is recommended to adopt these revised L&C Fees and the requested adjustment by the DOF.

2. State Support to Local Health for Emergency Preparedness

Issue. There are several issues regarding the state's support to Local Health Jurisdictions for emergency preparedness and pandemic influenza. *First* is the funding level provided in the Governor's budget and his proposed 10 percent reduction.

The Governor's January budget included $15.579 million (General Fund) for the amount the state provides to Local Health Jurisdictions for pandemic influenza and emergency preparedness, less a 10 percent reduction of $1.6 million (General Fund). **The chart below displays the components of this funding level.**

Budget Act of 2007, after Governor's Veto	$4.960 million
Proposed Increase by Governor to Restore Veto	$8.5 million
*Reappropriation Funding (warehouse space)	$2.119 million
Governor's Reduction for 10 percent	($1.6 million)
Governor's Proposal for 2008-09	$13.979 million

(*Total available in reappropriation is $8.476 million. It is assumed that these funds are used equally over four years for warehousing supplies.)

As part of his 10 percent reduction, the Governor is proposing a $1.6 million (General Fund) reduction as noted in the chart.

In her February *Analysis* of the Governor's Budget, the Legislative Analyst's recommended deleting the proposed increase of $8.5 million for 2008-09 (i.e., the proposed increase by the Governor's to restore his 2007 Budget Act veto) due to the fiscal crisis. As such, the Assembly Subcommittee #1 took action to approve the LAO's recommendation to delete these funds.

However, the *second* aspect of this issue pertains to California's need to meet certain federal "Maintenance of Effort" (MOE) requirements in order to maintain two federal grants (a grant from the federal Centers for Disease Control and a grant from the federal US Health and Human Services).

This MOE aspect did not come to light until the May 12th Subcommittee #3 hearing when the DPH articulated that California's federal funds would be at risk if the LAO recommendation were to be enacted by Subcommittee #3 (and the Legislature). Since this time, the LAO, Subcommittee staff, the DOF and the DPH have been discussing this issue of what constitutes the MOE.

Based on discussions, it is unclear whether one-time only funds from prior years would be counted within the state's MOE, or how narrow or broad the definition is when calculating what should be included in the MOE. Further, the federal CDC has only issued *draft* guidance to the DPH at this time.

Background--Federal Funding Available to Local Health Jurisdictions and Hospitals. Under federal law there are two *key* funding streams made available to California—one from the federal Centers for Disease Control (CDC), and one from the federal Health Resources and Services Administration (HRSA). The federal CDC grant is in support of state and local public health measures to strengthen the state against bioterrorism. California allocates 70 percent of the CDC grant funds to support local public health jurisdictions and DPH state operations within the remaining 30 percent. Among other things, the HRSA grant has provided funding for over 300 of California's approximately 400 hospitals to purchase medical supplies and equipment such as pharmaceutical caches, personal protective equipment, communications equipment, cots, emergency generators, and isolation capacity systems. Based on the most recent Department of Public Health report, as of December 2007, the following local federal fund award summary is provided (*includes Los Angeles*):

Department of Public Health's Summary of Federal Centers for Disease (CDC) Funds to Locals

Fiscal Year	Grant Amount	Total Paid	Balance
2007-08	$74.4 million	$6.7 million	$67.6 million
2006-07	$98 million	$71.3 million	$26.8 million
2005-06	$78.5 million	$72.3 million	$6.1 million
TOTALS	**$250.8 million**	**$150.3 million**	**$100.5 million**

Department of Public Health's Summary of Federal Hospital Preparedness Funds to Locals

Fiscal Year	Grant Amount	Total Paid	Balance
2007-08	$32.6 million	$72,700	$32.6 million
2006-07	$49.6 million	$22.9 million	$26.7 million
2005-06	$37.8 million	$37.3 million	$501,400
TOTALS	**$120.1 million**	**$60.3 million**	**$59.8 million**

With respect to the above tables, the DPH notes that these figures include Los Angeles which receives funds directly from the federal government, and that federal awards to states were issued late for 2007-08. However the fiscal information does illustrate the level of funding that Local Health Jurisdictions and related local entities have received for emergency preparedness efforts.

In addition, the DPH utilizes about $32 million (total funds) and 88 positions annually for various emergency preparedness efforts. The state also made considerable investments in 2006 regarding the Surge Initiative and the expenditure of tens of millions for three Mobile Hospitals, alternative site beds, pharmaceuticals, medical supplies, ventilators and related emergency preparedness equipment, personnel and activities.

Subcommittee Staff Recommendation—Conform with Assembly, Adopt LAO Recommendation. As noted above, the LAO recommends to delete the $8.5 million (General Fund) increase proposed by the DPH for 2008-09 which is intended to restore the Governor's veto of these in the Budget Act of 2007. The Assembly Subcommittee #1 adopted the LAO recommendation and Subcommittee recommends to conform to the Assembly. Due to the fiscal crisis, the availability of federal funds, including unspent federal funds from prior years, and the fact this General Fund appropriation is discretionary, the elimination of funding is recommended. .

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

1. **DPH**, Does the DPH have any comment?

3. Governor's Reduction for Emergency Response--Food

Issue. The Governor proposes a reduction of $219,000 (General Fund) to the Food and Drug branch within the DPH related to food microbiology and foodborne illness and for leading components of an outbreak investigation, environmental investigation and/or trace back.

This reduction would still leave 6 staff positions within the branch to respond to these issues.

Legislative Analyst's Office Recommendation. The LAO did include this reduction in her alternative budget proposal.

Subcommittee Staff Recommendation—Adopt Governor's Reduction. No issues have been raised regarding this proposal. It is recommended to adopt the Governor's reduction.

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

1. DPH, Please provide a *brief* summary of the core functions presently being done to protect the food supply.

2. DPH, Please explain the increase in staff provided through the budget process over the past two years regarding protection of the food supply.

3. DPH, What affects may this Governor's proposed reduction have specifically?

4. Governor's Reduction to Vector Borne Control Program

Issue. The Governor is proposing a reduction of $235,000 (General Fund) to the DPH's Vector Control Program and one position as part of his 10 percent across-the-board reduction.

The $235,000 reduction consists of two pieces as follows:

- $94,000 (General Fund) from elimination of the Public Health Vector Control Technician Certification Program (Certification Program), whose purpose is to certify Local Health Jurisdictions staff on vector-borne disease surveillance, prevention and control; and

- $141,000 (General Fund) from closing the state's Santa Rosa Vector Borne Disease Surveillance field office (which is one of six field offices for these purposes in the state). The DPH states that there is only one person in this office and this office is very close in proximity to the Richmond Laboratory complex. Therefore, some of the duties performed by the Santa Rosa office can be shifted to Richmond staff (and to a lesser extent, to the Elk Grove field office and Redding field office). The DPH states that there will be a moderate reduction in their ability to conduct services relating to Lyme Disease prevention.

Prior Subcommittee Hearing. In the May 12th Subcommittee hearing, various constituency groups testified in support of increasing the fees in this program, including associations and organizations whose members would pay the fees, for the *Certification Program component* of this reduction.

Background on Vector-Borne Disease Program. The DPH provides consultation services and assistance to Local Health Jurisdictions in epidemiologic investigations, surveillance, prevention, and control of vector-borne diseases (such as Lyme Disease, West Nile virus and others).

In addition, they administer the Public Health Vector Control Technician certification examination program which certifies vector control government staff. This program requires every government agency employee who handles, applies, or supervises the use of any pesticide for public health purposes to be certified by the DPH.

Constituency Group Concerns with Governor's Reduction. The Subcommittee is in receipt of letters from the (1) Mosquito and Vector Control Association of CA and the (2) CA Association of Environmental Health Administrators expressing concerns with the Governor's reduction and recommending an alternative funding proposal.

They are particularly concerned with the reduction to the DPH's Public Health Vector Control Technician certification examination program. They state this program is vital to special districts and is needed to maintain public health and safety regarding the use of pesticides and vector/mosquito abatement. It is of particular concern due to West Nile Virus and its spread to California.

The Subcommittee also received letters regarding concerns about the closure of the Santa Rosa office due to concerns with Lyme Disease surveillance.

Subcommittee Staff Recommendation—Modify Governor's Proposal. First, due to fiscal constraints, it is recommended to enable the DPH to proceed with the closure of the Santa Rosa field office. Other field offices are in proximity and the Local Health Jurisdiction can provide assistance when applicable.

Second, it is recommended to adjust the fees paid under the Certification Program to generate sufficient revenues to maintain the existing program as desired by various stakeholders, including those who would have to pay the fees.

Subcommittee staff has obtained technical assistance information from the DPH regarding fee adjustments. Based on this technical assistance information, it is recommended to do the following adjustments:

- Increase the annual certification fee from $36 to $120. It is anticipated that the number of certificates per year would be for 900 Technicians. This would generate revenue of $108,000 per year.

- Increase the exam fees from $37 for the series of four exams done under the program to $100 (i.e., $25 per exam but 4 exams are typically taken by each individual). It is anticipated that the number of exam series administered will be 120 per year. This would generate revenue of $12,000.

Increasing these fees would allow for the Certification Program to be fully supported by special funds.

Therefore, it is recommended to (1) delete $141,000 (General Fund) as recommended by the Governor; (2) increase the fees as noted above to fully support the Certification Program; (3) adopt placeholder trailer bill language for the fee adjustments; and (4) increase the special fund to reflect the need for increased appropriation authority due to the fee increases.

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

1. DPH, From a policy perspective, does it make sense to increase the fees to maintain the program?

<u>5. CA Radiation Protection Program</u>

<u>Issue.</u> The DPH is requesting an increase of $262,000 (Radiation Control Fund) for two positions—Associate Health Physicists—on a two-year limited-term basis (June 30, 2010).

The DPH states this staff is needed to meet statutory mandates for the protection of public health and safety and decrease the public's risk of excessive and improper exposure to radiation by performing **(1)** federally mandated enhanced security inspections; and **(2)** federally mandated evaluations and inspections of devices containing radioactive material.

The DPH notes that a radioactive licensee's loss of control of high-risk radioactive sources, whether it is inadvertent or through a deliberate act, has a potential to result in significant adverse health impacts and could reasonably constitute a threat to the public health and safety. In this regard, the NRC determined that certain additional controls are required to be implemented by licensees to supplement existing regulatory requirements in order to ensure adequate protection of, and minimize danger to, the public health and safety.

<u>Budget Act of 2006—5 Additional Positions Provided Due to NRC Concerns.</u> In response to significant concerns by the Nuclear Regulatory Commission (NRC), as noted below, the department received an additional 5 Associate Health Physicist positions to be used to: **(1)** review and evaluation applications for licensure approval to use radioactive material for industrial, academic, medical, veterinary or research purposes; **(2)** perform inspections of users; **(3)** review issued licenses and inspection reports to ensure consistent and uniform application; and **(4)** research and develop radiation safety regulations for compatibility with federal requirements and compliance with state law.

<u>Nuclear Regulatory Commission's (NRS) Previous Concerns with California.</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 State's 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.

Background—Radiation Control Fund. 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

Background—Radioactive Materials (RAM). RAM is any material or combination of materials that spontaneously emits ionizing radiation. RAM can be in the form of a liquid, powder, solid, or gas. **RAM is used daily**: in the health industry to diagnose illness (nuclear medicine procedures) and treat cancer (radiation therapy); in the construction industry to detect defects in airplanes, pipelines, storage tanks, engines and bridges; and in the food processing industry to determine thickness of food (candy bars, chocolate), volume of liquid (canned or bottled products); and in medical surgical products (instruments and gauze).

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

1. DPH, Please provide a brief description of what the positions will do.
2. DPH, Please describe what is done to meet federally mandated *enhanced* security inspections.
3. DPH, What has the DPH accomplished since 2006, with the additional positions, to meet the NRC standards and concerns? Please be specific.
4. DPH, Has the NRC expressed any additional concerns with our operations?
5. DPH, What more needs to be done in California in order to ensure

6. Statewide Environmental Monitoring, Oversight & Low-Level Radioactive Waste Volume Reduction and Tracking

Issue. The DPH is requesting an increase of $138,000 (Radiation Control Fund) and three positions—Associate Health Physicists—to conduct various activities. These are outlined below.

- *Low-Level Radioactive Waste Tracking and Volume Reduction.* Existing state statute requires the DPH to track Low-Level Radioactive Waste (LLRW) shipments for disposal and in storage and for promoting volume reduction of LLRW. The Legislature provided funding for these efforts over two years ago; however the DPH did not establish to proceed with these efforts. As such, they are now finally proceeding.

  Two positions are requested to conduct activities in this area. Specifically, the will perform the following key activities:

  (1) Develop a database for tracking Low-Level Radioactive Waste (LLRW);
  (2) Review at least 1,650 LLRW disposal shipment manifests;
  (3) Review 1,500 annual reports; and
  (4) Prepare at least two ad hoc reports a year on LLRW in CA

- *Statewide Environmental Radiation Monitoring and Assessment.* The DPH states that the purpose of this activity is to determine and minimize radiation exposure to residents from radioactive contamination at both licensed and unlicensed sites, as well as at nuclear power plants. The DPH is responsible for operating and maintaining a statewide radiation monitoring program that documents environmental background radiation levels. There are no dedicated resources to address this workload.

  The DPH states that half (0.5) of an Associate Health Physicist would be used for this effort.

- *Oversight of Both Licensed and Unlicensed Facilities in CA.* The DPH is responsible for state oversight involved with addressing public concerns over radiation contamination issues at **(1)** former Department of Energy (DOE) sites and their industrial partners (such as the Santa Susanna Field Laboratory in Southern CA); **(2)** state licensed sites that are undergoing decommissioning, **(3)** other sites under Department of Toxic Substances and Control (DTSC) jurisdiction for different regulatory/corrective actions; and **(4)** unlicensed facilities where local communities have raised health and safety concerns.

  The DPH states that half (0.5) of an Associate Health Physicist would be used for this effort.

The DPH states that these positions will allow them to *annually*:

- Take and analyze over 1,600 environmental samples;
- Perform 10 investigations, attend planning meetings, review technical documents for clarity and accuracy, and prepare responses to legislative inquiries;
- Prepare reports on Department of Energy and state licensed facilities being released to public use;
- Track 1,650 LLRW waste shipments;
- Evaluate 1,500 annual reports from facilities disposing of LLRW; and
- Prepare a statewide report on LLRW disposal.

The DPH states that "Accountability is ensured by having summary activity reports that identify all reviews and investigations performed."

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

1. **DPH**, Please provide a brief description of what the positions will do.
2. **DPH**, How will these positions work with the positions regarding the California Radiation Protection Program?

7. Vital Records Image Redaction and Statewide Access Project (VRIRSA)

Issue. The DPH is requesting an increase of $2.3 million (Health Statistics Special Fund) to **(1)** extend three limited-term positions—Programmers-- for one-year; and (2) increase contracting expenditures to proceed with activities and information technology functions to implement VRIRSA and computerize records. Of the total amount, $1.9 million is to be used for information contracts.

Senate Bill 247 (Speier), Statutes of 2002 requires the DHS to develop safety and security measures to protect against the fraudulent use of birth and death records. Specifically, it required the DPH to establish a single state database that would allow access to one system for the production of automatically redacted birth and death records.

As noted by the DPH, there have been numerous project delays which have had a domino effect that has delayed the implementation of the VIRRSA system. Due to these delays, the DPH is seeking to extend these positions and to use additional contract funds to proceed with completion of the project.

The DPH states that a number of "unexpected" events occurred that have postponed the implementation of the VRIRSA system until **March 2009**. The primary events were the analysis and cost evaluation required to determine the best location for the system hardware (specifically the servers), changes to the state's Public Contract Code for procuring information technology services, and a protect to the intent to award the contract.

Recent Budget Act Actions and their Relationship to This Request. A comprehensive budget package, all special fund moneys, that encompassed the VRIRISA Project and additional activities related to SB 447 was provided in 2006. This included a total of 19 positions to (1) develop, maintain and support the VRIRSA system; (2) conduct the computerization of records; and (3) work on the re-engineering of the DPH's tracking system. It also included funding for equipment and consultant contracts.

Due to delays by the DPH, trailer bill language was done through the Budget Act of 2007 authorizing the reappropriation of $3.9 million in one-time costs.

As such, the DPH is requesting that about $3 million of unspent one-time funds be reappropriated for 2008-09 and 2009-2010.

Additional Background. The Center for Health Statistics within the DPH is responsible for administering and maintaining vital records in perpetuity and in an unalterable format. The DPH, 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 DPH 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 DPH 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 or so remaining.

Senate Bill 247 (Speier), Statutes of 2002 requires the DPH 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 DPH.

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).

Questions. The Subcommittee requests the DPH to respond to the following questions.

1. **DPH**, Please provide a *brief* summary of the key aspects of the project and why there have been so many delays in implementation. Have all of these delays been rectified and is the DPH on a track for completion as stated?

2. **DPH**, Please describe how the contract funds will be used.

C. Department of Developmental Services

1. Continuation of Administration's Closure of Agnews Developmental Center

Prior Subcommittee Hearing. The Administration's closure of Agnews Developmental Center was discussed in Subcommittee on April 17th. The Subcommittee received testimony from several constituency groups who noted that transition planning was proceeding well and consumers and their families who have been transitioned were doing well.

It was also noted by the DDS that the original date of June 30, 2008 for the closure of Agnews was no longer applicable and that closure is being driven by a *"rolling closure process"*.

Issue. The Governor's May Revision states that the closure process is driven by a "*rolling closure"* process whereby individuals are transitioned from Agnews to the community when the housing and support services are available; therefore, it is not driven by a specific closure date. Transition to the community occurs only when all necessary services and supports are in place and the consumer is ready to move.

The DDS' May Revision proposes *no fiscal changes* for either Agnews Developmental Center or the Bay Area Community Placement Plan (funding for the three Bay Area Regional Centers which are providing the community services and supports).

However, the DDS is proposing Budget Bill Language to provide for funds not used in the current-year to be reappropriated for 2008-09 (budget year) to complete the closure in a *budget neutral fashion*.

The DDS' *reappropriation language* is as follows:

> 4300-491 Reappropriation, DDS. Notwithstanding any other provision of law, as of June 30, 2008, the balances of the appropriations provided in the following citations are reappropriated for the purposes specified and shall be available for encumbrance or expenditure until June 30, 2009.
>
> 0001 General Fund
>
> (1) Item 4300-003-0001, Budget Act of 2007 (Chapters 171 and 172, Stats. of 2007)
> (a) Balance of appropriations in Schedule (1) 20 Developmental Centers Program and Schedule (2) Reimbursements to provide care and assistance to consumers that will remain at Agnews Developmental Center past the June 30, 2008 closure date.
>
> (2) Item 4300-101-0001, Budget Act of 2007 (Chapters 171 and 172, Stats of 2007)
> (a) Balance of appropriations in Schedule (1) 10.10.010 Operations, Schedule (2) 10.10.020 Purchase of Services, and Schedule (4) Reimbursements to provide care

and assistance to consumers that will remain at Agnews Developmental Center past the June 30, 2008 closure date.

The Administration states that a total of *$22 million is available* for reappropriation (from 2007-08 for expenditure in 2008-09). Specifically, the DDS anticipates having $17 million (total funds) in unspent Purchase of Services funds due to delayed placements for Agnews consumers (as discussed below) to reappropriate for 2008-09. An additional $5 million in funds is unspent for employee related transition costs is in the Agnews Developmental Center budget and is available for reappropriation for 2008-09.

At the Subcommittee's request, an update on **key aspects** of the Agnews closure has been provided, including the following:

- *Bay Area Housing Plan Homes*. All 61 homes have been *acquired*. The status of these are follows:
  - 32 Homes ready for occupancy with 22 of these having been licensed and certified. Sixty people have been transitioned to live in these homes.
  - 17 Homes await the start of construction (remodeling mostly). DDS anticipates that 10 of these homes will be approved to start construction by May 31, 2008.
  - 6 Homes have recently completed construction.
  - 4 Homes are still awaiting the planning permitting process. As referenced previously, this process varies depending upon local ordinances and the like.

- *Provider Readiness.* DDS notes that each of the three Regional Centers has taken different approaches in residential service resource development (and staffing of the different models being used in their communities).

  One of the challenges within this process has been recruiting nurse administrators and direct care staff. Each of these issues has prevented providers from being completely ready to provide services at the time the homes are delivered which has presented a delay in opening *some* of the homes.

  The DDS and Regional Centers are working closely with providers to ensure appropriate staffing levels and provider readiness.

- *Consumer Placements.* As of May 15, 2008, 152 people are residing at Agnews. The number of people who will move from Agnews before June 30, 2008 is contingent upon providers resolving staff recruitment issues, the delivery of housing, and the ability of the Interdisciplinary Team to coordinate the development of Individual Program Plans (IPP for the consumer) and community living options discussions (to ensure an individual's choice). Additionally, DDS notes that transition activities are contingent upon the health and safety of each person.

DDS anticipates that 47 people will either move to their community home or transfer to another Developmental Center by June 30, 2008. The remaining 105 residents of Agnews will move to their community home *after* July 1, 2008.

- *Health Care & Agnews Community Clinic.* As required by legislation, the DDS and Department of Health Care Services (DHCS) finalized a memorandum of understanding which establishes protocols to share information for health care strategic planning, health plan enrollment, and rate development.

  DDS states they are working with the DHCS finalizing efforts to establish the Agnews Outpatient Clinic, as required by Senator Alquist's legislation, after Agnews Developmental Center closes. The clinic is to provide a safety net to ensure that health, dental and behavioral services are seamless during the transition process.

- *Developmental Center Operations and "Warm Shutdown".* DDS states that as people move to the community, residential units at Agnews are consolidated and vacant units are placed into the "warm shutdown" process.

  Additional activities related to consolidation and eventual closure includes the transfer of files, equipment, and furnishing to other Developmental Centers, surplus or storage. Warm shutdown will expand in scope and activity as the number of residents leave and is expected to continue thought 2008-09.

  As of May 15, 2008, Agnews is operating 5 Nursing Facility and 5 Intermediate Care Facility residences for the 152 people living there. Agnews anticipates closing 1 Nursing Facility and 1 Intermediate Care Facility by June 30, 2008 should provider readiness, the delivery of housing and community placements meet the projected timelines.

- *Agnews Developmental Center Costs for 2008-09.* The DDS states that they cannot estimate the actual cost per person for those consumers residing at Agnews after June 30, 2008. Estimating the actual cost per person is difficult due to the complex needs of each person and the variation in cost based upon those needs.

  Using the 2007-08 projected expenditures for Agnews, the average monthly cost per person at Agnews for 2008-09 is estimated to be $58,000 (per month). The actual cost will vary by the number of individuals and their individual needs. Therefore, if 105 residents stay through July 2008, a total of $6.1 million would be needed for the reappropriation language to operate. This figure does not reflect funding in the budget for staff separation costs, or closing Agnews Developmental Center

- *Cost of Services in the Community.* DDS states that based on 2007-08 projected expenditures for 2008-09, the monthly expenditure for an individual living in a Bay Area Housing Plan ranges from $16,246 to 25,407 depending on the type of home (SB 962 model, Family Teaching Model, et al). It should be noted that this cost includes residential expenses, Day Program expenses and transportation. Generally, it is all inclusive arrangement.

Additional Background on Agnews. The plan to close Agnews Developmental Center was developed over a three-year period and formally submitted to the Legislature in January 2005. Enabling legislation to support the implementation of critical elements of the plan has been enacted, including Assembly Bill 2100 (Steinberg), Statutes of 2004, Senate Bill 962 (Chesbro), Statutes of 2005, Senate Bill 643 (Chesbro), Statutes of 2005, and Assembly Bill 1378 (Lieber), Statutes of 2005.

The Agnews Developmental Center 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.

Continued Implementation of the Bay Area Housing Plan. The enactment of Assembly Bill 2100 (Steinberg), Statutes of 2004 and Senate Bill 962 (Chesbro), Statutes of 2005, authorized the DDS to approve proposals from the Bay Area Regional Centers (i.e., San Andreas RC, RC of the East Bay, and Golden Gate RC) to provide for, secure, and assure the payment of leases for housing for people with developmental disabilities.

A key component of this plan is a partnership between the DDS, the housing developer—Hallmark Community Services--, the three Bay Area Regional Centers, and the Bay Area non-profit housing development corporations. Through this partnership, they have secured the necessary agreements for bond financing with the California Housing Finance Agency (CalHFA) and construction financing with the Bank of America. These funds are used to acquire properties and either renovate or construct "SB 962" Homes, Family Teaching Homes, and Specialized Residential Homes.

The entire bond package, issued in phases, will total in the aggregate about $120 million. The bonds will fully amortize over 15 years. The purpose of the taxable and tax-exempt bonds is to fund the permanent financing of the BAHP properties upon completion of respective renovation and occupation by consumers.

The acquisition and development of housing is a critical element. Over 75 percent of the current Agnew's residents will move into Bay Area Housing Plan (BAHP) homes.

Background—New Models for Residential Services. To address the needs of Agnew's residents, various new models for community-based residential services have been structured. These are briefly described below.

- *"SB 962" Homes.* Senate Bill 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. Examples of health services that can be provided in this type of home include, but are not limited to, nutritional support; gastrostomy feeding and hydration; renal dialysis; and special medication regimes including injections, intravenous medications, management of insulin, catheterization, and pain management. Nursing staff will be on duty 24-hours per day.

This pilot is a joint venture with the Department of Social Services (DSS) and will 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.

- *Specialized Residential Homes.* These homes are designed for individuals with behavioral challenges or other specialized needs, and will serve from three to four consumers per home. These homes provide 24-hour on-site staff with specialized expertise to meet the unique needs of the individuals. These homes have the capability for on-site crisis response.

  It should be noted that when a majority of the consumers living in this model of home turns age 60, the home will need to be re-licensed as a Residential Care Facility for the Elderly (RCFE) (as required by state statute). Therefore, all BAHP Specialized Residential Homes will be constructed to address the physical plan requirements for an RCFE licensure.

- *Family Teaching Homes.* Among other things, Assembly Bill 2100 (Steinberg), Statutes of 2004, 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 individual's home and provides direct support when needed. Wrap-around services, such as work and day program supports, are also part of this model.

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

1. **DDS**, Please provide a brief update on the key components of the Agnew closure as noted above.
2. **DDS**, Please provide a brief summary of the requested reappropriation language and the fiscal information related to it.
3. **DDS**, Please briefly explain the *potential* cost implications for 2008-09 if the closure progresses past July.

2. Developmental Centers May Revision Adjustments

Issue. The DDS is proposing no significant changes for 2008-09 for the Developmental Centers budget. As noted above the Agnews Developmental Center closure will be addressed as a "rolling closure". Therefore, the DDS did not make any adjustments to their January budget.

There is one small adjustment regarding a technical issue with reimbursements associated with the Governor's reductions which were adopted in Special Session and by the Subcommittee. This adjustment is minor and pertains to reimbursements.

Background on Developmental Centers (DCs). State Developmental Centers (DCs) are licensed and federally certified as Medicaid providers via the Department of Health Care 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 of these facilities provide services to individuals with severe behavioral challenges.

Background--Summary of Funding and Enrollment. The budget proposes expenditures of $669.1 million ($357.4 million General Fund), excluding state support, to serve *an average of* 2,449 residents who reside in the state DC system. This reflects a caseload decrease of 171 residents or 6.5 percent, as noted in the table below.

The most significant change in population is due to the DDS' closure of Agnews Developmental Center by June 30, 2008.

Table: Summary of Developmental Center Budget Year Population (Average)

Facility	Current Year 2008-09	Budget Year 2008-09	Difference
Agnews DC	111	0	-111
Canyon Springs (community-based)	52	52	0
Fairview DC	560	527	-33
Lanterman DC	485	442	-43
Porterville DC	666	703	37
Sierra Vista (community-based)	51	50	-1
Sonoma DC	685	675	-10
Total	**2,610 people**	**2,449 people**	**-161 people**

Subcommittee Staff Recommendation—Approve. No issues have been raised. It is recommended to approve the May Revision.

Questions. The Subcommittee has requested the DDS to provide a brief summary on the Developmental Centers budget.

3. Regional Center's Estimate—*BASELINE May Revision*

Issue. The Governor's May Revision for the Regional Centers has been recalculated based on **(1)** caseload changes and the need for consumer services; **(2)** technical adjustments to the cost containment measures as proposed by the Governor and adopted by the Legislature during Special Session; *and* **(3)** policy changes proposed by the Governor that are contained in other Departments which affect people with developmental disabilities. Each of these areas will be discuss

First, the May Revision proposes a budget of $3.9 billion ($2.388 billion General Fund) for community-based services, provided via the Regional Centers, to serve a total of 221,069 consumers living in the community. This funding level reflects an increase of $150.5 million ($45.9 million General Fund) as compared to January.

Of this amount $3.378 billion is for the Purchase of Services, including funds for the Early Start Program and habilitation services. The Operations budget is $529.8 million (total funds). No issues have been raised by Subcommittee staff regarding the baseline adjustments.

Second, the May Revision reflects minor fiscal adjustments to the Governor's cost containment measures as adopted by the Legislature in the Special Session. No issues have been raised by Subcommittee staff regarding these minor fiscal adjustments, primarily to reflect caseload adjustments.

Third, the May Revision also contains *significant* new policy assumptions within other programs and departments that provide "generic" services to Regional Center clients, such as the Medi-Cal Program the In-Home Supportive Services (IHSS) Program, and SSI/SSP payments.

Specifically, these other significant program policy changes would result in *an increased cost of $21.2 million (General Fund)* because the generic service would no longer be available to Regional Center clients to access. Therefore, the Regional Centers would have to "purchase" these services for the clients using Purchase of Services funds since the clients would still need to utilize the service.

These significant policy changes as proposed by the Governor include the following:

- *IHSS Changes*. The Department of Social Services' is proposed change to the In-Home Supportive Services (IHSS) Program establishing a baseline for receiving domestic and related services would impact Regional Center clients. Therefore, the DDS budget proposes an increase of $6.1 million ($4.2 million General Fund) to replace services that would be eliminated due to this Governor's proposal.

- *Elimination of Medi-Cal Optional Benefits.* The Department of Health Care Services is proposing to eliminate 10 Optional Benefits within the Medi-Cal Program, including Adult Dental Services. This proposal would affect Regional Center clients. Therefore, the DDS budget proposes an increase of $11.1 million ($8.2 million General Fund) to replace services that would be eliminated due to this Governor's proposal.

- *Supplemental Security Income/State Supplementary Payment (SSI/SSP).* The Department of Social Services is proposing to eliminate the pass-through of the January 1, 2009 SSI COLA and to suspend the June 1, 2008 SSP COLA adjustment and to suspend the June 1, 2009 increase. As a result, anticipated savings in the Regional Center community care facilities of $3.8 million would not be realized and needs to be maintained in order to appropriately fund residential services.

- *Month-to-Month Eligibility for Emergency Medi-Cal for Restricted Scope Eligible Immigrants and Elimination of State-Only funded Nonemergency Services for Immigrants.* The Department of Health Care Services within the Medi-Cal Program is proposing drastic changes which would rescind full-scope Medi-Cal services for legal immigrants and would eliminate non-emergency services for undocumented individuals. As a result, the DDS would need additional funds of $200,000 (General Fund) in 2008-09 to replace these services.

These policy changes by other departments represent substantial policy change and will be discussed by the Subcommittee when these departments—Department of Social Services, and Department of Health Care Services—are scheduled for budget hearings. These are not proposals being driven by the Department of Developmental Services (DDS). The DDS is proposing to provide General Fund backfill for services which would be lost to RC clients if these Governor's proposals were to be adopted.

Governor's Reductions Adopted by the Legislature in Special Session—Regional Center. The table below summarizes the Governor's reductions adopted by the Legislature in Special Session that directly affect the Regional Centers budget (both Purchase of Services and Operations).

Most of the adopted reductions are attributable to the Governor's proposal to make permanent cost containment measures enacted in prior years regarding Regional Center Purchase of Services funds and Operations funds.

With respect to the Governor's reductions for Purchase of Services funds, these measures included the following: (1) Freezing rates for Non-Community Placement Start-Up; (2) Freezing rates for Day Program, Work Activity, and In-Home Respite services; (3) Freezing rates for Community Care Facilities (CCF) and eliminating the SSI/SSP pass-through to these facilities; (4) Freezing all Regional Center negotiated rates and establishing limits for new negotiated rate programs and services; and (5) Freezing rates for Habilitation Services.

Governor's Reductions Adopted by Legislature in Special Session

Department of Developmental Services **Community Based Services/Regional Centers**	Reduction for 2007-08 (General Fund)	Reduction for 2008-09 (General Fund)
Community-Based Services		
Governor's Cost Containment Measures for Purchase of Services (POS)		-$228,800,000
Governor's Expansion of Family Cost Participation Fee		-$773,000
Subtotal of Purchase of Services Reduction		**-$229,573,000**
Governor's Cost Containment for Regional Center Operations		-$20,500,000
Governor's Reduction: Community Placement Operations by 10%	-$660,000	-$2,112,000
Governor's Reduction: Regional Center Operations for HIPAA	-$23,000	-$141,000
Subtotal of Regional Center's Operations Reduction		**-$22,753,000**
TOTAL General Fund Reduction	**-$683,000**	**-$252,326,000**

The Legislature adopted the Governor's statutory changes as requested for the reductions specified in the table above. These statutory changes are contained in Assembly Bill 5 3X, Statutes of 2008.

Background on Regional Centers (RCs). 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. The budget provides funding for these administrative services through the "Operations" subcategory provided to Regional Centers.

RCs also purchase services for consumers and their families from approved vendors and coordinate consumer services with other public entities. Generally, RCs pay for services only if an individual does not have private insurance or they cannot refer an individual to so-called "generic" services that are provided at the local level by the state, counties, cities, school districts, and other agencies**.** For example, Medi-Cal services and In-Home Supportive Services (IHSS) are "generic" services because the RC does not directly purchase these services.

RCs purchase services such as **(1)** residential care provided by community care facilities; **(2)** support services for individuals living in supported living arrangements; **(3)** Day Programs; **(4)** transportation; **(5)** respite; **(6)** health care; and many other types of services. The budget provides funding for these services through the "Purchase of Services" subcategory provided to Regional Centers.

Services and supports provided for individuals with developmental disabilities are 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. Services included in the consumer's IPP are considered to be entitlements (court ruling).

Subcommittee Staff Recommendation. *First*, it is recommended to adopt technical changes contained in the May Revision to reflect the Governor's cost containment measures already adopted by the Legislature in the Special Session, including an adjustment for SSI/SSP.

Second, it is recommended to conform federal Title XX Temporary Assistance for Needy Families (TANF) grant funds to future actions to be taken within the Department of Social Services. The primary purpose of federal Title XX TANF funds is to support California's CalWORKS Program. Therefore, if these funds are not available for use by the DDS, General Fund support will be provided to appropriately fund the budget for the Regional Centers. Therefore, this item will remain open until the DSS is closed out. The DDS budget will conform to this action.

Third, it is recommended to conform all of the significant policy changes as proposed by other departments when those programs and departments are heard (as noted above).

It is the intent of the Subcommittee to appropriately fund the budget for the Regional Centers. Therefore, these issues will remain open until the Medi-Cal budget for the DHCS is closed out and the Department of Social Services is closed out. The DDS budget will conform to those actions.

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

1. DDS, Please provide a summary of the May Revision for the Regional Centers, including the baseline adjustments, technical adjustments and the significant policy issue changes as proposed by other departments.

Diane Van Maren, Senate Budget & Fiscal Review, 651-4103

Outcomes from Subcommittee No. 3: Monday, May 21st

(Please use the Agenda for the day, which is on the website, with this outcomes listing.)

A. VOTE ONLY: Emergency Medical Services Authority (Page 2)

- **Action:** Adopted the Vote Only Calendar for **the Emergency Medical Services Authority**.
- **Vote: 2-0 (Senator Wyland absent)**.

B. VOTE ONLY: Department Of Health Care Services (Pages 3 through 10)

- **Action:** Adopted the Vote Only Calendar for the **Department of Health Care Services.**
- **Vote: 2-0 (Senator Wyland absent)**.

C. VOTE ONLY: Department Of Public Health (Pages 10 through 26)

- **Action:** Adopted the Vote Only Calendar for the **Department of Public Health.**
- **Vote: 2-0 (Senator Wyland absent)**.

D. VOTE ONLY: CA Medical Assistance Commission (Page 27)

- **Action:** Adopted the Vote Only Calendar for the **CMAC.**
- **Vote: 2-0 (Senator Wyland absent)**.

E. VOTE ONLY: Department of Developmental Services (Pages 28 through 29)

- **Action:** Adopted the Vote Only Calendar for the **Department of Developmental Services.**
- **Vote: 2-0 (Senator Wyland absent)**.

F. VOTE ONLY: Department of Mental Health (Pages 30 through 37)

- **Action:** Adopted the Vote Only Calendar for the **Department of Mental Health.**

- **Vote: 2-0 (Senator Wyland absent)**.

ISSUES FOR DISCUSSION

A. Department of Mental Health (Page 38)

1. Adjustments to the Early and Periodic Screening, Diagnosis & Treatment

- **Action:**
  (1) Rejected the Governors proposal to change Maximum Allowances; (2) Adopted the Alternative EPSDT Performance Improvement Project in lieu of the Governor's 6-month Day Treatment proposal, including the funding adjustment and *placeholder* trailer bill language; (3) Adopted the May Revision adjustments for the Special Session actions; and (4) Adopted the May Revision baseline adjustment for caseload and related factors.

- **Vote: 2-0 (Senator Wyland absent)**.

2. Increased Budget Authority for Mental Health Services Act Funding (Page 43)

- **Action:** Increased by $25 million (Proposition 63) for the Statewide Initiatives *and* adopted trailer bill language as shown in the Agenda to ensure access to data regarding the Initiatives.

- **Vote: 2-0 (Senator Wyland absent)**.

B. Department of Public Health (Page 45)

1. Licensing and Certification: Governor's Fee Increases

- **Action:** Adopted the revised Fee proposal which reduces Fees paid by health care facilities (DOF, please note all of the actions as stated in the Agenda please on the pink description).

- **Vote: 2-0 (Senator Wyland absent)**.

2. State Support to Local Health for Emergency Preparedness (Page 48)

- **Action:** Conformed to the Assembly and adopted the LAO recommendation to reduce accordingly.
- **Vote: 2-0 (Senator Wyland absent)**.

3. Governor's Reduction for Emergency Response—Food (Page 50)

- **Action:** Adopted the LAO recommendation to approve the Governor's reduction of two positions.
- **Vote: 2-0 (Senator Wyland absent)**.

4. Governor's Reduction to Vector Borne Control Program (Page 51)

- **Action:** Approved the fee increase for the Certification Program as noted, and reduced the General Fund by $141,000. **It is up to the Administration to decide how they want to reduce the General Fund support for this program**.
- **Vote: 2-0 (Senator Wyland absent)**.

5. CA Radiation Protection Program (Page 53)

- **Action:** Approved the requested increase in special funds.

6. Statewide Environmental Monitoring, Oversight & Low-Level Radioactive Waste Volume Reduction and Tracking (Page 55)

- **Action:** Approved requested increase in special funds.
- **Vote: 2-0 (Senator Wyland absent)**.

7. Vital Records Image Redaction and Statewide Access Project (Page 57)

- **Action:** Approved requested increase in special funds.
- **Vote: 2-0 (Senator Wyland absent)**.

C. Department of Developmental Services (Page 59)

1. Continuation of Administration's Closure of Agnews Developmental Center

- **Action:** Approved the Reappropriation Language as requested.
- **Vote: 2-0 (Senator Wyland absent)**.

2. Developmental Centers May Revision Adjustments (Page 64)

- **Action:** Approved the May Revision.
- **Vote: 2-0 (Senator Wyland absent)**.

3. Regional Center's Estimate—*BASELINE May Revision* (Page 65)

- **Action:** Approved the baseline adjustments and technical conforming items, and KEPT OPEN the Policy Proposals regarding other programs until we hear those departments (Social Services and Health Care Services).
- **Vote: 2-0 (Senator Wyland absent)**.

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

Chair, Senator Elaine K. Alquist
Senator Alex Padilla
Senator Mark Wyland

Agenda – Part A

Friday, May 23, 2008
10:00 a.m.
Room 4203 (John L. Burton Hearing Room)
(Eileen Cubanski, Consultant)

Vote-Only Agenda

Discussion Agenda

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 Agenda

0530 Health and Human Services Agency – Office of Systems Integration (OSI)
5180 Department of Social Services (DSS)

Vote-Only Issue 1: Child Welfare System/Case Management System (CWS/CMS)

Description: At the April 14, 2008 hearing, the Subcommittee discussed the following requests included in the Governor's Budget for the Child Welfare System/Case Management System (CWS/CMS) for 2008-09:

- Maintenance and Operation (M&O) for Current CWS/CMS: Reduce by $301,000 ($166,000 General Fund). The reduction is comprised of a $1.9 million decrease for the prime vendor and technical assistance, and a $1.6 million increase for data center services.

- CWS/CMS New System Project (NSP): Increase by $3.8 million. This increase is comprised of a $1.3 million increase and the conversion of five limited-term positions to permanent for the Office of Systems Integration (OSI) and a $2.5 million ($1.1 million General Fund) increase in local assistance.

- NSP Staff for the Department of Social Services (DSS): Increase by $202,000 ($92,000 General Fund) and two, two-year positions to support activities associated with the planning, vendor selection, detailed system design, implementation, and transition to the new CWS/CMS.

As part of their analysis of the 2008-09 Governor's Budget, the Legislative Analyst's Office (LAO) examined the study of the system architecture that the Administration conducted in 2005 in response to federal Administration on Children and Families (ACF) concerns and as a condition of restored federal funding. Based on their examination, the LAO recommended NSP be cancelled, that the current system be updated, and that the missing SACWIS requirements be added. In response to the LAO recommendation, IBM submitted a proposal with the estimated costs of implementing the LAO alternative. A workgroup consisting of the LAO, OSI, and county representatives was convened to analyze the IBM proposal and whether that proposal meets the needs of the counties. The Subcommittee held the item open at the April 14 hearing pending additional information on the LAO and IBM proposals.

Based upon further discussions of the workgroup, it has been determined that the LAO proposal may not result in the savings estimated or provide the functionality needed by the counties.

Staff Recommendation: Approve the request for funding for the NSP, M&O, and for NSP staff for DSS. The funding for M&O shall conform to the action taken by the Subcommittee on May 5 to adopt the alternative to eliminating the ISAWS Migration Project.

Vote-Only Issue 2: Case Management Information and Payrolling System Replacement (CMIPS II) Project

Description: At the April 14, 2008 hearing, the Subcommittee discussed the following requests included in the Governor's Budget for the Case Management Information and Payrolling System Replacement (CMIPS II) project:

- Current Year Adjustment: Reduce by $7.8 million. This reduction is comprised of a $7.7 million reduction in OSI and a $136,000 reduction in DSS as a result of a delayed start of state staff and related operating expenses and equipment, and contract negotiations resulting in a net decrease for software purchase and customization.

- Implementation Phase of CMIPS II: Increase by $89.6 million ($48.1 million General Fund), which includes $2.8 million in local assistance costs for counties, and 14 positions for implementation activities.

- CMIPS II Staff for DSS: Increase by $1.3 million ($671,000 General Fund), convert four existing limited-term positions to permanent, and add 10 additional three-year limited-term positions to support CMIPS II activities including design, development, and implementation efforts.

At the time the issue was heard in Subcommittee, OSI had just been approved to receive enhanced federal funding for specified elements of the CMIPS II design, development, and ongoing maintenance costs. The May Revision includes this enhanced federal funding, which reduces the General Fund need by $14.5 million. At the May 5, 2008 hearing, the Subcommittee directed that this General Fund be used to preserve the ISAWS Migration Project.

Staff Recommendation: Approve the request for funding for CMIPS II as revised by the May Revision and conforming to the Subcommittee's prior action to adopt the alternative to eliminating the ISAWS Migration Project. Approve funding and staff as requested for DSS, except that the four positions requested to be made permanent shall be three-year limited-term.

4170 California Department of Aging (CDA)

Vote-Only Issue 3: Health Insurance Counseling and Advocacy Program (HICAP) Federal Funds Augmentation

Description: The May Revision requests a federal fund authority augmentation of $514,000 for the existing HICAP administered by the California Department of Aging. Of this funding, $392,000 will be for local assistance and $122,000 will be for state operations. The federal HICAP grant will increase from $2.5 million to $3.0 million. The Centers for Medicare and Medicaid Services has added additional responsibilities to the program at both the state and local level, including a focus on the following new areas: outreach and prescription drug counseling to Medicare beneficiaries with mental illness who are dually eligible for Medicaid; education and outreach to low-income subsidy eligible Medicare beneficiaries; establishment of a Mystery Shopper program; distributing a CMS-supported Fraud Toolkit brochure; distributing the CMS-supported booklet “Taking Care of Tomorrow;” and translating and distributing Medicare fact sheets.

Staff Recommendation: Approve the requested increase in federal fund authority.

Vote-Only Issue 4: Senior Nutrition Programs Budget Balancing Reductions (BBRs)

Description: The Governor’s Budget proposed a reduction of $629,000 General Fund to senior nutrition programs including the following:

- Home-Delivered Meals – Reduce by $316,000 General Fund
- Congregate Nutrition – Reduce by $253,000 General Fund
- Brown Bag Program – Reduce by $60,000 General Fund

The proposed cuts and their impacts were discussed in Subcommittee on April 21, 2008.

Staff Recommendation: Reject the proposed reductions to Home-Delivered Meals, Congregate Nutrition, and the Brown Bag Program. These programs serve low income seniors who will be particularly hard-hit by the recent dramatic increases in food prices.

Vote-Only Issue 5: Alzheimer’s Day Care Resource Centers BBR

Description: The Governor’s Budget proposed a reduction of $416,000 General Fund to the Alzheimer’s Day Care Resource Center (ADCRC) program. The ADCRC program provides day care to persons 18 years or older with Alzheimer's disease and other related dementias who are often unable to be served by other programs due to their advanced dementia. This proposed cut and its impact were discussed in Subcommittee on April 21, 2008.

Staff Recommendation: Reject the proposed reduction.

Vote-Only Issue 6: Linkages Program and Multipurpose Senior Services Program (MSSP) BBRs

Description: The Governor's Budget proposed a reduction of $544,000 General Fund to the Linkages Program and $5.052 million ($2.526 million General Fund) to the MSSP. (The $2.526 in federal funding is in the Department of Health Care Services' (DHCS') budget and the $2.526 million in General Fund is in the California Department of Aging's (CDA's) budget.)

The Linkages Program provides care management services to elderly and younger adults aged 18 and older with functional impairments who are at risk of institutionalization. There is $8.264 million General Fund for the Linkages Program in 2007-08. The proposed reduction would leave $7.720 million General Fund in 2008-09. The proposed $544,000 reduction would be allocated equally across all sites. This proposal would result in a $15,111 reduction to each of 36 sites and would reduce the number of individuals served statewide by an estimated 335.

The MSSP's primary objective is to maintain elderly (65 years or older) Medi-Cal individuals, who meet the nursing home level of care, in community settings, thus preventing or delaying inappropriate nursing facility placement. There is $50.514 million ($25.257 million General Fund) for the MSSP in 2007-08. The proposed reduction would leave $45.464 million ($22.732 million General Fund) in 2008-09. The proposed cut would be distributed equally among the 41 MSSP sites. 1,380 clients will be reduced from the program statewide. The CDA estimates that the proposed reduction could be achieved through client attrition. About 300 clients leave MSSP each month for such reasons as nursing facility placement or death. If local MSSP sites do not add new clients to fill the slots left vacant, the reduction could be achieved in approximately four months.

The proposed cuts and their impacts were discussed in Subcommittee on April 21, 2008.

Staff Recommendation: Approve the proposed reductions (including the May Revision technical adjustment to schedule the MSSP General Fund and federal fund reductions in the appropriate items within DHCS and CDA). Notwithstanding the benefits of these programs, these reductions are necessitated by the fiscal crisis. It will be critical to preserve the actual services that these clients receive.

Vote-Only Issue 7: Respite Purchase of Service and Senior Companion Program BBRs

Description: The Governor's Budget proposes a total of $70,000 General Fund reductions to two programs that provide respite and other day care services to seniors with physical, emotional, and mental health limitations. These programs include:

Respite Purchase of Service – Reduce by $35,000 General Fund
Senior Companion Program – Reduce by $35,000 General Fund

The Respite Purchase of Service (RPOS) program provides limited funding for the purchase of temporary services for frail elderly or adults with functional impairments. There is $426,000 General Fund for the RPOS program in 2007-08. The proposed reduction would leave $391,000 General Fund in 2008-09. The $35,000 reduction would be reduced from each of the 29 respite programs. This means that each program will be reduced by $1,216. Approximately $450 is allocated to each client for services. Therefore, this reduction will result in an estimated 78 fewer clients being served.

The Senior Companion Program (SCP) is a dual purpose program. It provides services to low-income seniors with physical, emotional, or mental health limitations, the majority of whom are considered at-risk for placement in a nursing home, and it provides low-income senior volunteers a tax exempt stipend of $2.65 per hour to provide peer support to frail older persons in their local communities. There is $398,000 General Fund for the SCP in 2007-08. The proposed reduction would leave $363,000 General Fund in 2008-09. The reduction would be allocated to the each of the 16 funded SCPs statewide. This reduction would result in a reduction of 8 volunteer positions statewide. In order to spread the reduction equally among the 16 programs, each SCP's allocation would be reduced by $2,188 or the approximate equivalent of one-half of a volunteer position.

The proposed cuts and their impacts were discussed in Subcommittee on April 21, 2008.

Staff Recommendation: Approve the proposed reductions. These reductions are necessitated by the fiscal crisis.

Vote-Only Issue 8: Long-Term Care Ombudsman BBR

Description: The Governor's Budget proposed a reduction of $250,000 General Fund to the Long-Term Care (LTC) Ombudsman program. Long-Term Care Ombudsman representatives act as advocates for frail, elderly, and disabled residents who live in more than 9,000 LTC facilities throughout California.

There is $3.869 million General Fund for the LTC Ombudsman program in 2007-08. The proposed reduction would leave $3.572 million General Fund in 2008-09. Reductions would be made to all local LTC Ombudsman programs and would be allocated using the statutory LTC Ombudsman funding formula. To achieve the proposed reductions, reductions would have to occur in staffing and operating expenses. Local program reductions would range from $980 to $33,000 depending upon the size of the program. It is expected that most programs would eliminate part-time staff positions and reduce operating expenses, such as reimbursement to LTC Ombudsman volunteers for mileage and travel expenses.

The proposed cuts and their impacts were discussed in Subcommittee on April 21, 2008.

Staff Recommendation: Approve the proposed reductions. These reductions are necessitated by the fiscal crisis. Previous action by the Subcommittee to reject proposed cuts to Community Care Licensing will hopefully help to mitigate this reduction.

Vote-Only Issue 9: Area Agencies on Aging (AAAs) Administration BBR

Description: The Governor's Budget proposes a reduction of $99,000 General Fund provided to the AAAs for Administration. Administration activities include planning, contract administration, financial management, training, and policy development. The proposed reduction will not decrease the workload associated with the administration of the community based service programs. However, each AAA will be allowed to implement the funding reduction based on their local administrative requirements. The overall impact of this reduction on the AAAs will range from about $1,000 to $10,000, depending on the size of the program.

The proposed cuts and their impacts were discussed in Subcommittee on April 21, 2008.

Staff Recommendation: Approve the proposed reductions. These reductions are necessitated by the fiscal crisis and are consistent with cuts to administration that all state departments are taking.

Vote-Only Issue 10: Senior Legal Hotline BBR

Description: The Governor's Budget proposes to reduce funding for the Senior Legal Hotline (SLH) by $25,000 General Fund, which is 10 percent of the total allocation to the SLH. The CDA has no state operations supporting this program. This is the first fiscal year that this program has received a General Fund appropriation so there is no data available on the known impacts of a reduction. The CDA's current year contract with SLH requires SLH to provide a minimum of 3,000 hours in legal casework, which amounts to approximately 2,500 new cases.

The Senior Legal Hotline (SLH) provides brief telephone services to older Californians age 60 and older who seek legal help with issues including wills, landlord/tenant disputes, social security and health benefits, and scams. It is not a means-tested service (i.e., there are no income eligibility requirements for clients). SLH, a program provided by Legal Services of Northern California, relies on Older Americans Act funds (Title III), private foundation grants, and donations to support its activities. This is the first year the SLH has received state funding. Previously, SLH had received approximately $100,000 annually in federal discretionary grant funds from the Administration on Aging, but that federal grant is now only available to state agencies. The CDA partnered with the SLH in August 2007 to apply for the three-year grant but was unsuccessful in its effort.

The LAO recommended eliminating the SLH in their alternative budget. They identified $11 million in other funding and in-kind services for legal services within the AAAs. The proposed cuts and their impacts were discussed in Subcommittee on April 21, 2008.

Staff Recommendation: Approve the proposed reduction. This reduction is necessitated by the fiscal crisis.

4200 Department of Alcohol and Drug Programs (ADP)

Vote-Only Issue 11: Drug Medi-Cal

Description: The May Revision requests that Item 4200-103-0001 be increased by $13,215,000 and Reimbursements be increased by $10,630,000 to reflect revised caseload and utilization estimates. The Regular Drug Medi-Cal population is projected to be 215,956 in fiscal year 2008-09, an increase of 9,286, or 4.5 percent from the Governor's Budget. In addition to caseload adjustments, the May Revision Estimate reflects an increase in average units of service (UOS) for the Narcotic Treatment Program (NTP) modality.

In July 2006, the California Outcomes Measurement System (CalOMS) replaced the California Alcohol and Drug Data System (CADDS) as the data collection system through which counties and direct contract providers report client treatment admission and discharge data across all Drug Medi-Cal modalities. However, due to inconsistencies in the data between the two systems and ongoing validation of the CalOMS data within the NTP modality, the 2007 November Estimate for the NTP was based only on CADDS data. Subsequently, the Department of Alcohol and Drug Programs completed the CalOMS data validation and determined the actual NTP caseload for 2006-07 was over 16,000 less than previously estimated due to the removal of a large number of inactive cases. The removal of these cases results in a significant increase in average UOS, the measure of utilization for Drug Medi-Cal services.

The May Revision further requests that Item 4200-102-0001 be increased by $146,000 and Reimbursements be increased by $146,000 to reflect revised caseload and utilization estimates for the Perinatal Drug Medi-Cal population. Caseload is projected to be 9,670 in 2008-09, a decrease of 446, or 4.4 percent from the Governor's Budget. This is a result of increases in the Outpatient Drug Free and Day Care Rehabilitative caseloads, offset by reduced caseload in the NTP and Perinatal Residential modalities.

The May Revision also continues to contain the proposed 10 percent reduction to Drug Medi-Cal rates and trailer bill language implementing the rate cut that would change the rate calculation methodology and give the Department of Alcohol and Drug Programs (ADP) authority to implement Drug Medi-Cal rates through All-County Letters and exempt them from the rulemaking process. This proposed cut and trailer bill language were discussed in Subcommittee on April 14, 2008 and held open.

Staff Recommendation: Approve the revised Drug Medi-Cal caseload and other adjustments, and reject the proposed 10 percent cut to Drug Medi-Cal rates and all associated trailer bill language. The Drug Medi-Cal Program is a preventive program that results in cost savings in other areas of the budget.

4700 Department of Community Services and Development (CSD)

Vote-Only Issue 12: Naturalization Services Program

Description: The Governor's Budget proposes a reduction of $300,000 General Fund, which is a ten percent reduction, to the Naturalization Services Program (NSP).

The NSP, through contracts with 32 community-based organizations throughout California, assists legal permanent residents in obtaining citizenship by providing services that include outreach, intake, assessment, collaboration with and referral to other organizations, citizenship application assistance, citizenship testing and interview preparation, and follow-up activities. The program assists an average of 12,000 individuals annually in the completion of citizenship applications. 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 qualify for the federally-funded Supplemental Security Income (SSI) program. The Department of Community Services and Development (CSD) estimates that proposed reduction will result in 1,130 legal residents not receiving assistance.

In their alternative budget proposal, the Legislative Analyst's Office (LAO) recommends reducing the NSP by $1.3 million General Fund. They indicate that the remaining funding of $1.7 million will maintain support for a core group of contracted community-based organizations that deliver these services.

This issue and the impacts of the cuts were discussed in Subcommittee on May 5, 2008.

Staff Recommendation: Approve the proposed $300,000 reduction. Notwithstanding the value of these services, this reduction is necessitated by the fiscal crisis and the need to protect direct services to low income individuals. However, as testified to by CSD on May 5, the LAO's proposed reduction will result in the complete inability of some community-based organizations to provide services and is too deep.

Vote-Only Issue 13: Office Relocation

Description: The May Revision requests $957,000 ($19,000 General Fund) to provide funding for expenses associated with CSD's anticipated relocation. There is also provisional language proposed that would allow these funds to be used only for facilities relocation upon approval by the Department of Finance.

The CSD leases office space in a building owned by the Lottery Commission and was notified by the Lottery that they would have to vacate their office space sometime during the spring of 2009. The Lottery plans to renovate and rebuild all of the structures on this site. The exact timing of the relocation is still being negotiated with the Lottery, therefore, the amount of funding needed for 2008-09 is not completely known.

Staff Recommendation: Approve the requested funding and provisional budget language.

5160 Department of Rehabilitation (DOR)

Vote-Only Issue 14: Reduce Headquarters Budget Balancing Reduction (BBR)

Description: The Governor proposes a $700,000 ($150,000 General Fund) reduction and elimination of 4.5 positions from the Department of Rehabilitation (DOR) headquarters. DOR headquarters staff is responsible for the central administrative support activities essential to the DOR's basic operations. Services include the administration of the Vocational Rehabilitation and Independent Living programs, legal affairs, civil rights, audit services, and administrative support.

Staff Recommendation: Approve the reduction.

Vote-Only Issue 15: Operating Expenses Budget Balancing Reduction

Description: The Governor proposes a $4.2 million ($638,000 General Fund) reduction to operating expenses in DOR in 2008-09, which would increase to $4.8 million ($1.0 million General Fund) in 2009-10 and annually thereafter. Although DOR originally stated that the savings would result from the closure of 10-15 district offices throughout the State, there would be no savings associated with district office closures until 2009-10. All of the reduction in 2008-09 and the majority of the reduction in 2009-10 would be to general expense, printing, postage, travel, training, consultant services, data center services, and equipment.

The Subcommittee discussed the issue of closing district offices at the April 14, 2008 hearing. At that time, DOR was convening internal meetings to determine which offices to close. DOR committed to providing a specific plan for the closure of district offices, including timelines, specific offices identified, and expected impact on service-delivery by April 30, 2008, to provide sufficient time for legislative staff to review the information. However, that information was not provided until the May Revision and it is still in draft form. Therefore, the Legislature does not have sufficient information to determine the feasibility of DOR's proposal.

Staff Recommendation: Approve the $4.2 million ($638,000 General Fund) reduction to operating expenses for 2008-09 and ongoing (including the May Revision technical adjustment as appropriate. Reject the proposal to close district offices as there is no budget year savings and the Legislature does not have adequate information at this time.

Vote-Only Issue 16: Vocational Rehabilitation Supported Employment and Work Activity Program Caseload and Rates

Description: At the April 14, 2008 hearing, the Subcommittee discussed the caseload changes to the Vocational Rehabilitation Supported Employment Program (VR/SEP) and Vocational Rehabilitation Work Activity Program (VR/WAP). The Governor's Budget requested an increase of $4.9 million ($479,000 General Fund) to fund increased caseload. The issue was held open pending any caseload adjustments in the May Revision.

In addition, the Governor's Budget proposed a 10 percent rate cut to the Supported Employment Program, which would result in savings of $728,000 General Fund in DOR's budget. This issue was heard with the Department of Developmental Services' budget in Subcommittee on April 17, 2008.

Staff Recommendation: Adopt the VR/SEP and VR/WAP caseload and conform to the Subcommittee's action on May 21, 2008 on the SEP rate.

5175 Department of Child Support Services (DCSS)

Vote-Only Issue 17: Enterprise Customer Service Solution (ECSS) Contract Extension

Description: The Department of Child Support Services (DCSS) has submitted a spring Finance Letter requesting $5.7 million ($1.9 million General Fund) in reappropriation funding to allow the California Child Support Automation System (CCSAS) business partner to continue to provide maintenance and support for the ECSS until September 30, 2010. The ECSS consists of a central state Contact Center for Non IV-D customers, a central self-service interactive voice response system, a central call routing engine, and standardized hardware and software for Local Child Support Agencies (LCSAs) and the state call center. The budget request will enable the current business partner to provide support, maintain the current quality of service, and continue the level of access of the child support customer information during and post final transition of the LCSAs to the child support enforcement (CSE) system. DCSS is currently considering options for ongoing maintenance and operations of the ECSS past September 2010 once the system transition is complete. The total 24-month ECSS contract service project costs are $23.9 million.

Staff Recommendation: Approve the request.

Vote-Only Issue 18: Central Print and Mail Services

Description: DCSS has submitted a spring Finance Letter requesting the transfer of $12.6 million ($4.3 million General Fund) from local assistance to state operations to print and mail child support forms and notices through the Office of State Publishing (OSP). These forms and notices were originally generated locally, but as LCSAs move to the statewide CCSAS system, they will be generated by the State. The costs of these functions are based on estimated contract cost with the OSP. In the event that the actual costs are less than projected, DCSS has proposed budget bill language that would permit them to transfer the extra funds back to local assistance.

Staff Recommendation: Approve the requested transfer of $12.6 million ($4.3 million General Fund) from state operations to local assistance and the following provisional budget bill language:

Add to Item 5175-002-0001:

"In the event the actual costs to print and mail child support forms and notices through the Office of State Publishing are less than $6,300,000 the department shall transfer funds from this item to Item 5175-101-0001 upon approval by the Department of Finance."

Add to Item 5175-002-0890:

"In the event the actual costs to print and mail child support forms and notices through the Office of State Publishing are less than $12,200,000, the department shall transfer funds from this item to Item 5175-101-0891 upon approval by the Department of Finance."

Vote-Only Issue 19: CCSAS User Administration Support

Description: DCSS has submitted a spring Finance Letter requesting the continuation of two limited-term positions for an additional two years and continued redirection of contract funding of $158,000 ($63,000 General Fund) to fund the positions. These positions were initially provided in 2007-08 for one year to allow DCSS to maintain system security access for CCSAS users and to provide training to LCSA system administrators. Although DCSS expects this workload to be ongoing, they will not be sure at what level until transition to CCSAS is complete. The Legislative Analyst's Office recommends that one of these positions be made permanent now in order to reduce the turnover that is created by limited-term positions because the nature of this workload is such that excessive turnover could have security risks.

Staff Recommendation: Approve the request and make one of the two requested positions permanent.

Vote-Only Issue 20: Judicial Council Contract Budget Balancing Reduction (BBR)

Description: DCSS has submitted a revision to the BBR proposed in January to reduce the Judicial Council Contract that provides for court commissioner, family law facilitator, support staff salaries, and court expenses necessary to establish and adjust child support orders for all child support cases. As originally proposed on January 10, this proposal would have actually resulted in greater General Fund revenue losses than the savings from the contract reduction due to reductions in the establishment of child support orders. To address this problem, DCSS has secured agreement from the courts that they will redirect $1.5 million in trial court funding to backfill the General Fund reduction to ensure that there is no loss in General Fund revenue. In addition, the courts will receive an additional $5.5 million in federal funds to provide a federal match to child support hearing costs that the courts are absorbing with trial court funds.

Staff Recommendation: Approve the revised BBR.

Vote-Only Issue 21: Child Support State Hearings BBR

Description: As part of the 10 percent across-the-board reduction for DCSS, the Governor proposed, in January, to reduce funding for child support state hearings by $538,000 ($183,000 General Fund) and modify the child support complaint resolution process in order to better determine which issues should go forward to a formal state hearing. When this issue was first heard in Subcommittee on March 24, DCSS did not have a specific process developed yet and had proposed trailer bill language that would simply give the Director of DCSS the authority to determine the method the department would use for child support hearings without specifying what that method would be. DCSS stated they were working to develop a specific proposal and would provide that to the Legislature for consideration when it was developed. The proposed BBR was held open pending receipt of a specific proposal.

On May 12, DCSS submitted to subcommittee staff a proposal to modify the state hearing process based on a pilot project that the Department has been testing since November 2007. Under the pilot process, after all requests for state hearing are received and logged in at the State Hearing Office, they are sent to DCSS pilot staff for review and customer service. Within 10 days, DCSS pilot staff contact both the customer and the LCSA to attempt to resolve the problem outside the state hearing process and ensure that the customer has gone through the appropriate administrative steps prior to state hearing to resolve the problem. DCSS states that the pilot process has provided preliminary evidence that early intervention by DCSS can provide better customer service and complaint resolution, and reduce the number of state hearings.

Although DCSS acknowledges that the pilot project has not operated long enough to provide data on which to form definitive conclusions, DCSS would like to expand this pilot statewide to achieve the estimated savings in the state hearing process. However, DCSS has not demonstrated that the pilot process will result in the savings estimated, it is not clear whether there would be additional state costs related to the DCSS staff needed to implement the pilot statewide, and the DCSS has not revised the trailer bill language to implement their proposal, but instead continues with language that simply gives the Director of DCSS broad authority to determine the hearing method the department would use. As a result, adoption of this proposal is premature.

Staff Recommendation: Reject the proposed BBR. As an alternative, adopt the $183,000 General Fund in estimated savings, but provide $183,000 General Fund in reappropriation funding for one year to continue the current state hearing process. Adopt trailer bill language that would require DCSS to provide by January 10, 2009 the following: 1) more comprehensive data from the state hearing pilot project that demonstrates that the pilot has reduced state hearings; 2) a breakdown of how the pilot's revised hearing process results in the estimated savings to state hearing costs; and 3) trailer bill language that puts the specific new hearing process in statute.

Vote-Only Issue 22: Child Support Transitional Arrearages Savings

Description: As part of the 2006-07 budget, $28.5 million ($25.5 million General Fund) was provided to DCSS to resolve an issue with creation of arrears (outstanding child support obligations) due to a payment processing change implemented by the State. In developing 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. The funding allowed the State to make payments on behalf of affected NCPs in 2006-07 to clear their arrearage balances. The NCPs then repaid these obligations upon termination of their child support orders.

Of the $25.5 million in General Fund provided, DCSS ended up only needing $10.5 million General Fund. Instead of reverting the $15 million in General Fund savings, DCSS proposes to reappropriate those savings. DCSS has been provided authority to reappropriate funds from 2002 and each year thereafter to cover unanticipated costs associated with the CCSAS project. This reappropriation authority has helped to ensure that the CCSAS project stays on schedule since there is funding set aside that can be tapped into quickly as approved needs arise. However, given the current fiscal situation and the significant overestimation of the need for funding in 2006-07 for its original purpose of paying arrearages, it is valid to consider reverting the $15 million General Fund.

Staff Recommendation: Revert $14.817 million General Fund from 2006-07. This amount is the difference between the $15 million that was not needed in 2006-07 to pay arrearages on behalf of NCPs and the $183,000 General Fund that is reappropriated pursuant to the staff recommendation in Vote Only Issue 21 to continue funding state hearings.

Vote-Only Issue 23: State Disbursement Unit (SDU) Service Provider Contract

Description: The May Revision reflects savings of $5.5 million ($1.6 million General Fund) for reduced SDU Service Provider contract costs due to a decrease in transaction volume.

Staff Recommendation: Approve the reduction.

Vote-Only Issue 24: County Match for Administration

Description: The May Revision requests $6.4 million in federal fund authority to allow participating counties, and counties wishing to participate, the ability to increase their federal fund participation level through the use of their county matching funds.

Staff Recommendation: Approve the request.

Vote-Only Issue 25: CCSAS Transfer from the Franchise Tax Board (FTB)

Description: DCSS has submitted a spring Finance Letter request to transfer $44.5 million General Fund and 146 positions from the FTB to DCSS for CCSAS and requests associated budget bill and trailer bill language. The transfer would be accomplished in two phases. In phase one, the transfer of legislative authority and funding would occur on July 1, 2008. In phase two, the transfer of positions will occur on January 1, 2009, after the Child Support Enforcement (CSE) component of CCSAS is fully implemented in all counties.

The May Revision also included two technical adjustments related to this transfer to correct for funding that was inappropriately budgeted as state operations rather than local assistance for the CCSAS related Wide Area Network costs and one technical adjustment to include local assistance funding transferring from state operations to local assistance that was inadvertently omitted from the spring Finance Letter. These adjustments would result in a reduction of $3.0 million ($1.1 million General Fund) to state operations and an increase of $3.5 million ($1.1 million General Fund) to local assistance.

Staff Recommendation: Approve the transfer of positions and funding from FTB to DCSS and the associated May Revision technical adjustments. Approve the proposed trailer bill and budget bill language, and add trailer bill language that states that the transfer of staff from FTB to DCSS shall not occur until the federal funding cap placed on the CCSAS project is lifted.

Vote-Only Issue 26: California Child Support Automation System (CCSAS)

Description: The DCSS submitted a spring Finance Letter requesting $4.3 million ($2.3 million General Fund) to align the project budget with the latest approved CCSAS planning documents. The funding will be provided through 2005-06 reappropriated funds.

In addition, the May Revision requests that federal fund authority for the CCSAS project be increased by $269,000 to align the federal fund authority with the actual federal financial participation.

Staff Recommendation: Approve the spring Finance Letter and May Revision adjustment.

Vote-Only Issue 27: Federal Tax Refund Intercept Fees

Description: The May Revision requests $881,000 ($299,000 General Fund) to cover the increased costs for fees charged for the Federal Income Tax intercepts related to an increased number of intercepts. The Internal Revenue Services charges a fee of $14.65 for every federal income tax intercept. Intercepts are anticipated to increase as a result of the one-time Economic Stimulus Act and because intercepts may now be done for non-minors. The current intercept fees are funded from Local Child Support Agency (LCSA) administrative funding, but the amount set aside for intercept fees is fully expended.

Staff Recommendation: Approve the May Revision request.

Vote-Only Issue 28: Compromise of Arrears Program (COAP)

Description: The Governor’s Budget proposed $700,000 ($230,000 General Fund) and 7.5 permanent positions to extend the Compromise of Arrears Program (COAP). The budget also proposed trailer bill language to extend the sunset for the COAP two years, from June 30, 2008 to June 30, 2010, as well as other changes intended to improve the program.

In the March 24, 2008 hearing, the Subcommittee approved the funding and positions on a one-year limited-term basis, extended the sunset date for COAP in the trailer bill language until 2009, and rejected the additional proposed changes to the program in the trailer bill language pending a comprehensive COAP proposal. The Subcommittee took this action because the program was being proposed as a temporary program but DCSS was requesting permanent positions; the proposed trailer bill language did not incorporate the outcomes of two reviews of COAP conducted by DCSS and the Program Review Unit within the Department of Finance (DOF); and the LAO had concerns with the trailer bill.

Since that hearing, DCSS has developed a multi-year plan to implement the recommendations of the two reports, revised the trailer bill language to address the LAO’s concerns and make the program permanent, and has come to agreement with DOF that the positions should be made permanent.

Staff Recommendation: Rescind the Subcommittee's previous action. Approve the $700,000 ($230,000 General Fund) and 7.5 permanent positions on a permanent basis and approve the revised trailer bill language.

5180 Department of Social Services (DSS)

Vote-Only Issue 29: 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 includes a net increase of $597,351,000 (increases of $18,399,000 General Fund, $447,921,000 Federal Trust Fund, $130,487,000 Reimbursements, and $544,000 Child Support Recovery Fund), due to the impact of caseload changes since the Governor's Budget. The May Revision reflects the following average monthly caseload in 2008-09, compared to 2007-08 caseload:

- **CalWORKs:** 461,000 cases (0.1 percent increase)
- **Non-Assistance Food Stamps:** 669,000 cases (8.8 percent increase)
- **SSI/SSP:** 1,274,000 cases (2.1 percent increase)
- **In-Home Supportive Services (IHSS):** 416,000 cases (4.8 percent increase)
- **Foster Care:** 71,000 cases (0.8 percent increase)
- **KinGAP:** 14,000 cases (1.6 percent decrease)
- **Adoptions Assistance Program (AAP):** 81,000 cases (5.7 percent increase)
- **Child Welfare Services:** 159,000 cases (0.1 percent decrease)

Program	Item	Change Since Governor's Budget
CalWORKs / Kin-GAP	5180-101-0001 5180-101-0890 5180-601-0995	-$7,847,000 $347,685,000 $273,000
Foster Care	5180-101-0001 5180-101-0890 5180-101-8004 5180-141-0001 5180-141-0890	$527,000 -$17,811,000 $544,000 $247,000 -$844,000
Adoption Assistance Program	5180-101-0001 5180-101-0890	-$1,473,000 $1,166,000
Supplemental Security Income/State Supplementary Payment (SSI/SSP)	5180-111-0001	$6,633,000
In-Home Supportive Services (IHSS)	5180-111-0001 5180-611-0995	$46,321,000 $125,497,000
Child Welfare Services (CWS)	5180-151-0001 5180-151-0890 5180-651-0995	$1,686,000 $27,688,000 $4,404,000
Other Assistance Payments	5180-101-0001 5180-101-0890	-$42,809,000 $52,353,000
County Administration and Automation Projects	5180-141-0001 5180-141-0890 5180-641-0995	$16,709,000 $37,482,000 $313,000
Title IV-E Waiver	5180-153-0001	-$1,814,000
Remaining DSS Programs	5180-151-0001 5180-151-0890	$219,000 $202,000

Staff Recommendation: Approve the May Revision adjustments in funding due to caseload updates (adjusted as appropriate for actions taken elsewhere in the agenda and conforming as appropriate to actions taken in other human services Subcommittee hearings).

Vote-Only Issue 30: Adult Protective Services Program BBR

Description: The Governor's Budget proposed to reduce funding for the Adult Protective Services (APS) Program by $11.4 million ($6.1 million General Fund). This represents a ten percent cut to the total program funding. At the April 10, 2008 hearing, the Subcommittee discussed the Adult Protective Services (APS) Program, demand for APS services, and the underfunding of the program. The state funding level for APS has remained unchanged since 2002-03, while demand for services increases.

Staff Recommendation: Reject the proposed reduction. The APS program provides vital services to seniors and dependent adults and has been underfunded since it was established.

Vote-Only Issue 31: Reduction in Child Welfare Services Allocation

Description: The Governor's Budget proposes to reduce the Child Welfare Services (CWS) allocation by $129.6 million ($83.7 million General Fund). This is an 11.4 percent reduction to the General Fund portion of the CWS allocation, excluding funds for the Child Welfare Services Case Management System, the Adoptions Program, and the Child Abuse Prevention Program. This issue was discussed in Subcommittee on April 14, 2008.

Social workers and their support costs represent the majority of the CWS budget, which means that the proposed CWS reduction is likely to result in counties substantially reducing the number of social workers. The proposed reduction represents about 87 percent of the CWS augmentation and OIP monies. Therefore, a reversal of some of the progress made by counties to meet the SB 2030 standards may occur. The LAO estimates that the proposed reduction would result in an overall decrease of 630 full-time equivalent (FTE) social workers. Other estimates of the number of social workers that will be lost indicate it is as high as 1,000 workers statewide. The practical effect of cutting the number of social workers is that child safety and well-being will be jeopardized and systemic improvement efforts will be hampered.

County CWS agencies are also monitored and held accountable to state and federally mandated outcome measures. California, like most other states, did not meet all required outcomes under the federal Child and Family Service Review in 2002, but has been able to achieve significant improvement since that time. Still, California is facing an $8.9 million federal fiscal penalty, which DSS is appealing. The State is now undergoing its second federal review and will again be expected to make improvements or face fiscal penalties of approximately $80 million. There are significant concerns that the proposed CWS reduction will make it impossible for counties to meet required outcomes and achieve systemic reforms to avoid federal fiscal penalties.

There have been no adjustments to county allocations to account for inflation in any DSS programs since 2001-02. By the Administration's estimates, the shortfall in the amount of administrative funding needed by the counties and actually provided is over $1.1 billion (almost $633 million General Fund) annually. In the CWS program alone, the underfunding is estimated to be $649 million ($291 million General Fund). Counties have partially covered the shortfall by overmatching the State's contribution with local dollars by more than $150 million annually. The proposed CWS reduction will further exacerbate this historic funding shortfall.

It is also unclear how the proposed CWS reduction will be implemented. The DSS indicates that statutory changes are not necessary to implement the reduction and that counties have the "flexibility" to choose how to apportion the reduction to various CWS program expenditures. However, the services provided through the CWS program are mandated by state and federal law and regulation, so it not clear what counties could avoid doing without potentially running afoul of program requirements. Furthermore, CWS program funds are allocated to the counties for specific services and functions. Counties do not have the statutory authority to move monies from one function to another to align with local decisions about where to make the CWS cuts.

Staff Recommendation: Reject the proposed reduction. These are vital services to the State's most vulnerable children.

Vote-Only Issue 32: Program Improvement Plan Penalty

Description: The May Revision requests an increase of $9.4 million General Fund related to the federal assessment of a Program Improvement Plan Penalty. California failed to meet a compliance measure related to the stability of foster care placements in the first federal Child and Family Services Review and subsequently has been levied a federal penalty in the amount of $9.0 million. In March 2008, the DSS appealed this penalty based on concerns with the methodology and data used to evaluate the state's performance. Beginning in March 2008, interest will accrue at a cost of approximately $100,000 per month. The May Revision proposes payment of the penalty to avoid the accrual of further interest charges, but DSS will continue to appeal. If the DSS is successful in its appeal it would not have to pay the penalty or interest. If the appeal is unsuccessful, the DSS would pursue a settlement agreement to reduce the penalty and/or permit program reinvestment of the penalty amount.

Staff Recommendation: Approve the request.

Vote-Only Issue 33: Children and Family Services Review Consultant Contract

Description: The May Revision requests an increase of $300,000 ($188,000 General Fund) for a county contractor to coordinate the implementation of the state Program Improvement Plan (PIP). The funds would be used to hire a contractor to complete research and prepare the Statewide Self Assessment. In addition, funding is needed to support preparation and completion of the onsite review in three counties and development of the PIP.

California's second Federal Child and Family Services Review recently was completed and preliminary findings indicate that the state will not achieve substantial conformity on all safety, permanency, and well-being outcomes assessed in the review. Although the DSS has yet to receive final federal findings, the submittal of the state's Program Improvement Plan will be required within 90 days of federal notification of the state's failure to pass the review. Therefore the DSS would need the additional funding for contract services to implement the Program Improvement Plan in the counties in 2008-09.

Staff Recommendation: Approve the request.

Vote-Only Issue 34: 10 Percent Reduction to the Basic Care, Specialized Care, and Clothing Allowance Rates for the Foster Care, Kin-GAP, and Adoption Assistance Program

Description: The Governor's Budget proposed a 10 percent cut to basic care, specialized care, and clothing allowance rates for foster family homes (FFHs) and group homes (GHs), including those serving children who are seriously emotionally disturbed (SED), KinGAP, and the Adoption Assistance Program (AAP). Foster family agencies (FFAs) are proposed to receive a 5 percent rate cut. Trailer bill language is provided to implement the proposed rate cuts.

The cut was originally estimated to save $10.9 million ($6.8 million General Fund) in 2007-08 and $130.8 million ($81.5 million General Fund) in 2008-09 and annually thereafter. This issue was heard by the full Senate Committee on Budget and Fiscal Review on January 30, 2008 and the current year reduction was rejected. The May Revision estimates that the savings in 2008-09 have eroded by $33.2 million ($22.5 million General Fund) as a result of not adopting the reduction during the special session.

In the 2007-08 budget, FFHs, GHs, KinGAP, and AAP cases after January 1, 2008 received a five percent increase to the basic care, specialized care, and clothing allowance rates effective January 1, 2008. FFAs were excluded from the rate increase to enable counties to recruit and retain additional foster families into the system. Prior to 2007-08, a rate increase had not been provided to foster care since July 1, 2001.

Approximately 80,000 children in foster care, including 1,700 SED, 14,000 children in the Kin-GAP program, and 7,300 children living with non-related legal guardians will be affected by the rate cut. The Administration indicates that the proposed reductions to foster care rates will result in less funding to meet the needs of children in care. In addition, the reduction in the specialized care rate may reduce the placement alternatives for children with special needs resulting in more expensive placements.

Staff Recommendation: Reject the proposed reduction. This funding is vital to ensuring that appropriate placements continue to exist for vulnerable children who are the State's responsibility.

Vote-Only Issue 35: Foster Care Overpayments Budget Bill Language

Description: The Governor's Budget proposes budget bill language that would permit DSS to transfer state and federal local assistance funding to state operations to cover the workload costs incurred by DSS associated with the processes that DSS and the CWDA are required to develop to implement collection and repayment of foster care overpayments.

The federal government recently clarified that it requires repayment of all state and county overpayments currently verified, whether or not the overpayment has been recollected. Up to that point, the current practice was to repay the federal share of foster care overpayments upon recoupment from foster care providers. At the May Revision last year, the Administration proposed to comply with the new federal requirement by sharing the cost of the repayment with the counties according to the foster care sharing ratio, which is 40 percent state General Fund and 60 percent county funds. The Administration also proposed to retroactively apply that sharing ratio to foster care overpayments dating back to October 2003. Because the 40:60 sharing ratio is already in statute, the Administration asserted it does not need legislation to apply the ratio to repayments or to require repayments according to the ratio retroactively.

Based on concerns with the legality and fairness of the Administration's proposal, the Legislature negotiated trailer bill language with the Administration that: 1) rejects any retroactive cost-sharing of foster care overpayments; 2) requires DSS to work with the CWDA to develop a fair approach to state/county cost sharing of overpayments on a prospective basis, including repayment for legally uncollectible overpayments; 3) requires DSS to clarify policy and adopt regulations where lacking for the collection of overpayments; 4) requires DSS to gather and disseminate information and support county best practices for the prevention and recovery of overpayments; and 5) requires DSS and the Office of Systems Integration to work with CWDA to complete expedited approval of county requests to modify or implement automation systems designed to minimize overpayments and to provide counties with needed data from the CWS/CMS system to minimize overpayments.

The Governor's Budget includes $2.7 million General Fund for 2007-08 and $1.7 million ($1.2 million General Fund and $503,000 in county funds) for 2008-09 for the repayment of foster care overpayments. The DSS did not indicate during trailer bill discussions last year that they would need additional resources to implement the foster care overpayment language, nor did they submit a budget change proposal (BCP) requesting resources for 2008-09.

Staff Recommendation: Reject the proposed budget bill language. The Administration already has authority to administratively establish needed positions during the current year. In a year when there are cuts proposed to direct services and county administration, it is important to keep as much local assistance funding intact for those purposes and not allow it to be redirected for state workload. The DSS can submit a BCP in the future if it determines that it needs additional resources.

Vote-Only Issue 36: Dual Agency Caseload Reduction

Description: The May Revision requests a decrease of $8,786,000 ($3,841,000 General Fund) due to a decrease in the estimated Dual Agency foster care population from 3,138 cases to 2,172 cases. The caseload decline represents a 31 percent decrease from the caseload estimate included in the Governor's Budget. Previous estimates were based on dual-agency caseload data from fiscal year 2005-06. The May Revision reflects caseload projections based on updated dual-agency population data.

The May Revision also requests that the following budget bill provisional language be added to Item 5180-101-0001:

"X. Notwithstanding any other provision of law, upon request by the Department of Social Services, the Department of Finance may increase the expenditure authority in this item for the purpose of funding a supplemental payment to foster parents and families receiving adoption assistance payments for children served by both regional centers and child welfare agencies pursuant to Welfare and Institutions Code Section 11464 as amended by Chapter 177, Statutes of 2007."

The Departments of Social Services and Developmental Services are required by law to establish criteria by which counties will determine which dual-agency children are eligible for the supplemental payment within 120 days of the August 24, 2007 enactment date of the dual agency statutes. The DSS and DDS have been working with counties and regional centers over the past five months to develop the criteria and a draft will be shared with stakeholders for comment on May 23, 2008. DSS expects to have the implementing instructions to counties so that they can begin approving the supplemental rate this June. The supplemental rate may be approved for some dual agency children retroactive to July 1, 2007, consistent with the dual agency statutes enacted last year.

Staff Recommendation: Approve the reduced funding due to caseload reductions and the proposed budget bill language.

Vote-Only Issue 37: Kinship Guardianship Assistance Payment (Kin-GAP) Program

Description: The May Revision requests an increase of $10,241,000 ($3,428,000 General Fund) due to delayed implementation of program enhancements to the Kinship Guardianship Assistance Payment (Kin-GAP) program. The Governor's Budget assumed all 5,800 new Kin-GAP cases would phase-in after 24 months beginning in July 2007. However, the resolution of programmatic issues related to Medi-Cal eligibility and child support collections have delayed implementation of Kin-GAP enhancements. In addition, it is taking longer than anticipated for these cases to move through the dependency court. Caseload data suggests that the phase-in of the enhanced program will take up to 24 months beginning in January 2008. Since children will remain in the Foster Care system for a longer period of time, and will continue to require social services supervision, Foster Care and administrative savings in CWS will be lower than projected in the Governor's Budget. Offsetting savings in the CalWORKs program of $6.1 million are also included in the May Revision, to reflect fewer cases than anticipated moving out of Foster Care.

Staff Recommendation: Approve the request.

Vote-Only Issue 38: Foster Family Home and Small Family Home Insurance Fund Reduction

Description: The Governor's Budget proposes a $127,000 General Fund reduction to the Foster Family Home and Small Family Home Insurance Fund. This represents a 10 percent cut to the annual appropriation to the fund.

The Foster Family Home and Small Family Home Insurance Fund is a depository for all funds appropriated for the purpose of paying, on behalf of foster family homes and small family homes, claims ad litem resulting from occurrences peculiar to the foster care relationship and the provision of foster care services. The fund currently contains a balance of $5.8 million in addition to the amount that is appropriated each fiscal year. At the May 5, 2008 hearing, the Subcommittee took $2.8 million on a one-time basis to reduce the ongoing reserve to $3 million, which DSS indicated is a prudent amount for this fund.

Based on additional historical information on the fund balances provided by DSS, it appears that the fund could safely sustain an ongoing 10 percent reduction and still cover claims. It should be noted, however, that this fund sustained previous reductions of $305,000 in 2004-05 and $500,000 in 2005-06. A 10 percent reduction of $127,000 is likely to be the last reduction that can be made to the annual appropriation to this fund before the amount of claims would exceed the appropriation.

Staff Recommendation: Approve the reduction.

Vote-Only Issue 39: Continuing Care Contracts Branch Workload

Description: The Governor's Budget requests $316,000 in special fund authority and three positions to meet the increased volume and complexity of workload in the Department of Social Services' (DSS') Continuing Care Contracts Branch within the Community Care Licensing Division. Funding for these positions would come from the Continuing Care Provider Fee Fund.

This request was originally heard by the Subcommittee on April 10 and the vote to approve the request was split 1-1. Therefore, the item was held over.

Background: The Continuing Care Contracts Branch is responsible for the approval and oversight of Community Care Retirement Communities (CCRCs). CCRC providers offer long-term continuing care contracts that provide for residential, assisted living and skilled nursing services, usually in one location and for a resident's lifetime, to people 60 years of age or older. In exchange for those services, seniors typically pay a substantial entrance fee (usually between $100,000 and $1.5 million or more), as well as monthly care fees (generally ranging between $2,000 and $7,500). California law requires the DSS to evaluate the performance and financial health of all CCRC providers to monitor their financial position and ability to fulfill their contractual obligations to their residents. Currently there are 79 operational CCRCs in California housing in excess of 20,000 residents. Collectively, these communities have more than $7 billion in community assets and earn $1 billion in revenues annually.

In its early stages, continuing care was comprised of generally small, private, non-profit organizations, and their project proposals were typically straightforward and easy to analyze and monitor on an ongoing basis. In the mid-1980s, the industry began evolving and current providers now include large, multi-tiered corporate entities, some of which are for-profit and publicly traded, and all have complex financial structures. At that time, the CCRCs recognized the need for appropriate oversight and voluntarily proposed legislation to assess themselves fees to support that oversight.

The DSS has received between eight and 12 applications for new CCRC facilities, expansion or renovation of facilities, and acquisition of facilities or property in each of the past three fiscal years. There are currently 25 applications in various stages of processing, which can take multiple years given the complexity of the organizations and their proposals. The increase in new facilities each year also leads to an increase in the number of facilities needing annual monitoring. The Continuing Care Contracts Branch currently has six positions to fulfill all these functions.

Funding for these positions would come from the Continuing Care Provider Fee Fund. Revenues to this fund are from fees charged to CCRCs for the services that DSS provides them. Based on the current projection of the fund balance, it looks like the fund will be negative in 2011-12 with approval of this request. However, DSS indicates that they have authority to adjust the fees as necessary to cover the costs associated with their statutory oversight activities. DSS also indicates that with the increased numbers of applications, they do not believe that any fee increases will be necessary. CCRC providers and advocates support DSS' request for additional positions in this area.

Staff Recommendation: Approve the request.

Vote-Only Issue 40: Community Care Licensing Trigger Language

Description: The May Revision requests trailer bill language that would extend the moratorium on the Community Care Licensing trigger language and require that DSS submit trailer bill language to revise the trigger by February 1, 2010.

The 2007-08 budget trailer bill (Chapter 177, Statutes of 2007) required the DSS to propose, by February 1, 2008, a new statutory methodology for triggering additional annual random visits to facilities. The DSS submitted a report on March 27, 2008, to the Legislature requesting an additional two-year delay in submitting this language. In their report to the Legislature, DSS cites the delay in automation improvements (which were due to the Governor's veto of funds the Administration requested and received for licensing automation), the need to put systems in place to measure and develop alternate triggers, the need to develop and stabilize the CCL Division's staff skills, and the preference of stakeholders as the reasons for extending the suspension of the trigger for two years and to explain their need for more time to develop a new trigger mechanism.

This issue and the report were discussed in Subcommittee on April 10, 2008.

Staff Recommendation: Approve the requested trailer bill language.

Vote-Only Issue 41: Fee Exempt Live Scan Trailer Bill Language

Description: The May Revision requests trailer bill language to extend the suspension on the fee exempt live scan for an additional two years. The fee exemption provides a subsidy to applicants/workers in homes serving children with a capacity of six or fewer to have the State pay for the live scan and FBI background check fees. The intent of the fee exemption is to build capacity. Currently, the live scan fee is approximately $16 and the FBI fee is $19. This suspension was first enacted in 2003-04 for a savings of $2.8 million General Fund.

Staff Recommendation: Approve the trailer bill language.

Vote-Only Issue 42: Food Stamp Program Administrative Reduction

Description: The Governor's Budget proposes to reduce funding provided to counties for administration of the federal Food Stamp Program by $34.9 million ($14.4 million General Fund), which is a four percent cut to administrative funding for the program.

The proposed reduction to county administration would result in the loss of an estimated 290 county Food Stamp eligibility workers statewide. This loss of staff would have the following impacts:

- Delayed eligibility – The cut would delay the provision of Food Stamp benefits to an estimated 116,000 parents and children each year. Services would also be cut for "immediate need" applicants, who apply for benefits in a crisis, at the same time that the numbers of these applicants is likely to grow due to the downturn in the economy.

- Fewer eligible people receiving Food Stamps – Counties have been discussing the need to increase outreach activities with the state and federal governments for a number of years in order to increase California's Food Stamp participation rate. The proposed cut would make any increased outreach impossible to achieve and could jeopardize current outreach efforts. Over time, there could also be more denials of coverage because counties will not have time to work with families to obtain necessary information and documentation to determinate eligibility, further hindering progress in improving the participation rate.

- More errors – Cuts to Food Stamp administration could erode the progress that the counties and State have made over the past five years in reducing California's error rate, opening the State up to the possibility of facing federal penalties again.

The DSS has acknowledged that the impacts described above could likely occur.

In addition, there have been no adjustments to county allocations to account for inflation in any DSS programs since 2001-02. By the Administration's estimates, the shortfall in the amount of administrative funding needed by the counties and actually provided is over $800 million (over $450 million General Fund) annually. In the Food Stamps Program alone, the underfunding is estimated to be $93.8 million ($33.9 million General Fund) annually between 2001-02 and 2006-07. Counties have partially covered the shortfall by overmatching the State's contribution with local dollars by more than $24 million annually. The Administration assumes that counties will increase this local match by an additional $9.6 million in 2008-09. Counties are likely to have difficulty maintaining the existing overmatch in light of proposed budget cuts in all county-administered health and human services programs, let alone increasing local funding for Food Stamp administration.

Staff Recommendation: Reject the proposed reduction. The increase to the food stamp caseload resulting from the economic downturn further compounds the already negative impacts of this cut to applicants and the program overall.

Discussion Agenda

5180 Department of Social Services (DSS)

DSS Issue 1: Face-to-Face Waiver

Description: The May Revision requests $1.8 million ($992,000 General Fund) for implementation of a waiver of the face-to-face interview requirement for Food Stamp Program applicants who meet specified criteria. This funding would cover additional grant costs in the California Food Assistance Program and additional administration costs resulting from the increased number of participants.

Background: Under current state requirements, individuals applying for Food Stamps are required to complete a face-to-face interview to document individual hardship prior to receiving benefits. The United States Department of Agriculture (USDA) permits states to exempt up to 50 percent of their caseload from the face-to-face interview requirement. The Department of Social Services (DSS) plans to submit a waiver request to the USDA to exempt from the face-to-face interview at application those households where a single head of household is working at least 30 hours per week and where couples are working at least 20 hours each per week.

DSS assumes that this proposal will mitigate the impact of the proposal to reduce county administration funding for the Food Stamp Program by four percent. Administrative efficiencies would presumably result from less time being needed to conduct the face-to-face interviews, less time needed to screen applicants to determine if they are eligible for exemption from the face-to-face interviews (since under the current requirement, some applicants may already be exempted), and less time needed to document the reasons for the exemption. DSS is not able to quantify the specific administrative savings associated with these efficiencies.

In addition, elimination of the face-to-face interview requirement for working families is expected to increase participation in the Food Stamp Program. DSS estimates that an additional 13,000 households will participate, increasing the participation rate for households working 20 to 30 hours per week from 34 percent to 42 percent. DSS notes that using the Legislative Analyst's Office (LAO's) estimate that 2.25 cents per food stamp dollar is realized by the General Fund, it is estimated that the increased caseload will result in an economic benefit of approximately $500,000 in 2008-09.

The increased participation will also generate additional administrative costs associated with processing and completing ongoing workload for the new cases, and additional grant costs in the California Food Assistance Program (CFAP) for the new households that qualify for that program. Of the $1.8 million requested, $1.5 million ($762,000 General Fund) is for increased administration costs and $230,000 General Fund is for additional CFAP grant costs.

Although this is a positive step toward increasing California's Food Stamp Program participation rate, it does not go nearly as far as the USDA will allow states to go in exempting applicants from the face-to-face interview requirement. As discussed in the May 5 Subcommittee hearing, California's participation rate is low, ranging from 46 percent to 56 percent, depending on how it is measured, putting California somewhere between last and 44th among the 50 states in our participation rate. This low rate results in a significant amount of lost federal funds for the State's economy, as well as reduced nutrition and increased hunger for low-income families, which is of particular concern given the recent economic downturn and dramatic increases in food prices. It is not clear why California is not doing more to assist all families suffering economic hardship who may qualify for Food Stamps to receive these benefits.

Questions:

1. DSS, describe the current process for applying for Food Stamps and how it would change under the face-to-face interview waiver.
2. DSS, when will the waiver be submitted to the USDA? When do you anticipate approval of the waiver?
3. DSS, why are you limiting the population in your waiver request and not maximizing the flexibility provided to states by USDA?

Staff Recommendation: Approve the requested funding. This proposal will help to ensure that more people who are eligible for Food Stamp benefits receive those benefits and would increase California's Food Stamp participation rate.

DSS Issue 2: Privatization of Independent Adoptions

Description: The Governor's Budget proposed to privatize the Independent Adoptions Program (IAP) by transferring the direct services provision from DSS and three counties to licensed private adoption agencies. This proposal would result in net savings of $1.2 million General Fund and elimination of 18 positions in 2008-09, increasing to $2.5 million and 36 positions in 2009-10 and annually thereafter. The Subcommittee heard this issue on April 21, 2008 and held it open pending discussions between the Administration and advocates on alternatives to eliminating the IAP.

Background: An independent adoption is one in which the birth parent places his or her child directly with the prospective adoptive family. Independent adoptions are investigated on behalf of the court by the Department of Social Services' (DSS') seven district offices (covering 55 counties) and three county adoption agencies (Alameda, Los Angeles, and San Diego). The investigations are required by law to assess the adoptive home and determine whether the child is a proper subject for adoption. The investigation must be completed within 180 days of the filing of the adoption petition and the findings are reported to the court with a recommendation for or against the adoption petition. Current law authorizes the charging of a $2,950 fee, which helps offset the cost of the IAP. Current law also permits DSS and the three counties to defer, reduce, or waive the fee completely for low income prospective adoptive parents. There are approximately 1,000 independent adoptions finalized each year, with approximately 1,500 cases pending each month.

The total annual costs of the IAP are $5.0 million. These costs are offset by $2.5 million in fees collected annually ($1.7 million by the State and $844,000 by the three counties), leaving net annual costs of $2.5 million General Fund. According to DSS, the district offices collect 60 percent of their total fees and the State collect 52 percent of their total fees. It is not known exactly why there is a discrepancy in the fee collections by the State and counties or why fee collections are not higher, although counties do have staff dedicated to collecting the fee and the State does not.

Impact of the Proposed Reduction: The DSS indicates that an impact of this proposal will be that licensed private adoption agencies could significantly increase the adoption fees charged to prospective adoptive parents currently served by the IAP. The DSS estimates that, on average, the costs of an independent adoption would range from $10,000 to $20,000 under a private adoption agency. This would make adoptions less affordable and reduce the number of independent adoptions that take place. A reduction in the number of independent adoptions could lead to more children being placed in the foster care system, which is significantly more expensive.

Alternative to Privatizing the Program: Although the May Revision continues the proposal to privatize the IAP, the Administration has held discussions with advocates to provide technical assistance on options for raising fees enough to cover the costs of the program, without eliminating the ability of low income, prospective adoptive parents to adopt, particularly for relative adoptions. The following components of an alternative have come out of those discussions:

- The full fee could be raised from $2,950 to $4,500, the pre-placement fee could be raised from $775 to $1,550, and a minimum fee of $500 could be established. These increases should not significantly impact the current accessibility to independent adoptions through the IAP.
- Changes can be made to statute to enhance fee collections by ensuring that partial fees are paid up front and the situations in which fees may be reduced are clarified.
- DSS could increase fee collections if it had one staff dedicated to that function.

Enactment of these higher fees, providing DSS one staff dedicated to fee collections, and assuming a five percent increase in collections would yield approximately $3.3 million in fee revenue. This alternative would still require $1.8 million General Fund be provided annually to DSS and counties to cover the full costs of the program. While it does not make the IAP fully self-sufficient, it does move it closer to that goal, while keeping this adoption alternative affordable.

Questions:

1. DSS, describe the IAP and the potential impact of the proposal to privatize the program.
2. DSS, describe the revenue impact of the revised fees under the alternative and how the trailer bill changes will enable you and the counties to increase collections.
3. DSS, do you believe that the fee increases under the alternative will reduce the number of adoptions under the IAP?

Staff Recommendation: Reject the proposal to privatize the IAP. As an alternative, adopt the following:

1. Commencing October 1, 2008, increase full fees to $4,500, pre-placement fees to $1,550, and establish a minimum fee of $500.
2. The trailer bill language in Attachment I to implement those new fees and assist in higher fee collection rates.
3. Provide one AGPA and $100,000 to DSS dedicated to fee collection in the IAP.
4. Reduce the funding for IAP by $510,000 General Fund ($232,000 in state operations and $278,000 in local assistance) in 2008-09. This provides $2.011 million General Fund ($611,000 in state operations and $1.4 million in local assistance) to cover three months of IAP costs at the current fee levels and nine months of IAP costs at the higher fees.
5. Provide $1.8 million General Fund ($500,000 in state operations and $1.3 million in local assistance) for IAP in 2009-10 to reflect full-year implementation of the higher fees.

In addition, adopt noncodified trailer bill language requiring DSS to: 1) meet with stakeholders prior to Subcommittee hearings in 2009 to determine ways that the IAP process can be simplified and/or streamlined, including whether the fee amounts are appropriate and report back on those discussions with any recommendations the Department might have during the 2009 Subcommittee hearings; and 2) report back during 2009 Subcommittee hearings on how much fee collections have improved as a result of the trailer bill changes and what impact the new fees have had on the number of independent adoptions.

ATTACHMENT I – Trailer bill language for the Independent Adoptions Program

Section 8808 of the Family Code is amended to read:

8808. (a) The department or delegated county adoption agency shall interview the petitioners within forty five (45) working days, excluding legal holidays, after the filing of the adoption petition.
~~and~~ (b) The department or delegated county adoption agency shall interview all persons from whom consent is required and whose addresses are known as soon as fifty percent (50%) of the fee has been paid to the department or delegated county adoption agency. ~~possible~~ ~~and, in the case of residents of this state, within 45 working days, excluding legal holidays, after the filing of the adoption petition.~~ The interview with the placing parent or parents shall include, but not be limited to, discussion of any concerns or problems that the parent has with the placement and, if the placing parent was not interviewed as provided in Section 8801.7, the content required in that interview. At the interview, the agency shall give the parent an opportunity to sign either a statement revoking the consent, or a waiver of the right to revoke consent, as provided in Section 8814.5. (c) In order to facilitate ~~these~~ the interview described in this section, at the same time the petition is filed with the court, the petitioners shall file with the district office of the department or with the delegated county adoption agency responsible for the investigation of the adoption, a copy of the petition together with fifty percent (50%) of the fee, the names, addresses, and telephone numbers of all parties to be interviewed, if known. This section shall become operative on ~~January 1,1995~~ October 1, 2008.

Section 8810 of the Family Code is amended to read:

8810. (a) Except as otherwise provided in this section, whenever a petition is filed under this chapter for the adoption of a child, the petitioner shall pay a nonrefundable fee to the department or to the delegated county adoption agency for the cost of investigating the adoption petition. ~~Payment~~ Fifty percent (50%)of the payment shall be made to the department or delegated county adoption agency~~, within 40 days of the filing of the petition, for~~ at the time the adoption petition is filed, and the remaining balance shall be paid no later than the date determined by the department or delegated county adoption agency in an amount as follows:

(1) For petitions filed on and after ~~July 1, 2003~~. ~~two thousand nine hundred fifty dollars ($2,950)~~ October 1, 2008, four-thousand five hundred dollars ($4,500).

(2) For petitioners who have a valid preplacement evaluation at the time of filing a petition pursuant to Section 8811.5, ~~seven hundred seventy-five dollars ($775)~~ one-thousand five hundred fifty dollars ($1,550) for a postplacement evaluation pursuant to Sections 8806 and 8807.

(b) Revenues produced by fees collected by the department pursuant to subdivision (a) shall be used, when appropriated by the Legislature, to fund only the direct costs associated with the state program for independent adoptions. Revenues produced by fees collected by the delegated county adoption agency pursuant to subdivision (a) shall be used by the county to fund the county program for independent adoptions.

(c) The department or delegated county adoption agency may ~~only waive, or~~ reduce the fee to no less than $500 when the prospective adoptive parents are very low income, according to the income limits published by the Department of Housing and Community Development, and making the required payment would be detrimental to the welfare of an adopted child. The department shall develop additional guidelines regarding income and/or assets to determine the financial criteria for ~~waiver or~~ reduction of the fee under this subdivision.

Section 8820 of the Family Code is amended to read:

8820. (a) The birth parent or parents or the petitioner may appeal in either of the following cases:

(1) If for a period of 180 days from the date of ~~filing the adoption petition~~ paying fifty percent (50%) of the fee or upon the expiration of any extension of the period granted by the court, the department or delegated county adoption agency fails or refuses to accept the consent of the birth parent or parents to the adoption.

(2) In a case where the consent of the department or delegated county adoption agency is required by this chapter, if the department or agency fails or refuses to file or give its consent to the adoption after full payment has been received.

(b) The appeal shall be filed in the court in which the adoption petition is filed. The court clerk shall immediately notify the department or delegated county adoption agency of the appeal and the department or agency shall, within 10 days, file a report of its findings and the reasons for its failure or refusal to consent to the adoption or to accept the consent of the birth parent or parents.

(c) After the filing of the report by the department or delegated county adoption agency, the court may, if it deems that the welfare of the child will be promoted by that adoption, allow the signing of the consent by the birth parent or parents in open court or, if the appeal is from the refusal of the department or delegated county adoption agency to consent thereto, grant the petition without the consent.

Senate Budget & Fiscal Review Committee
Eileen Cubanski 651-4103

Hearing Outcomes

Subcommittee No. 3
10 a.m., Friday, May 23, 2008

Vote-Only Agenda

0530/5180 Health and Human Services Agency – Office of System Integration/Department of Social Services

- Vote-Only Issue 1: Child Welfare System/Case Management System (CWS/CMS)
  Action: Approved the request for funding for the New System Project (NSP) and maintenance and operations (M&O) of the current system (with the funding for M&O conforming to the action taken by the Subcommittee on May 5 to adopt the alternative to eliminating the ISAWS Migration Project). Approved the funding and positions for NSP for DSS. **Vote:** 3-0

- Vote-Only Issue 2: Case Management Information and Payrolling System Replacement (CMIPS II) Project
  Action: Approved the requested funding for CMIPS II as revised by the May Revision and conforming to the action taken by the Subcommittee on May 5 to adopt the alternative to eliminating the ISAWS Migration Project. Approved the funding and positions for CMIPS II, except that the four positions requested to be made permanent shall be three-year limited-term. **Vote:** 3-0

4170 California Department of Aging

- Vote-Only Issue 3: Health Insurance Counseling and Advocacy Program (HICAP) Federal Funds Augmentation.
  Action: Approved the requested increase in federal fund authority. **Vote:** 3-0

- Vote-Only Issue 4: Senior Nutrition Programs Budget Balancing Reductions (BBRs)
  Action: Rejected the proposed reductions to Home-Delivered Meals, Congregate Nutrition, and the Brown Bag Program. **Vote:** 2-1 (Dutton)

- Vote-Only Issue 5: Alzheimer's Day Care Resource Centers BBR
  Action: Rejected the proposed reduction. **Vote:** 2-1 (Dutton)

- Vote-Only Issue 6: Linkages Program and Multipurpose Senior Services Program (MSSP)
  Action: Approved the proposed reductions, including the May Revision technical adjustment to schedule the MSSP General Fund and federal fund reductions in the appropriate items within DHCS and CDA. **Vote:** 3-0

- Vote-Only Issue 7: Respite Purchase of Service and Senior Companion Program BBRs
  Action: Approved the proposed reductions. **Vote:** 3-0

- Vote-Only Issue 8: Long-Term Care Ombudsman BBR
  Action: Approved the proposed reduction. **Vote:** 3-0

- Vote-Only Issue 9: Area Agencies on Aging (AAA) Administration
  Action: Approved the proposed reduction. **Vote**: 3-0

- Vote-Only Issue 10: Senior Legal Hotline
  Action: Approved the proposed reduction. **Vote**: 3-0

4200 Department of Alcohol and Drug Programs

- Vote-Only Issue 11: Drug Medi-Cal
  Action: Approved the revised Drug Medi-Cal caseload and other adjustments, and reject the proposed 10 percent cut to Drug Medi-Cal rates and all associated trailer bill language. **Vote**: 2-1 (Dutton)

4700 Department of Community Services and Development

- Vote-Only Issue 12: Naturalization Services Program
  Action: Approved the proposed reduction. **Vote**: 3-0

- Vote-Only Issue 13: Office Relocation
  Action: Approved the requested funding and provisional budget language. **Vote**: 3-0

5160 Department of Rehabilitation

- Vote-Only Issue 14: Reduce Headquarters Budget Balancing Reduction (BBR)
  Action: Approved the proposed reduction. **Vote**: 3-0

- Vote-Only Issue 15: Operating Expenses Budget Balancing Reduction
  Action: Approved the proposed reduction for 2008-09 and ongoing (including the May Revision technical adjustment as appropriate). Rejected the proposal to close district offices. **Vote**: 3-0

- Vote-Only Issue 16: Vocational Rehabilitation Supported Employment and Work Activity Program Caseload and Rates
  Action: Approved the VR/SEP and VR/WAP caseload and conformed to the Subcommittee’s action on May 21, 2008 on the SEP rate. **Vote**: 3-0

5175 Department of Child Support Services

- Vote-Only Issue 17: Enterprise Customer Service Solution (ECSS) Contract Extension
  Action: Approved the request. **Vote**: 3-0

- Vote-Only Issue 18: Central Print and Mail Services
  Action: Approved the requested transfer of $12.6 million ($4.3 million General Fund) from state operations to local assistance and the following provisional budget bill language:

  Add to Item 5175-002-0001:

  "In the event the actual costs to print and mail child support forms and notices through the Office of State Publishing are less than $6,300,000 the department shall transfer funds from this item to Item 5175-101-0001 upon approval by the Department of Finance."

  Add to Item 5175-002-0890:

  "In the event the actual costs to print and mail child support forms and notices through the Office of State Publishing are less than $12,200,000, the department shall transfer funds from this item to Item 5175-101-0891 upon approval by the Department of Finance."
  Vote: 3-0

- Vote-Only Issue 19: CCSAS User Administration Support
  Action: Approved the request and made one of the two positions permanent. **Vote**: 3-0

- Vote-Only Issue 20: Judicial Council Contract Budget Balancing Reduction (BBR)
  Action: Approved the revised BBR. **Vote**: 3-0

- Vote-Only Issue 21: Child Support State Hearings BBR
  Action: Reject the proposed BBR. As an alternative, adopted the $183,000 General Fund in estimated savings, but provided $183,000 General Fund in reappropriation funding for one year to continue the current state hearing process. Adopted trailer bill language that would require DCSS to provide by January 10, 2009 the following: 1) more comprehensive data from the state hearing pilot project that demonstrates that the pilot has reduced state hearings; 2) a breakdown of how the pilot's revised hearing process results in the estimated savings to state hearing costs; and 3) trailer bill language that puts the specific new hearing process in statute. **Vote**: 3-0

- Vote-Only Issue 22: Child Support Transitional Arrearages Savings
  Action: Reverted $14.817 million General Fund from 2006-07. **Vote**: 3-0

- Vote-Only Issue 23: State Disbursement Unit (SDU) Service Provider Contract
  Actions: Approved the proposed reduction. **Vote**: 3-0

- Vote-Only Issue 24: County Match for Administration
  Action: Approved the request. **Vote**: 3-0

- Vote-Only Issue 25: CCSAS Transfer from the Franchise Tax Board (FTB)
  Action: Approved the transfer of positions and funding from FTB to DCSS and the associated May Revision technical adjustments. Approved the proposed trailer bill and budget bill language, and added trailer bill language that states that the transfer of staff from FTB to DCSS shall not occur until the federal funding cap placed on the CCSAS project is lifted. **Vote**: 3-0

- Vote-Only Issue 26: California Child Support Automation System (CCSAS)
  Action: Approved the spring Finance Letter and May Revision adjustment. **Vote**: 3-0

- Vote-Only Issue 27: Federal Tax Refund Intercept Fees
  Action: Approved the request. **Vote**: 3-0

- Vote-Only Issue 28: Compromise of Arrears Program (COAP)
  Action: Rescinded the Subcommittee's previous action. Approved the $700,000 ($230,000 General Fund) and 7.5 permanent positions on a permanent basis and approved the revised trailer bill language. **Vote**: 3-0

5180 Department of Social Services

- Vote-Only Issue 29: May Revision Caseload Adjustments
  Action: Approved the May Revision adjustments in funding due to caseload updates (adjusted as appropriate for actions taken elsewhere in the agenda and conforming as appropriate to actions taken in other human services Subcommittee hearings). **Vote**: 3-0

- Vote-Only Issue 30: Adult Protective Services BBR
  Action: Rejected the proposed reduction. **Vote**: 2-1 (Dutton)

- Vote-Only Issue 31: Reduction in Child Welfare Services Allocation
  Action: Rejected the proposed reduction. **Vote**: 2-1 (Dutton)

- Vote-Only Issue 32: Program Improvement Plan Penalty
  Action: Approved the request. **Vote**: 3-0

- Vote-Only Issue 33: Children and Family Services Review Consultant Contract
  Action: Approved the request. **Vote**: 2-1 (Dutton)

- Vote-Only Issue 34: 10 Percent Reduction to the Basic Care, Specialized Care, and Clothing Allowance Rates for the Foster Care, Kin-GAP, and Adoption Assistance Program
  Action: Rejected the proposed reduction. **Vote**: 2-1 (Dutton)

- Vote-Only Issue 35: Foster Care Overpayments Budget Bill Language
  Action: Rejected the proposed budget bill language. **Vote**: 3-0

- Vote-Only Issue 36: Dual Agency Caseload Reduction
  Action: Approved the reduced funding and proposed budget bill language. **Vote**: 3-0

- Vote-Only Issue 37: Kinship Guardianship Assistance Payment (Kin-GAP) Program
  Action: Approved the request. **Vote**: 3-0

- Vote-Only Issue 38: Foster Family Home and Small Family home Insurance Fund Reduction
  Action: Approved the proposed reduction. **Vote**: 3-0

- Vote-Only Issue 39: Continuing Care Contracts Branch Workload
  Action: Approved the request. **Vote**: 2-1 (Dutton)

- Vote-Only Issue 40: Community Care Licensing Trigger Language
  Action: Approved the trailer bill language. **Vote**: 3-0

- Vote-Only Issue 41: Fee Exempt Live Scan Trailer Bill Language
  Action: Approved the trailer bill language. **Vote**: 3-0

- Vote-Only Issue 42: Food Stamp Program Administrative Reduction
  Action: Rejected the proposed reduction. **Vote**: 2-1 (Dutton)

Discussion Agenda

5180 Department of Social Services

- DSS Issue 1: Face-to-Face Waiver
  Action: Approved the request. **Vote:** 3-0

- DSS Issue 2: Privatization of Independent Adoptions
  Action: Rejected the proposal to privatize the IAP. As an alternative, adopted the following:

  1. Commencing October 1, 2008, increase full fees to $4,500, pre-placement fees to $1,550, and establish a minimum fee of $500.
  2. The trailer bill language in Attachment I of the agenda to implement those new fees and assist in higher fee collection rates.
  3. Provide one AGPA and $100,000 to DSS dedicated to fee collection in the IAP.
  4. Make the appropriate budget adjustments to revenues to cover three months of IAP costs at the current fee levels and nine months of IAP costs at the higher fees.
  5. Adopt noncodified trailer bill language requiring DSS to: 1) meet with stakeholders prior to Subcommittee hearings in 2009 to determine ways that the IAP process can be simplified and/or streamlined, including whether the fee amounts are appropriate and report back on those discussions with any recommendations the Department might have during the 2009 Subcommittee hearings; and 2) report back during 2009 Subcommittee hearings on how much fee collections have improved as a result of the trailer bill changes and what impact the new fees have had on the number of independent adoptions.

  Vote: 2-1 (Dutton)

SUBCOMMITTEE NO. 3 Agenda

Health, Human Services, Labor & Veteran's Affairs

Chair, Senator Elaine K. Alquist
Senator Alex Padilla
Senator Mark Wyland

Agenda – Part B

Friday, May 23, 2008
10:00 am
Room 4203
(Consultant: Bryan Ehlers)

Discussion Agenda

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 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 Governor's Budget begins by funding 9,039.4 positions (including 197.4 new positions) and budget expenditures of $11.7 billion for the department, but then includes a 10-percent, across-the-board General Fund (GF) reduction (Budget-Balancing Reduction–BBR) of $246,000 and 2.3 positions. Taking into account the proposed BBRs, the Governor's Budget provides approximately $421 million more in FY 2008-09 compared to adjusted-FY 2007-08 totals (occurring almost entirely in the Unemployment Compensation Disability Fund and the Unemployment Fund), and $5.5 million less GF.

VOTE-ONLY ITEM:

Vote-Only Item: May Revise Letter: Program Benefit Adjustments

Every May, EDD provides a revised budget request to adjust funding for the new estimates of claims and payments for the Unemployment Insurance (UI) Program, the Disability Insurance (DI) Program, and the School Employees Fund. The following changes are requested this year:

- **Unemployment Insurance Program and Benefit Adjustments**—It is requested that the budget be increased by $754.7 million to reflect a projected increase in UI benefit payments. Conversely, due to recent implementation of a new allocation methodology by the federal government, it is requested that the budget be decreased by $39.7 million and 453.3 personnel years (PYs) (including $10.7 million and 100.9 PYs for the California Unemployment Insurance Appeals Board—CUIAB) to reflect a revised estimate of available federal funding.

- **Disability Insurance Program and Benefit Adjustments**—It is requested that the budget be increased by $3.3 million and 50.9 PYs (including reductions of $243,000 and 2.3 PYs for the CUIAB) to reflect revised workload estimates for the Disability Insurance (DI) Program. It is also requested that the budget be increased by $441.5 million to reflect a projected increase in DI-benefit payments.

- **School Employees Fund Adjustments**—It is requested that the budget be increased by $79.2 million to reflect a projected increase in benefit payments from the School Employees Fund.

Staff Comment: None of these changes directly affects the GF (although, as discussed in Discussion Item 1 below, the GF would be affected if the UI Program needs to be backfilled from the Contingent Fund). Strictly speaking, all costs in these areas are funded by employer and employee taxes. If 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 Legislature. If estimates of benefit payments turn out to be too high, the January 2009 Governor's Budget will include proposed reductions to 2008-09 expenditures.

Staff Recommendation: APPROVE the May Finance Letter to update the budget for revised estimates of benefit claims and payments.

VOTE:

DISCUSSION ITEMS:

EDD Item 1: May Revise Letter: Unemployment Insurance Program Administration—Partially Backfill Federal Funding Shortfall

The Governor requests an increase of 104.9 temporary help PYs and $8.4 million ($5.3 Contingent Fund and $3.1 federal Reed Act funds) to partially backfill a shortfall of federal Unemployment Administration funding.

Staff Comment: As previously noted, the amount of UI benefits paid out is anticipated to increase significantly in fiscal year (FY) 2008-09, while the availability of federal funding for UI administration is projected to continue to decrease—the federal government has stated that it will only fund 32 percent of the increase in the states' workload. While California, along with other states, is working with the federal government to improve the allocation methodology and obtain additional federal administration funding, this proposal would backfill $8.5 million (or 21.4 percent) of the $39.7 million shortfall (acknowledged in the Vote-Only Item).

According to the EDD, under the best case scenario, the department would be able to maintain current levels of service through the first quarter of the year—levels which meet many claimants needs, but prompted a recent Los Angeles Times article on claimants being disconnected from the program's 1-800 number because the system was overwhelmed with calls. In October, when unemployment claims begin to peak (as most outdoor seasonal workers are forced indoors), the program could face a workload crunch resulting in greatly diminished service levels unless the federal government decides to provide increased funding to the program in the new federal budget (the federal fiscal year begins October 1). Staff notes that while the Administration hopes to receive additional federal dollars and is actively lobbying Congress for an increase to UI funding, there is still the potential that Congress could ultimately approve a reduction to the current (inadequate) level.

While UI is a federal program, California residents would ultimately bear the brunt if UI service levels result in the slower processing of claims and issuance of benefit checks. Given the possibility, if not the likelihood, that without additional federal funds the proposed level of funding would result in an adverse impact to the state's unemployed, the Subcommittee may wish to approve provisional language making an additional Contingent Fund appropriation contingent upon failure to receive increased federal funding. Staff notes that, because any remaining Contingent Fund balance is swept to the GF at the end of the fiscal year, this proposal could result in a decrease to the GF reserve of up to $23.8 million if all of the anticipated Contingent Fund balance needs to be tapped.

Staff Recommendation: APPROVE the request with placeholder provisional language (as described above).

VOTE:

EDD Item 2: May Revise Letter: Workforce Investment Act (WIA) Adjustments—Discretionary Funds

The Governor requests increases of: (1) $15.0 million in state operations; and (2) $33.7 million in local assistance to reflect a projected increase for the Consolidated Workers Program under WIA. This proposal includes an additional $7.3 million in WIA discretionary funds.

Staff Comment: In its *Analysis of the 2008-09 Budget Bill*, the LAO noted that, relative to the current year, the Governor's Budget reallocated WIA discretionary funds, opting to reduce funding in some areas, like parolee services, in order to provide funding in other areas, like the pre-apprenticeship Governor's pilot projects and regional collaboratives. As discussed at a previous hearing, the LAO recommended redirecting these resources back to parolee services because of the demonstrated value of the parolee employment programs in reducing recidivism for parolees, and because doing so would create an equivalent level of GF savings. Consistent with this recommendation, the LAO offers the comments below on the Governor's May Revise proposal.

LAO Analysis and Recommendation: *The state's federal allocation for WIA discretionary funds has increased by $7.3 million, as shown in Figure 1. The updated proposed expenditure plan increases administration and program services by $1.3 million and the nurses/healthcare/logistics program by $2 million. The administration proposes to eliminate funding for regional collaboratives (decrease of $1.5 million), but has added two new initiatives that total $6.3 million—$4.3 million for economic stimulus and $2 million for green technology.*

Figure 1
Workforce Investment Act (WIA)
State Discretionary Funds
2008-09 Proposed Expenditures
(In Millions)

Budget Bill Schedule/Category	2008-09 Governor's Budget	2008-09 May Revision	Change
(1) WIA Administration and Program Services	$24.0	$25.3	$1.3
(2) Growth Industries			
Community colleges WIA coordination	$0.6	$0.6	-
Regional collaboratives	$1.2	-	-$1.2
Incentive grants	$0.2	$0.2	-
At-risk/youthful offender gang prevention	$3.0	$3.0	-
Economic stimulus	-	$3.1	$3.1
Green Technology	-	$2.0	$2.0
Subtotals	**$5.0**	**$8.9**	**$3.9**
(3) Industries With a Statewide Need			
Nurse education initiative	$6.2	$6.2	-
Regional collaboratives	$0.3	-	-$0.3
Nurses/healthcare/construction/logistics	$3.1	$5.1	$2.0
At-risk/youthful offender gang prevention	$3.0	$3.0	-
Pre-apprenticeship - Governor's pilot projects	$2.4	$2.4	-
Economic stimulus	-	$1.2	$1.2
Subtotals	**$15.0**	**$17.9**	**$2.9**
(4) Removing Barriers for Special Needs Populations			
Parolee services	$2.3	$2.3	-
Incentive grants	$1.3	$0.5	-$0.8
Services to long-term unemployed	$0.1	$0.1	-
Governor's award for veteran's grants	$3.0	$3.0	-
Veterans/disabled veterans' employment services	$0.7	$0.7	-
Department of Education WIA coordination	$0.4	$0.4	-
Youth grants	$0.5	$0.5	-
At-risk/youthful offender gang prevention	$4.0	$4.0	-
Low wage earners	$0.4	$0.4	-
Subtotals	**$12.7**	**$11.9**	**-$0.8**
Total Proposed Expenditures	**$56.7**	**$64.0**	**$7.3**

Given the current fiscal climate, we believe WIA funds should be directed, when possible, to relieve General Fund support for employment programs, rather than fund newer, unproven initiatives. In the 2008-09 Analysis, we recommended that $2.4 million of WIA funds proposed for the pre-apprenticeship projects be redirected to the parolee employment programs in CDCR (Item 5225). Given the additional WIA funding available, without prejudice to the WIA discretionary programs, our revised recommendation is to redirect a total of $7.3 million in WIA funds to the CDCR parolee programs. This redirection would result in a total General Fund savings of $7.3 million in CDCR. As for the remaining WIA funds, we recommend the Legislature review the administration's proposed expenditure plan to ensure that it is consistent with legislative priorities.

For the reasons stated, the Subcommittee may wish to adopt the LAO recommendation.

Staff Recommendation: APPROVE the Governor's May Revise request except for the revisions recommended by the LAO. Score $7.3 million in GF savings.

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 DIR 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 Governor's Budget begins by funding 2,880.7 positions (including 36.3 new positions) and budget expenditures of $393.1 million for the department, but then includes a 10-percent, across-the-board General Fund (GF) reduction (Budget-Balancing Reduction–BBR) of $1.3 million and 9.4 positions. Taking into account the proposed BBRs, the Governor's Budget provides approximately $6.8 million more in FY 2008-09 compared to adjusted-FY 2007-08 totals, including $549,000 less GF.

VOTE-ONLY ITEMS:

Vote-Only Item 1: BCP-12—Statewide Facilities—Additional Space for District Offices

The DIR requests $875,000 (WCARF) in FY 2008-09 and approximately $1.5 million and $1.7 million in FYs 2009-10 and 2010-11, respectively, to support costs associated with additional space in the Los Angeles, Riverside, and Santa Ana district offices, the relocation of the Grover Beach district office as well as adjustments to the Statewide Facilities schedule.

Staff Comment: This request was discussed and denied at a previous hearing, but the Chair offered reconsideration if the DIR could provide additional information demonstrating that the proposed funding was necessary to address health and safety concerns, or would result in offsetting revenues or savings. Based on additional, clarifying information submitted to the Subcommittee, staff no longer has concerns with the requested resources.

Staff Recommendation: Upon reconsideration, APPROVE the request.

Vote-Only Item 2: BBR—Reduce Division of Occupational Safety and Health Staff

The Governor proposes a 10-percent GF reduction of 2.0 positions and $222,000 to the EDD's Division of Occupational Safety and Health (DOSH). The reduction would result in: (1) the elimination of 1.0 Hearing Officer position at the Occupational Safety and Health Appeals Board (OSHAB), whose responsibility it is to handle appeals from private and public-sector employers regarding citations issued by the DOSH for alleged violation of workplace safety and health laws; and (2) the elimination of 1.0 Staff Services

Manager (SSM I) position at the Occupational Safety and Health Standards Board (OSHSB), whose responsibility it is to ensure a safe and healthful workplace for California workers by promoting, adopting, and maintaining reasonable and enforceable standards, as well as by granting or denying applications for variances from adopted standards and responding to petitions for new or revised standards.

Staff Comment: The DIR indicates the reduction to the OSHSB would result in over 1,000 fewer appeals heard by the board (there are currently 3,000 cases backlogged) and would increase the potential of federal complaint filing due to failure to process cases in a timely manner. According to the DIR, a federal complaint (alleging, for example, that the state takes 16 months to process appeals compared to the Federal OSHA standard of 10 months) could result in the state losing the right to implement its own OSHA plan and in being required to institute the federal program instead.

Staff additionally notes that each appeal represents an alleged violation and a potential amount due and payable to the GF—the current backlog is estimated at approximately $1.9 million. Thus, this reduction would further delay penalty collections due to the GF.

The DIR indicates that the reduction to the OSHSB would result in delays in the rule-making process and the board's ability to respond to petitioners and applicants.

Staff Recommendation: APPROVE the reduction.

Vote-Only Item 3: BCP-9—Redirect Rehabilitation Unit Personnel to New Return-to-Work Unit with TBL

The DIR requests redirection and reclassification of 22.0 existing positions within its current Rehabilitation Unit to the newly-created Return-to-Work Unit in order to support the administrative workload associated with Chapter 6, Statutes of 2002 (AB 749) relative to Return-to-Work (RTW) and Chapter 34, Statutes of 2004 (SB 899) regarding the Supplemental Job Displacement Benefit. The DIR also proposes trailer bill language (TBL) to extend the sunset on the RTW.

Staff Comment: This issue was discussed previously and held open for additional review. Based on additional conversations with the department, staff is now more comfortable recommending approval of these positions, but the Subcommittee may wish to adopt placeholder Supplemental Report Language (SRL) requiring the DIR to report on the RTW workload over the next several years in order verify whether the projections on which this request is based actually materializes. Additionally, staff recommends approving the proposed TBL to extend for one year the program sunset in order to allow the department of complete the required study. The Legislature would have the opportunity again next year to determine whether the program should be approved on an ongoing basis based on information contained in both the study and the SRL.

Staff Recommendation: APPROVE the requested funding, the proposed TBL, and placeholder SRL (as described above).

Vote on the Staff Recommendation for Vote-Only Items 1 through 4:

DISCUSSION ITEMS:

DIR Item 1: BCP-8—Security Upgrades for District Offices

The DIR requests one-time augmentations of $386,000 (Workers' Compensation Administration Revolving Fund—WCARF) in FY 2008-09 and $557,000 (WCARF) in FY 2009-10 to support the installation of safety-related components to improve and make more consistent the security standard for the Division of Workers' Compensation's (DWC) 24 district offices.

Staff Comment: This item was discussed previously and held open due to concerns over the fact that the DIR has chosen to selectively implement at its DWC facilities various security recommendations made by the CHP. Based on additional information provided by the department, staff has no doubts that the requested funding would support the implementation of judicious and justifiable security precautions. However, staff notes that the DIR needs to continue to work with the DGS (the building owner and operator at several of these facilities) to evaluate whether implementation of additional CHP recommendations is feasible. Additionally, staff notes concern that the CHP has not historically provided departments technical assistance in prioritizing which of its recommendations to implement when a phased approach is necessary for budgetary or other reasons. The Legislature and the Administration may wish to address this issue more formally at a future time in order to mitigate the potential that departments will implement CHP security recommendations in an ad hoc fashion that is cost-ineffective.

Staff Recommendation: APPROVE the request.

VOTE:

DIR Item 2: DIR BCP-17—Implement Amusement Ride Safety Law Revisions—SB 783

The DIR requests 2.6 positions and $311,000 (Elevator Safety Account) to implement the new provisions of Chapter 478, Statutes of 2007 (SB 783).

Staff Comment: Among other things, SB 783 expanded the types of accidents that owners and operators of non-permanent or portable amusement rides must report to the Division of Occupational Safety and Health (DOSH), and required the DOSH to enforce the statutory and regulatory provisions pertaining to portable amusement rides by issuance of citations and civil penalties. The DIR indicates 2.0 positions would work to implement the new provisions, while 0.6 positions would be under the Occupational Safety and Health Appeals Board to manage the estimated increase in the number of appeal cases.

The Department of Finance has raised concern with the condition of the fund balance that would support the proposed activities, but has indicated that the proposed activities ought to be supportable in the coming year while the Administration and legislative staff determine how to address the fund condition. Staff notes that a recent accident in the amusement park industry highlights the need for the additional proposed oversight.

Staff Recommendation: APPROVE the request.

VOTE:

DIR Item 3: Staff Issue—Electronic Adjudication Management Systems (EAMS)

The EAMS is a computer-based, workers' compensation case management project currently under development by the DIR and intended to convert the Workers' Compensation Appeals Board (WCAB) to paperless processes. The stated goal of the EAMS project is to eliminate redundancy, create efficiency and make the workers' compensation case management system more accessible to users, while preserving confidentiality.

Staff Comment: This issue was discussed previously, and the Subcommittee heard stakeholders in the workers' compensation arena raise concerns about the impending EAMS roll-out (see the committee's April 7, 2008 agenda for more detail). At that time, the Chair requested the Administration to provide additional information on how the DIR planned to provide adequate access for all EAMS users. Based on information provided, the Subcommittee may wish to adopt the provisional language below in order to provide the DIR with the budgetary flexibility to address potential problems should they arise during implementation of the EAMS project. Staff notes that this language would also serve as an expression of the Legislature's intent that the DIR, and the EAMS project manager, respond to stakeholder concerns and ensure that this system works for all involved.

Provisions:

> *X. Notwithstanding any other provision of law, upon approval of the Director of Finance with concurrence of the State Chief Information Officer, the Director of Finance may augment this item. Any augmentation shall not exceed 10 percent of the total project costs as identified in the latest Special Project Report approved by the State Chief Information Officer. These funds may only be used for the purchase of licenses, additional equipment or other expenditures necessary to increase and improve access to the workers' compensation Electronic Adjudication Management System." Standard 30 day Legislative notice language should also be included.*

Staff Recommendation: APPROVE provisional language (above).

VOTE:

8950 Department of Veterans Affairs

The California Department of Veterans Affairs (CDVA) has three primary objectives: (1) to 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) to afford California veterans the opportunity to become homeowners through loans available to them under the Cal-Vet farm and home loan program; and (3) to 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 (Ventura County), Fresno, and Redding.

The Governor's 2008-09 Proposals
The Governor's Budget begins by funding 1,896.5 positions (including 238.6 new positions) and budget expenditures of $381 million for the department, but then includes a 10 percent, across-the-board General Fund (GF) reduction (Budget-Balancing Reduction–BBR) of $19.4 million and 118.5 positions.

VOTE-ONLY AGENDA:

Vote-Only Item 1: May Revise Letter – Changes to Operating Expenses and Equipment (OE&E) Costs for Eight BCPs

The CDVA requests a decrease of $855,000 GF to reflect standardized OE&E costs for eight workload BCPs included in the Governor's Budget.

Staff Comments: The need for revisions to the CDVA OE&E cost calculator was discussed on March 10, 2008; however, the Subcommittee took subsequent action on multiple CDVA items acknowledging that adjustments would need to be made in the final funding levels to reflect changes to the calculator. The table below displays the items affected by the OE&E adjustments and indicates the status of each:

BCP #	Description	Original OE&E Request	Reduction	Final Proposed OE&E Total	Subcommittee Status
2	GLAVC Start Up	$2,063,000	$52,000	$2,011,000	Approved
5	Fiscal Operations	$232,000	$66,000	$166,000	Approved in part
10	Capital Assets, Facilities Mgt, Construction	$1,538,000	$162,000	$1,376,000	Approved in part
12	Minimum Date Set and Standards Compliance Staff	$71,000	$18,000	$53,000	Approved
13	Voc Nursing Staff for RCFE	$35,000	$6,000	$29,000	Denied
16	Nursing Staff (Barstow)	$616,000	$114,000	$502,000	Pending (see Vote-Only Items 4 and 5)
17	Pharmacy Staff (CV)	$43,000	$10,000	$33,000	Approved
25	Alzheimer's Unit & Ward 1A/1B OE&E Increase	$992,000	$427,000	$565,000	Approved

The OE&E calculations above are consistent with feedback provided by legislative staff to the department; however, staff reserve the right to re-examine this issue in the future.

Staff Recommendation: APPROVE the requested OE&E adjustments for all positions previously approved or pending. (This action would conform to the outcomes previously recorded on these items.)

Vote-Only Item 2: BCP-14 – The Pathway Home Program (Y)

The CDVA requests $600,000 in reimbursement authority for three years to host a privately funded pilot program for returning disabled veterans at Yountville.

Staff Comments: This item was discussed at a previous hearing and held open pending receipt of a Finance Letter reflecting the final agreement between the home and The Pathway Home, LLC. The Finance Letter is discussed below in Vote-Only Item 2.

Staff Recommendation: APPROVE the request in anticipation of approving the related reduction in Vote-Only Item 3 (below).

Vote-Only Item 3: May Revise Letter – The Pathway Home Program (Y)

The CDVA requests a reduction of $370,000 to the original BCP request of $600,000 (see Vote-Only Item 1 above), for a net of $230,000 per year to be offset by reimbursements from the Tides Foundation (Iraq-Afghanistan Deployment Impact Fund).

Staff Comments: Based on the final operating agreement, the CDVA would provide laundry and food services (with costs to be reimbursed by the program) for approximately 30 residents at a time and three family members per resident for an average of four days per month. Additionally, Yountville would provide the program free rent in exchange for the services provided to veterans in the community.

Staff Recommendation: APPROVE the request.

Vote-Only Item 4: BCP-16 – Skilled Nursing Facility Staff-to-Patient Ratios (CV)

The CDVA requests $3.5 million GF and 38.0 positions to implement staffing ratios set forth in emergency draft regulations recently issued by the California Department of Public Health (CDPH).

Staff Comments: This item was discussed at a previous hearing and held open pending a corrective proposal from the Administration to address miscalculations in the workload justification. Because the Governor put forth an entirely new proposal in the May Revise (see Vote-Only Item 5 below), the Subcommittee should deny this request and focus only on that item.

Staff Recommendation: DENY the request.

Vote-Only Item 5: May Revise Letter – Skilled Nursing Facility Staff-to-Patient Ratios (CV)

The CDVA requests $1.9 million GF and 24.5 positions to implement staffing ratios set forth in emergency draft regulations recently issued by the California Department of Public Health (CDPH).

Staff Comments: Staff-to-patient ratios were legislated in 2001 as part of AB 1075, but delay in implementing the statute led to a lawsuit against CDPH by a consumer-advocate organization. In settling the suit, the CDPH agreed to implement emergency regulations, with a formula for calculating appropriate ratios, contingent upon a budget allocation in the annual budget or other statute. The Legislature subsequently authorized the CDPH to adopt emergency regulations to implement the provisions of AB 1075, and the CDPH issued draft regulations on October 16, 2007.

The positions requested appear justified based on the staff-to-patient ratios required in regulation.

Staff Recommendation: APPROVE the request.

Vote-Only Item 6: May Revise Letter – Homeland Security Grant

The CDVA requests $429,000 in reimbursement authority to expend funds remaining from a grant provided by the Office of Homeland Security. The CDVA received expenditure authority via Control Section 28.50 to begin using the grant dollars in FY 2007-08. This request is to authorize the expenditure of the remaining funds in FY 2008-09.

Staff Comments: Staff has no concerns with this request, which would provide $305,000 to complete security upgrades at CDVA Headquarters and $124,000 for catastrophic planning and disaster preparedness at the Veterans Home of California—Barstow.

Staff Recommendation: APPROVE the request.

Vote-Only Item 7: Technical Correction – *Plata* Salary Adjustments (Republican Fiscal Issue)

The Department of Finance has informed committee staff that the CDVA is over-budgeted by $341,000 GF.

Staff Comments: The 2007-08 Budget Act included $18.4 million GF to increase salaries for non-California Department of Corrections and Rehabilitation (CDCR) employees in classes impacted by the *Plata* court case to within 10 percent of CDCR salaries. When the Department of Personnel Administration (DPA) calculated the non-CDCR *Plata* salary adjustments, the DPA over-funded the DVA and under-funded the Department of Developmental Services (DDS) by $341,000. Through an Executive Order, the CDVA transferred the $341,000 to the DDS for budget-year 2007-08. However, in developing the 2008-09 Governor's Budget, the $341,000 was inadvertently provided to both the DDS and the CDVA. As such, the CDVA is over-funded by $341,000 GF.

Staff Recommendation: Approve a $341,000 GF-reduction to eliminate over-funding in the CDVA budget.

VOTE on the Staff Recommendation for Vote-Only Items 1 through 7:

DISCUSSION AGENDA:

CDVA Item: Staff Issue—Estimate Package Trailer Bill Language (TBL)

Based on the rapid growth of the CDVA, and past budgetary difficulties, legislative staff have developed Budget TBL (see below) that would require the CDVA to develop an estimate package each year as part of the budget process. This language is consistent with similar language that has been proposed and/or approved for other health-related caseload-driven budgets, for example, the State Hospitals under the Department of Mental Health.

Staff Comment: The intent of implementing this language would be to provide both the CDVA and legislative staff with a firm, and longitudinally consistent, analytical basis for determining the level of resources required by the veterans homes. In building its budget, the department must already generate a set of estimates in order to determine the resources required for the upcoming year, so this would not be strictly "new" workload, but, rather, a formalization and rationalization of an existing process. Developed and executed properly, the proposed estimate package would serve as a useful planning document for the CDVA, as well as an effective means of communicating the basis of the department's budget numbers to the Department of Finance and the Legislature.

As discussed previously in this Subcommittee, the CDVA faces a number of challenges with three new veterans homes opening (a doubling of the current number) and two more to be constructed in the immediate future. Not the least of these challenges is developing an organizational structure with the capacity to handle the increased volume and complexity of planning (be it budgeting, accounting, human resources, or capital management) that differentiates larger agencies from smaller ones. To its credit, the department has recognized this challenge, restructured where necessary, and requested the staff and funding to support the new structures. This proposal seeks to complement these department-initiated structural changes by helping to standardize certain budgeting procedures.

Although the department has been in a nearly constant state of flux over the past several years, with the aforementioned addition of new homes as well as significant turnover in staffing (particularly in Administration), legislative staff believes that it may be many years before there is a better time than the present to institute this language. All organizations develop standard operating procedures, whether by design and forethought or by accident and happenstance, and these procedures, like habits, generally become more resistant to change over time and with repetition. Therefore, to the extent that the Legislature views procedural reform as necessary and beneficial to the CDVA budget process, that change is easier to implement now than it will be in the future.

Finally, legislative staff view the implementation of the proposed TBL as an iterative process that may (and likely will) take several years to refine. Accordingly, the Legislature expects to work collaboratively with the CDVA and the Department of Finance to clarify (and possibly modify) expectations to ensure that developing the proposed estimate package is workable. With this in mind, the TBL is largely descriptive (rather than prescriptive), and is, to some extent, subject to be interpreted in a fashion that reflects the consensus of both Administration and legislative staff.

Staff Recommendation: APPROVE the "Estimate Package" TBL (below) as placeholder for final language to be agreed to by legislative staff with input from the Administration.

Estimate Package TBL

The Department of Veterans Affairs shall provide the fiscal committees of the Legislature with a fiscal estimate package for the current-year and budget-year for the State Veterans Homes by January 10 and at the time of the Governor's May Revision commencing as of January 10, 2009 and ongoing thereafter.

At a minimum, this estimate package shall, by veteran home, address (1) patient caseload by level-of-care, (2) staffing needs, both Non-Level-Of-Care and Level-of-Care, and (3) operating expenses and equipment, including, but not limited to, those areas outlined in the November 2007 Department of Finance audit. Each submitted estimate shall articulate the assumptions and methodologies used for calculating the patient caseload factors, all staffing costs, and operating expenses and equipment. Where applicable, individual policy changes shall contain a narrative and basis for its proposed and estimated costs. Fiscal bridge charts shall be included to provide the basis for the year-to-year changes. The department may provide any additional information as deemed appropriate to provide a comprehensive fiscal perspective to the Legislature for their analysis and deliberations for purposes of appropriation.

VOTE:

Senate Budget & Fiscal Review Committee
Bryan Ehlers 651-4103

Hearing Outcomes: Agenda Part B

Subcommittee No. 3
10:00 am, Friday, May 23, 2008

Note: Senator Dutton substituted as a voting member of the Subcommittee for an absent Senator Wyland.

7100 Employment Development Department (EDD)

- Vote-Only Item: May Revise Letter: Program Benefit Adjustments
  Action: Approved the request.
  Vote: 3-0

- EDD Item 1: May Revise Letter: Unemployment Insurance Program Administration—Partially Backfill Federal Funding Shortfall
  Action: Approved the request with placeholder provisional language making an additional Contingent Fund appropriation contingent upon failure to receive increased federal funding (see staff comment in agenda for details).
  Vote: 3-0

- EDD Item 2: May Revise Letter: Workforce Investment Act (WIA) Adjustments—Discretionary Funds
  Action: Approved the LAO's recommendations (including suggested reallocation of various discretionary funds to parolee services per LAO handout) and additionally redirected $2.0 million in proposed "green technology" funding to parolee services. Sub 4 will take conforming action to reduce GF support for parolee services and score $9.3 million GF savings.
  Vote: 2-0 (Padilla)

7350 Department of Industrial Relations (DIR)

- Vote-Only Item 1: BCP-12—Statewide Facilities—Additional Space for District Offices
  Action: Upon reconsideration, approved.
  Vote: 2-1 (Dutton)

- Vote-Only Item 2: BBR—Reduce Division of Occupational Safety and Health Staff
  Action: Approved the reduction.
  Vote: 3-0

- Vote-Only Item 3: BCP-9—Redirect Rehabilitation Unit Personnel to New Return-to-Work Unit with TBL
  Action: Approved the requested funding, the proposed TBL, and placeholder SRL requiring the DIR to report on how actual workload compares the projected workload.
  Vote: 3-0

- DIR Item 1: BCP-8—Security Upgrades for District Offices
  Action: Approved as budgeted with the understanding that the DIR will continue to consider the need to implement additional CHP security recommendations and, in particular, will work with the DGS as appropriate.
  Vote: 3-0

- DIR Item 2: BCP-17—Implement Amusement Ride Safety Law Revisions—SB 783
  Action: Approved as budgeted, noting that a dwindling fund balance will require action in FY 2009-10 in order to maintain solvency.
  Vote: 2-1 (Dutton)

- DIR Item 3: Staff Issue—Electronic Adjudication Management Systems (EAMS)
  Action: Adopted provisional language allowing Finance to increase the project appropriation by up to 10 percent in order to provide stakeholders with proper access to the system.
  Vote: 3-0

8950 Department of Veterans Affairs (CDVA)

- Vote-Only Item 1: May Revise Letter – Changes to Operating Expenses and Equipment (OE&E) Costs for Eight BCPs
  Action: Approved the changes (consistent with previous actions of the subcommittee).
  Vote: 3-0

- Vote-Only Item 2: BCP-14 – The Pathway Home Program (Y)
  Action: Approved the request in anticipation of the revisions in Vote-Only Item 3.
  Vote: 3-0

- Vote-Only Item 3: May Revise Letter – The Pathway Home Program (Y)
  Action: Approved the request.
  Vote: 3-0

- Vote-Only Item 4: BCP-16 – Skilled Nursing Facility Staff-to-Patient Ratios (CV)
  Action: Approved the request in anticipation of the revisions in Vote-Only Item 5.

Vote: 3-0 (Although I recorded a 3-0 vote here, I believe Senator Dutton's intent was to vote "aye" in response to the original staff recommendation—to deny the request. However, the recommendation/motion was changed just prior to the vote based on input from Finance that Vote-Only Item 5 interacted with this request based on an assumption of approval.)

- Vote-Only Item 5: May Revise Letter – Skilled Nursing Facility Staff-to-Patient Ratios (CV)
  Action: Approved the request.
  Vote: 2-1 (Dutton)

- Vote-Only Item 6: May Revise Letter – Homeland Security Grant
  Action: Approved the request.
  Vote: 3-0

- Vote-Only Item 7: Technical Correction – *Plata* Salary Adjustments (Republican Fiscal Issue)
  Action: Approved a $341,000 GF-reduction to eliminate over-funding in the CDVA budget.
  Vote: 3-0

- CDVA Item 1: Staff Issue—Estimate Package TBL
  Action: Adopted placeholder TBL requiring the CDVA to provide an estimate package to the Legislature with Governor's Budget each January 10.
  Vote: 3-0

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

Chair, Senator Elaine K. Alquist

Senator Alex Padilla
Senator Mark Wyland

May 23, 2008

10:00 AM

Room 4203

Vote Only
AGENDA

(Diane Van Maren)

Item	Department
4300	**Department of Developmental Services, Developmental Centers**

VOTE ONLY—Department of Developmental Centers

1. Developmental Centers—Capital Outlay Adjustment

Issue. The Subcommittee is in receipt of a technical issue regarding the Porterville Developmental Center and the construction of its Main Kitchen. The construction of the Main Kitchen is funded with Lease Revenue Bonds.

Specifically, the DDS is requesting an increase of $5.4 million (Lease Revenue Bonds) and Budget Bill Language.

The Public Works Board recently approved an increase for this project of **$5.409 million** (Lease Revenue Bonds). This increase is due to (1) an unanticipated need for a retention pond to prevent rainwater from pooling at the Main Kitchen; (2) poor soil conditions that will be rectified by enhancing the Main Kitchen's foundation; (3) the cost of inspections by the State Fire Marshall and the Department of Public Health; and (4) a reassessment of project management rates. This increases the Main Kitchen construction costs of the project to $25.4 million (Lease Revenue Bond).

The requested Budget Bill Language (Item 4300-301-0660) is as follows:

1. The State Public Works Board may issue lease revenue bonds, notes, or bond anticipation notes pursuant to Chapter 5 (commencing with Section 15830) of Part 10b of Division 3 of Title 2 of the Government Code to finance the construction of the project authorized by this item.
2. The State Department of Developmental Services and State Public Works Board are authorized and directed to execute and deliver any and all leases, contracts, agreements, or other documents necessary or advisable to consummate the sale of bonds or otherwise effectuate the financing of the scheduled projects.
3. The State Public Works Board shall not be deemed to be the lead or responsible agency for purposes of the California Environmental Quality Act (Division 13 [commencing with Section 21000] of the Public Resources Code) for any activities under the State Building Construction Act of 1955 (Part 10b [commencing with Section 15800] of Division 3 of Title 2 of the Government Code). This provision does not exempt the State Department of Developmental Services from the requirements of the California Environmental Quality Act. This provision is declaratory of existing law.

Subcommittee Staff Recommendation—Approve Request. It is recommended to approve the $5.409 million (Lease Revenue Bonds) and the Budget Bill Language as requested. No issues have been raised by the Legislative Analyst's Office or Subcommittee staff.

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

Chair, Senator Alex Padilla

December 10, 2008

9:00 AM

Room 4203

(Diane Van Maren)

	Program Reduction	Gov Proposal 2008-09	Gov Proposal 2009-10	Gov Proposal Total	LAO Options 2008-09	LAO Options 2009-10	LAO Options Total	November Alternative 2008-09	November Alternative 2009-10	November Alternative Total	Senate Republican Alternatives 2008-09	Senate Republican Alternatives 2009-10	Senate Republican Alternatives Total
	Health and Developmental Services												
1	**Medi-Cal Program--Rollback Age, Blind and Disabled Eligibility.** This program provides no-cost, full-scope Medi-Cal to low-income people who are either over age 65 or are disabled. In 2001 the income level threshold was increased from 69 percent of poverty to 133 percent (it's presently at 127 percent). The Administration proposes to rollback this expansion to the SSI/SSP income level threshold of $870 per month. This results in 73,000 people either being dropped from Medi-Cal or paying a share-of-cost in order to maintain coverage when currently they have no share-of-cost. The proposed income threshold would create a share-of-cost range from $271 to $497 for individuals above the $870 per month income level (i.e., $871 per month income = $271 monthly share-of-cost to maintain Medi-Cal).	14.3	185.8	200.1						0.0			
2	**Medi-Cal Program--1931 b Eligibility.** Over 2.5 million children and working families receive healthcare under this eligibility category created in 1996 by federal Welfare Reform Law. Beginning February 2009, the Administration would rollback the allowable income level for "1931 b" applicants from 100 percent of poverty for eligibilty to 72 percent of poverty. They would also reinstate the "100-hour rule" without regard to income; therefore, any wage earner working *more* than 100 hours per month would *not* be eligible for Medi-Cal. Reinstating the 100-hour rule would eliminate both recipient and applicant parents in two-parent families from being eligible regardless of how low the family's income. The savings level assumes that (1) 26,000 people are dropped from Medi-Cal in 2008-09, (2) 182,000 people are dropped in 2009-2010, and (3) over 430,000 people are eliminated when fully implemented (within 33 months). The Legislature rejected this proposal during 2008-09 budget deliberations.	2.6	88.2	90.8						0.0			
3	**Medi-Cal Program--Newly Qualified Immigrants and PRUCOL Eligibility.** There are two aspects to this proposal. First, it would limit Medi-Cal services for "newly qualified immigrants" (about 73,400 people) who have been in the country for less than five years to "resticted-scope" services (mainly emergency services and pregnancy-related) versus full-scope services as presently provided. Second, it would implement "restricted-scope" services for individuals "permanently residing under the color of law (PRUCOL) immigrants and "Amensty Alien" immigrants who are not defined as eligible "Qualified Aliens" any more under federal law. Further, these PRUCOL individuals (about 17,200 people) would be limited to the month or months during which emergency services are received, unless the individual is receiving pregnacy-related services. California has always provided legal immigrants, including PRUCOLs, with full-scope Medi-Cal services if they otherwise meet all other eligibility requirements. Due to federal law changes enacted in 1996, federal matching funds are not provided for non-emergency Medi-Cal services for immigrants in the U.S. for less than five years. A total of 90,600 people are presently eligible in California and about $125 million (General Fund) is expended for full-scope services. The Legislature rejected this proposal during 2008-09 budget deliberations.	14.2	211.1	225.3						0.0			

Senate Budget and Fiscal Review Subcommittee #3 (Health)
December 10, 2008

	Program Reduction	Gov Proposal 2008-09	Gov Proposal 2009-10	Gov Proposal Total	LAO Options 2008-09	LAO Options 2009-10	LAO Options Total	November Alternative 2008-09	November Alternative 2009-10	November Alternative Total	Senate Republican Alternatives 2008-09	Senate Republican Alternatives 2009-10	Senate Republican Alternatives Total
4	**Medi-Cal Program--Modified PRUCOL Eligibility.** The LAO proposes to adopt the Administration's proposal to limit PRUCOL immigrants to "restricted-scope" services in lieu of providing "full-scope" services. The LAO contends that immigrants with PRUCOL status are not any different at the federal level than the status of undocumented immigrants. *However,* the LAO does not concur with the Administration's proposal to limit PRUCOL individuals to the month-to-month service arrangement. This is because all emergency services delivered by Medi-Cal providers must be self-certified by the provider that an emergency exists, and all services that require prior authorization are subject to denial by the Department of Health Care Services. As such, it is unclear how the month-to month arrangement would operate or would result in savings. This option was rejected by the Legislature during 2008-09 budget deliberations.				5.9	71.3	77.2			0.0			
5	**Medi-Cal Program--Eliminate Certain Optional Benefits.** This proposal would eliminate certain health care services for adults 21 years of age or older, including individuals with developmental disabilities, from Medi-Cal effective within 90-days of passage. Most Adult Dental services would be eliminated, as well as Optometry services, Optician and Optical Laboratory services, Audiology services, Speech Therapy, Acupuncture services, Podiatry services, Chiropractor services, Psychology services, and Incontinence Creams and Washes. All of these services are provided at the state's option and are not federally required, but are federally reimbursed. The Legislature has rejected this proposal on several occasions.	19.7	129.4	149.1						0.0			
6	**Medi-Cal Program--Eliminate Certain Adult Dental Procedures.** In lieu of eliminating most Adult Dental services, the LAO proposes to eliminate certain dental procedures, including stainless steel crowns, root planning, root canals, gingivectomy, cast posts and implants. Elimination of these procedures would likely result in increased tooth extractions and demands for other services, including some emergency room treatment. The LAO contends that fiscal adjustments were made for these purposes. However no adjustment was made to account for increased costs for individuals with developmental services who would need these services. This was rejected during 2008-09 budget deliberations.				3.4	20.0	23.4			0.0			
7	**Medi-Cal Program--Redirect Funds from Hospitals (Safety Net Care Pool).** The Administration proposes to redirect certain federal funds from Public Hospitals, as designated under the State's Hospital Financing Waiver, to backfill for General Fund support in specified health programs. Presently Public Hospitals draw down these federal funds by using "certified public expenditures" generated by their costs (outpatient and inpatient). The Administration's proposal is contrary to the agreement made through the Waiver with both the federal government and these hospitals. This proposal was rejected by the Legislature during 2008-09 budget deliberations.	0.0	54.2	54.2						0.0			

	Program Reduction	Gov Proposal 2008-09	Gov Proposal 2009-10	Gov Proposal Total	LAO Options 2008-09	LAO Options 2009-10	LAO Options Total	November Alternative 2008-09	November Alternative 2009-10	November Alternative Total	Senate Republican Alternatives 2008-09	Senate Republican Alternatives 2009-10	Senate Republican Alternatives Total
8	**Medi-Cal Program--Eliminate Over-the-Counter Drugs.** The LAO proposes to eliminate reimbursement for specific over-the-counter drugs, including: analgesics (pain relief); prenatal vitamins; antihistamines; gastrointestinal; cough/cold preparations; smoking deterrents; and sedatives. Currently, a Medi-Cal enrollee must have a physician's prescription in order to receive reimbursement for these drugs. The LAO savings level assumes that two-thirds of the cost for the eliminated drugs will be borne by the individual (or go without), and one-third of the cost will still be paid by Medi-Cal because physicians will switch to a prescription drug (versus over-the-counter drug) for which Medi-Cal would reimburse.				2.9	15.0	17.9			0.0			
9	**Medi-Cal Program--Reduce Rates Paid for Family Planning Services.** The LAO proposes to retract one-half of the January 2008 rate increase for family planning services. The state raised these rates through policy legislation (SB 94, Statutes of 2007). It should be noted that the state receives a 90 percent federal match for most family planning services. The Legislature has previously rejected rate reductions for these services due to the cost-benefit to the state for these services, and the enhanced federal funding amount.				1.7	21.6	23.3			0.0			
10	**Medi-Cal Program--Delay implementation of SB 437, Statutes of 2006.** This law provides for the pilot testing of self-certification of income and assets of Medi-Cal applicants to streamline enrollment. The Legislature delayed implementation of this pilot program for one-year in the Budget Act of 2008. The LAO option would delay implementation of this new program for an additional year (2009-2010).				0.0	13.0	13.0			0.0			
11	**Medi-Cal Program--Minor Consent.** This program provides access to certain confidential Medi-Cal services, such as family planning, for which minors are authorized to provide their own consent. The program is funded using 100 percent General Fund support. The LAO proposes to require participants in the program to complete federal Deficit Reduction Act (DRA) requirements regarding documentation and identification in order to obtain federal matching funds. Existing state law, as proposed by the Governor and adopted by the Legislature, exempts the Minor Consent Program from federal DRA requirements since these requirements are particularly burdensome for minors and would be a barrier to services.				1.5	18.9	20.4			0.0			
12	**Medi-Cal Program--Suspend County Eligibility Processing COLA.** The Budget Act of 2008 reduced funding provided to counties for Medi-Cal Program eligibility processing by 7% or $106.8 million ($53.4 million General Fund). This reduction included elimination of the cost-of-doing-business adjustment for 2008-09. The LAO proposes to suspend the cost-of-doing-business adjustment for one more year (2009-2010).				0.0	24.6	24.6			0.0			

		Gov Proposal			LAO Options			November Alternative			Senate Republican Alternatives		
	Program Reduction	**2008-09**	**2009-10**	**Total**	**2008-09**	**2009-10**	**Total**	**2008-09**	**2009-10**	**Total**	**2008-09**	**2009-10**	**Total**
13	**Medi-Cal Program--Implement Public Assistance Reporting Information System (PARIS) Interstate Match.** The LAO proposes for the Administration to fully implement an interstate match to identify and disenroll beneficiaries in Medi-Cal, Food Stamps and other programs, who have left California. The Administration is presently proceeding with a pilot project to identify veterans enrolled in Medi-Cal who could receive their medical care through the Veterans Administration. The Administration has previously noted to the Legislature that information technology changes are needed for full PARIS implementation to occur.				0.0	7.0	7.0			0.0			
14	**Medi-Cal Program--Nursing Home Quality Assurance Fees.** The LAO proposes to expand the existing "quality assurance fee" for Nursing Homes participating in Medi-Cal to include Medicare beds and revenue in the calculation. Generally, this would mean that nursing homes would pay more in fees and the state would use this amount to offset General Fund support in the Medi-Cal Program.				0.0	26.0	26.0			0.0			
15	**Medi-Cal Program--Require Co-Pay for Non-Emergency Services.** Under this proposal, an individual would be required to pay a $50 co-pay for obtaining non-emergency services in an emergency room setting.										11.0	22.0	33.0
16	**Medi-Cal Program--Eliminate "Non-Emergency" Services for Undocumented Individuals.** Under this proposal undocumented individuals would not be eligible to receive health care services under the Pre-Natal Care Program, Breast and Cervical Cancer Program, or Long-Term Care (nursing home) Program.										11.0	96.0	107.0
17	**Developmental Services--Reduce Regional Center Purchase of Services Funding by 3 Percent.** Under this proposal a 3 percent reduction would be made to the payments of Regional Center service providers. Certain payments would be exempt from this reduction including supported employment, independent living, rent and lease payments used to offset any reductions in SSI/SSP benefits for consumers living out-of-home, and usual and customary rates for services (such as bus fares). It should be noted that the November Alternative did not reduce SSI/SSP payments as proposed by the Governor; therefore, it does not reflect increased General Fund support for backfilling this payment for consumers in the Regional Center system.	20.0	48.0	68.0				24.1	60.2	84.3			
18	**Developmental Services--Reduce Regional Center Operations by 3 Percent.** The Administration proposes to reduce Regional Center Operations by 3 percent across-the-board (i.e., unallocated). As such, the Administration proposes trailer bill language to suspend certain existing requirements on Regional Centers for two-years (until June 30, 2010). The requirements to be suspended include: **(1)** the average service coordinator-to-consumer ratio for certain consumers currently established at 1 to 66 (Section 4640.6(c)(3)(C); and **(2)** various reporting requirements regarding administrative services and expenditures by the Regional Centers (including Section 4639.5(a) and (b)).	4.6	12.2	16.8				4.6	12.2	16.8			

	Program Reduction	Gov Proposal 2008-09	Gov Proposal 2009-10	Gov Proposal Total	LAO Options 2008-09	LAO Options 2009-10	LAO Options Total	November Alternative 2008-09	November Alternative 2009-10	November Alternative Total	Senate Republican Alternatives 2008-09	Senate Republican Alternatives 2009-10	Senate Republican Alternatives Total
19	**Developmental Services--Expand Family Cost Participation Program.** This option would expand the Family Cost Participation Program to require family payments for *all* Regional Center services, not just respite services, camping and day care as presently done. The Family Cost Participation Program includes families at 400 percent of poverty ($70,400 annually) and above and uses a sliding cost participation scale (i.e., 10 percent of cost at 400% of poverty, 20 percent of cost at 700% and so forth).				0.0	10.0	10.0			0.0			
20	**Developmental Services--Define Cost Effectiveness.** Under this proposal existing state law (the Lanterman Act) would be amended to define "cost-effectiveness" for services and supports which individuals with developmental disabilities receive.											29.0	29.0
21	**Developmental Services--Review Residency Requirements.** Under this proposal all residency requirements would be reviewed regarding out-of-state and undocumented individuals.											NA	NA
22	**Healthy Families Program (HFP)--Freeze Funding at 2008-09 Amount.** This option would freeze funding for the HFP at the existing Budget Act of 2008 level for 2009-2010 and establish a waiting list for new applicants. The LAO states that this approach would realize savings while keeping the program intact, and allow flexibility to adjust to any new federal rules. (The federal State Children's Health Insurance Program, under which the HFP operates, is to be reauthorized by March 2009.) It should be noted that the HFP is presently projecting a shortfall of over $17 million (General Fund) in the current-year and MRMIB has noted that from 100,000 to 160,000 children could be placed on a waiting list in 2008-09 alone.				0.0	28.4	28.4			0.0			
23	**Proposition 10--Redirect CA Children and Families Commission Funds to Children's Programs.** As contained in the Proposition, presently the state commission receives 20 percent of revenues from the excise tax on cigarettes and county commissions receive the remaining 80 percent. This LAO option would eliminate the state commission entirely and reduce local funding by 50 percent. These funds would be redirect to children's health or childcare programs to backfill for General Fund support. The LAO states that this would target resources to high-priority state programs while allowing some local priorities to be supported. This option requires voter approval.				0.0	317.0	317.0			0.0			
24	**Proposition 10--Redirect All Funds.** Under this proposal *all* of the CA Children and Families Commission funds, including local assistance, would be redirected to backfill for General Fund support in state programs.											600.0	600.0
25	**All Health and Human Services Programs--Review Share of Cost.** Under this proposal, the share-of-cost that individuals pay to participate in the various health and human services programs, such as Medi-Cal, Developmental Disabilities and others, would be reviewed.											NA	NA

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

Chair, Senator Alex Padilla

December 11, 2008

9:00 AM

Room 4203

(Agnes Lee; Jacqueline Wong-Hernandez)

	Program Reduction	Gov Proposal 2008-09	Gov Proposal 2009-10	Gov Proposal Total	LAO Options 2008-09	LAO Options 2009-10	LAO Options Total	November Alternative 2008-09	November Alternative 2009-10	November Alternative Total	Senate Republican Alternatives 2008-09	Senate Republican Alternatives 2009-10	Senate Republican Alternatives Total
Human Services													
1	**Alcohol and Drug Programs**—Redirect asset forfeiture proceeds to support community substance abuse treatment. This alternative funding source could support spending for cost-effective substance abuse treatment services.			0.0	0.0	10.0	10.0			0.0			0.0
2	**Supplemental Security Income/State Supplementary Program (SSI/SSP)**—Reduce combined SSI/SSP monthly grants to December 2008 levels. This action captures savings from January 2009 federal COLA, effective March 1, 2009.			0.0	156.0	479.3	635.3	156.0	471.8	627.8	0.0	0.0	0.0
3	**SSI/SSP**—Reduce grants for couples to 125 percent of federal poverty level.			0.0	38.9	119.4	158.3			0.0			0.0
4	**SSI/SSP**-- Suspend the June 2010 state COLA							0.0	26.0	26.0			
5	**SSI/SSP** - (1) Reduce grants for aged, blind, and disabled persons to the federal minimum. Grants would be reduced to $830 per month for individuals and to $1407 for couples. (2) Eliminate Cash Assistance Program for recent legal immigrants who are aged or disabled.	195.4	1,078.0	1,273.4			0.0	0.0	0.0	0.0	0.0	0.0	0.0
6	**Cash Assistance Program for Immigrants**—Make some current recipients eligible for federal benefits. This proposal takes advantage of new federal funds.			0.0	1.1	18.1	19.2						0.0
7	**In-Home Supportive Services (IHSS)**—Limit state support for provider wages to current state average ($10 per hour). Counties above the state average would share the marginal cost with the federal government.			0.0	29.0	89.0	118.0			0.0			0.0
8	**IHSS**—Impose graduated caps for domestic services.			0.0	11.6	37.1	48.7			0.0			0.0
9	**IHSS**—Reduce state participation in share-of-cost buyouts.			0.0	7.4	23.6	31.0			0.0			0.0
10	**In-Home Supportive Services Program (IHSS)** - (1) provide non-medical services only to the highest need consumers, as measured by a functional index score of 4 or higher and (2) increase how much some individuals will have to pay before receiving subsidized services	17.7	99.3	117.0			0.0	0.0	0.0	0.0	0.0	0.0	0.0
11	**IHSS** - Reduce state participation in IHSS worker wages to the state minimum wage ($8 per hour) plus 60 cents per hour for health benefits.	41.5	228.1	269.6			0.0	0.0	0.0	0.0	0.0	0.0	0.0
12	**Community Care Licensing**—Increase fees for child care and community care facilities. We estimate that a 25 percent fee increase would raise cost recovery to about 50 percent of program costs.			0.0	1.7	5.2	6.9			0.0			0.0
13	**Kinship Guardianship Assistance Payment Program**—Enable drawdown of federal funds to off-set costs, pursuant to federal legislation. This proposal takes advantage of new federal funds.			0.0	1.8	72.6	74.4			0.0			0.0
14	**California Work Opportunities and Responsibilities for Kids (CalWORKs)**—Adopt community service requirement for parents who have been on aid for more than five years, as a condition of eligibility for receiving child grants. Parents would be required to work 20 hours per week, meet federal work participation requirements, or accept a community service position.			0.0	0.9	23.5	24.4			0.0			0.0
15	**CalWORKs**—Make in-person interview a condition of eligibility for adult cases. This action targets cases with a work-eligible adult who could benefit from contact and engagement.			0.0	3.2	9.6	12.8			0.0			0.0

	Program Reduction	Gov Proposal 2008-09	Gov Proposal 2009-10	Gov Proposal Total	LAO Options 2008-09	LAO Options 2009-10	LAO Options Total	November Alternative 2008-09	November Alternative 2009-10	November Alternative Total	Senate Republican Alternatives 2008-09	Senate Republican Alternatives 2009-10	Senate Republican Alternatives Total
16	**CalWORKs**—Suspend the July 2009 COLA			0.0	0.0	119.5	119.5	0.0	99.0	99.0	0.0	0.0	0.0
17	**CalWORKs** - (1) Make changes to welfare to work program requirements, including establishing time limits for child-only cases and work requirements for families who have reached their time limit. Setting time limits for child-only cases could result in children not receiving the aid they need despite still being income-eligible. (2) Implement semi-annual self sufficiency reviews as a condition of eligibility for the entire family. Case workers would meet with CalWORKs recipients not meeting federal work participation requirements to determine barriers to employment. Failure to attend a self-sufficiency review every six months would eliminate aid entirely. 3) Reduce cash grants by 10%. Savings amount is dependent on sufficient excess MOE being available.	137.0	776.1	913.1			0.0	0.0	0.0	0.0	0.0	0.0	0.0
18	**Welfare Automation**—Delay replacement of Los Angeles County computer system by two years. The current system is functional; bid award for a new system is otherwise anticipated in early 2009.			0.0	0.0	14.6	14.6			0.0			0.0
19	**Food Assistance**- Eliminate California Food Assistance Program effective July 1, 2009. This program provides state-funded food stamps for legal immigrants who are not eligible for federal assistance, but are income-eligible for aid.	0.0	30.3	30.3			0.0	0.0	0.0	0.0	0.0	0.0	0.0
20	**Transitional Housing Plus Program** - Require 20% County Share of Cost for the Transitional Housing Plus Program. Prior to 2006-07, the program required a 60/40 county/state share of cost. The share of cost was eliminated in 2007-08. Since then, the program has grown from $1 million General Fund in 2005-06 to more than $40 million General Fund in 2008-09. This proposal would reinstate a share of cost, at 20/80 county/state.	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	10.0	10.0

SUBCOMMITTEE NO. 3 Agenda
Committee on Health and Human Services

Chair, Senator Alex Padilla
Senator Elaine Alquist
Senator Roy Ashburn
Senator Gilbert Cedillo
Senator Dave Cox
Senator Bob Huff
Senator Mark Leno
Senator Leland Yee

December 16, 2008

1:00 P.M.

Room 4203

(Staff: Diane Van Maren)

Senate Republican's Proposed Solutions for Special Session (December)

(Issues not previously discussed in December 10, 2008 Subcommittee hearing.)

	Program Reduction	2008-09	2009-10	Total	Source
1	**The Mental Health Services Act (MHSA)--Proposition 63 of 2004**. The Act imposes a 1 percent income tax on personal income in excess of $1 million. These tax receipts are reconciled and deposited into the MHSA Fund on a "cash basis" (cash transfers) to reflect funds actually received in the fiscal year. Therefore, there is a difference in projected revenues and the amount actually deposited into the MHSA Fund for expenditure. The Act provides for a continuous appropriation of funds. Most of the Act's funding is to be expended by County Mental Health for mental health services consistent with their approved local plans (3-year plans) and the required six components as contained in the Act. The Republican proposal, which requires a vote of the people, would redirect all MHSA Funds to backfill for General Fund support expended in *any* mental health program at the discretion of the Legislature.	$2.4 billion	$1.5 billion	$3.9 billion	Republican
2	**Proposition 10--California Children and Families Act of 1998.** Proposition 10 revenues, obtained from cigarette and tobacco taxes, are presently used to support programs for children aged 0 to 5, including school readiness, health care, and early childhood development. Proposition 10 revenues are continuously appropriated as directed by the proposition. As proposed by Senate Republicans, Proposition 10 revenues would be used to backfill for General Fund support in state-operated children's health and human services programs (aged 0 to 18 years) in order to obtain savings. This proposal assumes that a one-time balance from 2008-09 is redirected for expenditure, and all ongoing revenues thereafter are redirected. It should be noted that at this time the LAO could not verify the amount identified as a balance for 2008-09. Requires a vote of the people.	$1.5 billion	$ 614 million	$2.114 billion	Republican