AGENDA
ASSEMBLY BUDGET SUBCOMMITTEE NO. 1 ON HEALTH AND HUMAN SERVICES

PART I

Assemblymember Mervyn Dymally, Chair

THURSDAY, MAY 20, 2004
STATE CAPITOL, ROOM 4202
UPON ADJ. OF SESSION OR 1PM

ITEMS TO BE HEARD

ITEM 0530 HEALTH AND HUMAN SERVICES AGENCY

ISSUE 1: STAFF POSITIONS

BACKGROUND:

The Agency is requesting an increase of $1.372 million in Item 0530-001-0001 and four positions. The funding would provide funding for 13 unfunded positions that currently exist and four new positions to provide the necessary personnel to meet the Agency's responsibilities. The Agency provides oversight and coordination for 15 departments and 3 boards and/or commissions. The Agency is responsible for a number of reform proposals contained in the budget. If adopted the reform proposals will reduce General Fund costs to the state. The reform proposals affect the Medi-Cal Program, the Child Welfare System and the Department Services. The total projected savings are projected to exceed over $526 million General Fund.

The Legislative Analyst's Office recommends the following modifications to the Governor's April 1 Finance Letter request:

- Delete one of the four new proposed agency positions and the associated $57,000 in state General Fund support;
- Delete funding and position authority for five of the 13 vacant positions for which the administration proposes to restore funding. This would reduce the Governor's budget request by an additional $585,000 in state General Fund support;
- Eliminate six positions and $329,000 in state General Fund support (as well as some additional associated federal funding) for six positions which had been borrowed in the past from other state departments, but who would be replaced at the agency as a result of the Governor's budget request.
- Adopt Budget Bill language requiring advance legislative notification and review of any additional borrowing of staff by the agency from other departments during the 2004-2005 fiscal year.

The LAO proposal is as follows: Reduce the funding and staff requested in the April 1 Finance Letter in cases in which there was insufficient workload justification for the additional resources:

- **Undersecretary and Executive Assistant.** The agency would be able to carry out its core mission and activities without adding new resources for an undersecretary, given that the agency would have ten other staff with a rank of assistant secretary or above under the LAO's proposal. The LAO also recommends that a proposed new executive assistant position for the undersecretary be deleted. The deputy secretary could fulfill the backup role for the secretary of the agency as needed.

- **Assistant Secretary for Ethnic Media and Community Outreach.** The LAO concluded that adding funding for this position was not a high state priority at a time when direct cuts in health services were being considered in response to the state's fiscal problems. The LAO also took into account that two other agency staff – an associate secretary and a new associate governmental program analyst (AGPA) for external affairs would be available to handle media-related and community outreach duties.

- **Associate Governmental Program Analyst (AGPA) for Legislation.** The LAO concluded that adding funding for this position was not justified, given that another AGPA as well as an associate secretary for legislative affairs would remain assigned to legislative duties.
- **Assistant Secretary (CEA III) for the Office of Program and Fiscal Affairs.** The LAO concluded that adding funding for this position could not be justified on a workload basis, given that, during the budget year, the department will regain the services of another assistant secretary position that had been loaned by the agency to the Governor's California Performance Review project.
- **Agency information Officer.** The LAO concluded that adding funding for a fulltime information officer for the agency was not warranted, and that the workload involved could continue to be accomplished on a part-time basis, as it is now, by borrowing a position from another department.

In examining the Governor's request for additional resources, the LAO balanced the need for additional agency resources and positions against the Legislature's decision last year, as part of the enactment of the 2003-2004 Budget Act, to reduce the agency's budget by $807,000. In effect, the Legislature determined that only core activities should be supported by state operations in order to prioritize available state funding for the direct provision of health services for clients. Our recommendations are intended to be consistent with that approach.

- **Borrowed Positions.** The LAO also determined during its review that the agency's budget request did not justify the return of certain departmental positions and resources to lending departments. In some cases, departments have operated without these positions for several years. As a result, the LAO has recommended the elimination of positions which, would be replaced with new agency personnel.

COMMENTS:

Motion: Adopt the LAO's modifications to the Governor's April 1 Finance Letter request:

- Delete one of the four new proposed agency positions and the associated $57,000 in state General Fund support;
- Delete funding and position authority for five of the 13 vacant positions for which the administration proposes to restore funding. This would reduce the Governor's budget request by an additional $585,000 in state General Fund support;
- Eliminate six positions and $329,000 in state General Fund support (as well as some additional associated federal funding) for six positions which had been borrowed in the past from other state departments, but who would be replaced at agency as a result of the Governor's budget request.
- Adopt Budget Bill language requiring advance legislative notification and review of any additional borrowing of staff by the agency from other departments during the 2004-05 fiscal year.

The LAO recommendations would reduce the net amount of Governor's budget request by about $970,000, leaving a net augmentation of about $400,000. Three of the four new positions requested by the agency would be approved and funded, and funding would also be provided to activate eight additional positions for which the agency already has position authority. Also, six other positions in other departments would be abolished.

ITEM 4120 EMERGENCY MEDICAL SERVICES AUTHORITY

ISSUE 1: EMERGENCY MEDICAL SERVICES TERRORISM RESPONSE TRAINING

BACKGROUND:

The Emergency Medical Services Authority (EMSA) is requesting authority for a one-year limited term Associate Governmental Program Analyst position and one consultant to implement a terrorism training evaluation project and establish training standards for Emergency Medical Services responders. The training standards that result can be used to prepare those personnel to provide emergency response to terrorism events in a manner that will protect the responders and victims.

EMSA will use a committee established by Chapter 612, Statutes of 2002 (SB 1350, McPherson) to provide expert advice from first responder professionals to identify terrorism training needs and to help develop curriculum

Funding for the project is from the Department of Homeland Security's Office of Domestic Preparedness.

COMMENTS:

Motion: Adopt the May Revision

ISSUE 2: IN-HOME SUPPORTIVE SERVICES INDEPENDENCE PLUS WAIVER SUPPORT COSTS

BACKGROUND:

It is requested that Item 4260-001-0001 and Item 4260-001-0890 each be increased by $225,000 to reflect 5.0 additional positions in the DHS to implement and manage the Independence Plus Waiver Demonstration Project for the IHSS program. In addition to ongoing monitoring, the waiver would require the DHS to work with the Department of Social Services to resolve issues regarding administration, eligibility, benefits, the delivery system, access, quality assurance, systems support, implementation timeframes, and evaluation and reporting. In addition, both Departments must address the federal Centers for Medicare and Medicaid Services' concerns that sufficient fiscal and audit controls are in place to prevent fraud and abuse, and to quickly identify problems with caregiver abuse.

COMMENTS:

Motion: Adopt the May Revision and the trailer bill language.

ITEM 4260 DEPARTMENT OF HEALTH SERVICES

ISSUE 1: MEDI-CAL ESTIMATE

BACKGROUND:

The May Revision proposes that Item 4260-101-0001 be increased by $341,705,000, Item 4260-102-0001 be increased by $11,798,000, Item 4260-113-0001 be increased by $76,321,000, Item 4260-117-0001 be decreased by $657,000, Item 4260-101-0890 be increased by $812,576,000, Item 4260-102-0890 be increased by $11,798,000, Item 4260-103-0890 be decreased by $1,674,000, Item 4260-113-0890 be increased by $75,180,000, Item 4260-117-0890 be decreased by $594,000, Medi-Cal Inpatient Payment Adjustment Fund (0834) per Government Code Section 13340 be increased by $428,903,000, and Reimbursements be increased by $121,000. These adjustments represent a variety of caseload and cost changes not highlighted in other Medi-Cal issues in the May Revision letter.

COMMENTS:

Rescind previous motion rejecting enrollment caps.

Motion: Adopt the May Revision, with no enrollment caps.

ISSUE 2: FEDERALLY QUALIFIED HEALTH CENTERS (FHCQ) – SCOPE OF SERVICE ADJUSTMENTS

BACKGROUND:

Under the Prospective Payment System (PPS), adjustments must be made in the rates paid to FQHC and Rural Health Clinics (RHC) for changes in scope of service and the difference between the PPS rate and interim rates for managed care and Medicare crossover eligibles. These adjustments will be made in 2004-05, retroactive to January 1, 2001. The cost of both the retroactive and ongoing adjustments in 2004-05 is $74.1 million General Fund, $33.3 million less than anticipated in the November 2003 Estimate, due to the expectation that fewer clinics will request adjustments than originally expected.

The following placeholder trailer bill addresses the proposed FQHC and RHC reduction and resolves the outstanding issues that have delayed and will continue to prevent the finalization of the "scope of service change form.

ADD Section 14132.105 to the Welfare and Institutions Code, to read:

14132.105. (a) The director may adopt emergency regulations to implement Section 14132.100 of the Welfare and Institutions Code in accordance with the Administrative Procedure Act (Chapter 3.5 (commencing with Section 11340) of Part 1 of Division 3 of Title 2 of the Government Code).

(b) The adoption of emergency regulations described in subdivision (a) shall be deemed to be an emergency and necessary for the immediate preservation of the public peace, health and safety, or general welfare. The emergency regulations authorized by this section shall be submitted to the Office of Administrative Law for filing with the Secretary of State and publication in the California Code of Regulations.

(c) Notwithstanding subdivisions (a) and (b), the director may issue such instructions and forms as are consistent with the scope of the following authority and that are necessary to implement subdivisions (e), (f), (h) and (i) of Section 14132.100 of the Welfare and Institutions Code, and Sections (A) and (D) through (L), at pages 6 through 6R of Attachment 4.19-B to the California Medicaid State Plan in effect on January 1, 2003, relating to the reimbursement rate methodologies for federally qualified health center services and rural health clinic services. Adoption of such instructions and forms shall not be subject to the Administrative Procedure Act (Chapter 3.5 (commencing with Section 11340) of Part 1 of Division 3 of Title 2 of the Government Code). Actions pursuant to this subdivision must be taken within 30 days following the date that this section becomes effective.

(d) The authority to grant emergency or expedited regulations under this section expires on June 30, 2006.

SEC. 2. A new Section 14132.106 shall be added to the Welfare & Institutions Code, to read:

14132.106. FQHC's and RHC's shall be permitted to make a one-time election to file cost reports under subdivision (e) of Section 14132.100 on a consolidated basis for all sites that have been qualified as FQHCs or RHCs prior to the effective date of this section. The thresholds described in subdivisions (e)(3) of Section 14132.100 shall be applied to the average per visit rate for all sites reflected on such consolidated report. The director may only limit this election and instead require site-by-site cost reports if the Centers for Medicare and Medicaid Services determines that site-by-site cost reports are required by federal law.

SEC. 3. A new Section 14132.107 shall be added to the Welfare & Institutions Code to read:

14132.107. Claims for reimbursement under subdivisions (e) and (h) of Section 14132.100 shall be finalized by the department within 60 days of receipt, and claims paid within 30 days thereafter, except that payment of those amounts that are disputed shall be subject to the requirements and time frames and procedures set out in Section 14171.

SEC. 4. A new Section 14132.108 shall be added to the Welfare & Institutions Code to read:

14132.108 Notwithstanding any other provision of law, requests for rate adjustments for scope of service rate changes under paragraph 4 of subdivision (e) of Section 14132.100, for an FQHC's or RHC's fiscal year ending in 2004 shall be deemed to have been filed in a timely manner so long as filed within 90 days following the end of the150 day time frame applicable to scope of service changes occurring from January 1, 2001, to the end of an FQHC's or RHC's 2003 fiscal year, as set out in paragraph (6) of subdivision (e) of Section 14132.100.

COMMENTS:

Motion
- **Adopt the May Revision**
- **Adopt placeholder trailer bill.**

ITEM 4260 DEPARTMENT OF HEALTH SERVICES

ISSUE 3: QUALITY INSURANCE FEE

BACKGROUND:

The May Revision proposes that Items 4260-101-0001 and 4260-101-0890 each be increased by $112.5 million to reflect a revised implementation date of January 1, 2005, for a 6 percent assessment fee on Medi-Cal managed care plans. Revenue generated by the assessment fee in 2004-05 is projected to be $125.0 million, resulting in net General Fund savings of $12.5 million.

COMMENTS:

Motion: Adopt the May Revision

ISSUE 4: COUNTY ORGANIZED HEALTH SYSTEM – RATE INCREASE

BACKGROUND:

The May Revision proposes that Item 4260-101-0001 be increased by $15,170,000 and Item 4260-101-0890 be increased by $15,096,000 to reflect a 3 percent increase in capitation rates for the Medi-Cal County Organized Health Systems managed care plans.

COMMENTS:

Motion: Adopt the May Revision.

ITEM 4260 DEPARTMENT OF HEALTH SERVICES

ISSUE 5: MEDICARE PRESCIPTION DRUG IMPLEMENTATION

BACKGROUND:

The May Revision proposes that Item 4260-001-0001 be increased by $151,000, Item 4260-001-0890 be increased by $244,000, and Item 4260-001-0834 be increased by $42,000 to reflect the addition of 5.0 positions necessary to implement the Federal Medicare Prescription Drug, Improvement, and Modernization Act, also known as HR 1.

COMMENTS:

Motion: Adopt the May Revision

ISSUE 6: CRIMINAL BACKGROUND CHECK

BACKGROUND:

The May Revision proposes that Item 4260-001-0001 and Item 4260-001-0890 each be increased by $301,000 to reflect the addition of 1.0 position in the Department of Health Services (DHS) and reimbursements to the DOJ for programming costs that would allow the DOJ to provide subsequent conviction information for persons licensed by the DHS Licensing and Certification program in a more efficient manner.

COMMENTS:

Motion: Adopt the May Revision.

ITEM 4260 DEPARTMENT OF HEALTH SERVICES

ISSUE 7: MONITORING SYSTEM FOR MEDI-CAL FISCAL INTERMEDIARY (FI):

BACKGROUND:

The May Revision proposes that Item 4260-001-0001 be increased by $194,000 and that Item 4260-001-0890 be increased by $396,000 to reflect 4.0 additional positions in the DHS and contract expenses to develop an automated invoice tracking and cost monitoring system and improve State oversight functions for the Medi-Cal FI contract. The requested contract expenses include a new database accounting system and funding for two interagency agreements with the Department of Finance Office of State Audits and Evaluations for auditing services.

COMMENTS:

Motion: Adopt the May Revision

ISSUE 8: IN-HOME SUPPORTIVE SERVICES

BACKGROUND:

The May Revision proposes that Item 4260-001-0001 and Item 4260-001-0890 each be increased by $225,000 to reflect 5.0 additional positions in the DHS to implement and manage the Independence Plus Waiver Demonstration Project for the IHSS program. In addition to ongoing monitoring, the waiver would require the DHS to work with the Department of Social Services to resolve issues regarding administration, eligibility, benefits, the delivery system, access, quality assurance, systems support, implementation timeframes, and evaluation and reporting. In addition, both Departments must address the federal Centers for Medicare and Medicaid Services' concerns that sufficient fiscal and audit controls are in place to prevent fraud and abuse, and to quickly identify problems with caregiver abuse. The proposed trailer bill language is attached.

COMMENTS:

Action taken in Social Services.

ITEM 4260 DEPARTMENT OF HEALTH SERVICES

ISSUE 9: CONTRACT MEDI-CAL AUDITS

BACKGROUND:

The May Revision proposes that statutory changes be authorized to expedite procurement of a contingency-fee based administrative contract that would enable the DHS to perform up to 300 additional audits and examine $200 million in Medi-Cal payments, likely resulting in savings to the State. Due to the time needed to procure a contractor, DHS does not anticipate any new anti-fraud activity until early in 2005-06.

The California Constitution and case law limits the amount of contracting-out in which the state can engage. The Legislative Analyst Office analysis points out that contracts cannot cause the displacement of civil service employees. As such, the Administration is proposing to place an amendment to the State Constitution on the November 2004 ballot so all aspects of the Administration's proposal to contract out could be implemented in the budget year

COMMENTS:

Motion: Reject the May Revision.

ISSUE 10: FEDERALLY QUALIFIED HEALTH CENTER – ALTERNATIVE RATE METHODOLOGY

BACKGROUND:

The Benefits Improvement and Protection Act (BIPA) of 2000 required DHS to implement a PPS for FQHCs and RHCs. Under an alternative payment methodology, the rates were set based on the facilities' 2000 cost reports. Effective October 1, 2004, the Department proposes to eliminate the alternative payment methodology and set the base rates for the facilities based on averages from cost reports from 1999 and 2000. The savings in 2004-05 will be $4.9 million General Fund, $27.4 million General Fund less than anticipated in the November 2003 Estimate, due to the fact that the rate adjustments for scope of service changes, expected to be made for many clinics, will re-base the rates for those clinics.

COMMENTS:

Motion:

- **Reject the proposal to eliminate the alternative rate methodology**
- **Reject the May Revision.**

ITEM 4260 DEPARTMENT OF HEALTH SERVICES

ISSUE 11: ADULT DAY HEALTH CARE REFORM

BACKGROUND:

The May Revision proposes that Item 4260-101-0001 and Item 4260-101-0001 each be decreased by $9,232,000 to reflect a moratorium on new adult day health care facilities and increased capacity at existing facilities, and to reflect recent changes in federal reimbursement requirements. Revised trailer bill language is attached.

COMMENTS:

Motion:

- **Rescind the adoption of placeholder trailer bill language by the Subcommittee.**

- **Adopt new "6 month hard cap and 6" month under-served exceptions moratorium language as placeholder language**

- **No statutory authority for the ADHC waiver in budget trailer bill, should be in a policy bill**

ISSUE 12: NON-CONTRACT HOSPITALS

BACKGROUND:

The May Revision proposes that Item 4260-101-0001 and Item 4260-101-0001 each be decreased by $6,175,000 to reflect reductions in non-contract hospital reimbursement resulting from audits of hospital cost allocations.

COMMENTS:

Motion: Adopt the May Revision.

ITEM 4260 DEPARTMENT OF HEALTH SERVICES

ISSUE 13: DELAY MEDI-CAL CHECKWRITE

BACKGROUND:

The May Revision Proposes that Item 4260-101-0001 and Item 4260-101-0890 each be decreased by $143.0 million to reflect an additional one-week delay of Medi-Cal provider payments in 2004-05. This delay is in addition to the one-week delay proposed in the Governor's Budget. As a result of these two checkwrite delays, only 50 weekly payments, rather than 52, would be made to Medi-Cal providers in 2004-05. The DHS would implement this proposal in a way that would minimize the impact to provider cash flow.

COMMENTS:

Motion: Adopt the May Revision.

ISSUE 14: ELIGIBILITY VALIDATION

BACKGROUND:

The May Revision proposes that Item 4260-101-0001 and Item 4260-101-0890 each be decreased by $2,618,000 to reflect a reduction in eligibility determination errors to be identified through a contingency-based contract with a third-party vendor. The proposed trailer bill language is attached.

COMMENTS:

Motion: Reject the May Revision.

ITEM 4260 DEPARTMENT OF HEALTH SERVICES

ISSUE 15: QUARTERLY MEDI-CAL ELIGIBILITY FILE RECONCILIATION

BACKGROUND:

The May Revision proposes that Item 4260-101-0001 and Item 4260-101-0890 each be decreased by $9.0 million to reflect a quarterly reconciliation of Medi-Cal eligibility data discrepancy records by the counties.

COMMENTS:

Motion: Adopt the May Revision but with alternative placeholder trailer bill.

ISSUE 16:PHARMACY REIMBURSEMENT REALIGNMENT

BACKGROUND:

The May Revision proposes that Item 4260-101-0001 and Item 4260-101-0890 each be decreased by $79,266,000 to reflect a realignment of pharmacy reimbursement, including a reduction to drug ingredient payments based on Average Wholesale Price and an increase in the pharmacy dispensing fee. The proposed trailer bill language is attached.

COMMENTS:

Motion: Adopt the May Revision and placeholder trailer bill language to implement the pharmacy reimbursement realignment.

ITEM 4260 DEPARTMENT OF HEALTH SERVICES

ISSUE 17: REVERSION OF PRIOR YEARS SAVINGS

BACKGROUND:

The May Revision proposes that Item 4260-496 be added to revert the unencumbered balance of various prior year appropriations for the Medi-Cal program. Savings generated from this reversion item include $5,855,000 General Fund and $1,482,000 Tobacco Settlement Fund. The suggested Budget Bill language is below:

4260-496—Reversion, Department of Health Services. As of June 30, 2004, the balances specified below, of the appropriations provided for in the following citations shall revert to the fund balance from which the appropriation was made:
0001—General Fund

(1) $2,855,000 from Program 20-Health Care Services in Item 4260-001-0001, Budget Act of 2000 (Ch. 52, Stats of 2000)
(2) $400,000 from Program 20-Health Care Services in Item 4260-001-0001, Budget Act of 2000 (Ch. 52, Stats of 2000) as reappropriated by Item 4260-491, Budget Act of 2001 (Ch. 106, Stats of 2001), and Budget Act of 2002 (Ch. 379, Stats of 2002)
(3) $500,000 from Program 20-Health Care Services in Item 4260-001-0001, Budget Act of 2001 (Ch. 106, Stats of 2001) as reappropriated by Item 4260-490, Budget Act of 2002 (Ch. 379, Stats of 2002)
(4) $2,100,000 from Program 20.10.020-Fiscal Intermediary Management in Item 4260-117-0001, Budget Act 2002 (Ch. 379, Stats of 2002) 3020—Tobacco Settlement Fund
(5) $1,482,535 from Program 20-Health Care Services in Item 4260-001-3020, Budget Act of 2001 (Ch. 106, Stats of 2001)

COMMENTS:

Motion: Adopt the May Revision.

ITEM 4260 DEPARTMENT OF HEALTH SERVICES

ISSUE 18: TREATMENT AUTHORIZATION REQUEST POSTAGE AND PRINTING REDUCTION

BACKGROUND:

The May Revision proposes that Item 4260-001-0001 and Item 4260-001-0890 each be decreased by $150,000 to reflect the incorporation of these expenditures within local assistance.

COMMENTS:

Motion: Adopt the May Revision.

ISSUE 19: LOS ANGELES COUNTY RECONCILIATION

BACKGROUND:

The May Revision proposes that Item 4260-101-0001 and Item 4260-101-0890 each be decreased by $33,325,000 to reflect a reconciliation of State and county eligibility records within Los Angeles County

COMMENTS:

Motion: Adopt the May Revision.

ISSUE 20: STATE CONTROLLER'S OFFICE AUDITS

BACKGROUND:

The May Revision proposes that Item 4260-001-0001 and Item 4260-001-0890 each be decreased by $929,000 and 20.0 positions to be reduced to amend the Governor's Budget proposal to shift audit functions from the State Controller's Office. See corresponding issue in the State Controller's Office Finance Letter (Issue 214, Item 0840-001-0001).

COMMENTS:

Motion: Adopt the May Revision.

ISSUE 21: NON-CONTRACT HOSPITALS RATE REDUCTION & FREEZE

BACKGROUND:

The interim rate of payment for each non-contract hospital inpatient service is calculated to approximate as closely as possible the reimbursable cost to the hospitals for providing services to Medi9-Cal beneficiaries. The interim payment provides payments for services provided through the hospital's fiscal year. These costs are then reconciled using hospital cost reports within five months of the end of a hospital's fiscal year. If the cost of providing services is greater than the interim rate, the hospital is reimbursed the difference. If costs are lower, the hospitals must reimburse the difference to Medi-Cal. While there is an attempt to approximate cost with the interim rate, in reality, many hospitals are overpaid during the course of the year. The Department proposes to reduce interim hospital payments for acute inpatient services by 10 percent January 1, 2004. And freeze them.

COMMENTS:

Motion: Adopt the May Revision trailer bill language to effectuate the rate reduction

ITEM 4260 DEPARTMENT OF HEALTH SERVICES – MEDI-CAL

ISSUE 22: PHARMACY REBATES

BACKGROUND:

DHS states that it will pay $4.4 billion, total funds, for prescription drugs and medical supplies in the 2004-2005 Fiscal Year. The Department collects rebates from the pharmaceutical manufacturers for these products. The State also collects rebates on behalf of County Organized Health Care Systems and the Family PACT Program. The rebates are projected to total approximately $1.4 billion in the 2004-2005 Fiscal Year.

Rebates are billed quarterly to pharmaceutical manufacturers on a per claim basis, the Department will bill for over 50 million claims this year. A pharmaceutical manufacturer may dispute any claim and that dispute must be resolved between the Department and the manufacturer. The collection of manufacturer rebate money owed to the state has been a long-standing issue with the Department.

In a 1996 report, the Bureau of State Audits identified about $40 million in past, owed rebates to the state. In an April 2003 report, the Bureau estimated the aged rebates owed to the state had increased to $216 million in total funds as of September 2001**.** The Federal Government's Department of Health and Human Services' Office of Inspector General' conducted an audit of California's Medi-Cal Drug Rebate Program and released the results in January 2004**.** The primary conclusion of the report was that as of June 2002 the Medi-Cal Program had an unsettled drug rebate balance of $1.3 billion in total funds.

The Department disagreed with the conclusions expressed in the Office of Inspector General report. DHS submitted an estimate of the uncollected balance to the Office of Inspector General, $818 million in total funds as of June 002. The Department noted to the Inspector General there were several instances where bad data was used in the analysis. Furthermore, the Department provided examples of errors that can cause a pharmaceutical manufacturer to dispute a drug rebate billing. Since then the Department observes the amount of unresolved/outstanding rebates has been reduced to approximately $302 million in total funds as of June 2002 from payments made by pharmaceutical manufacturers. The Department states that a significant portion of the $302.3 million balance represents rebates that have been billed but may not be collectable (see table below).

Rebate Year	Adjusted Invoice Total	Paid Principal	Outstanding Principal	% Outstanding
1991 Total		87,373,776.36	10,527,082.10	11%
1992 Total		158,367,043.53	9,376,960.19	6%
1993 Total		186,551,266.93	7,841,143.05	4%
1994 Total		222,572,042.27	15,975,535.10	7%
1995 Total		258,967,817.84	18,280,764.12	7%
1996 Total		304,036,120.87	11,291,575.62	4%
1997 Total		332,728,549.83	18,698,537.95	5%
1998 Total		448,490,996.77	23,510,502.27	5%
1999 Total		584,595,599.74	40,422,018.09	6%
2000 Total		729,581,742.97	60,170,578.83	8%
2001 Total		916,739,533.59	57,268,817.47	6%
2002 Total		556,142,364.12	28,985,008.13	5%
Total	5,088,495,377.74	4,786,146,854.82	302,348,522.92	6%

Following is the outstanding balance from the OIG audit period forward:

Outstanding Balances 3Q02 - 3Q03				
Rebate Year	**Rebate Quarter**	**Invoiced Principal**	**Paid Principal**	**Outstanding Balance**
2002	3	$343,034,344.50	$329,176,965.18	$13,857,379.32
2002	4	$336,352,939.19	$320,485,824.10	$15,867,115.09
2003	1	$364,082,424.21	$326,147,097.04	$37,935,327.17
2003	2	$684,472,641.90	$390,705,966.70	$293,766,675.20
2003	3	$408,288,917.46	$372,299,307.25	$35,989,610.21
Grand Total		$2,136,231,267.26	$1,738,815,160.27	$397,416,106.99

There is a perception that the department has a large uncollected balance of rebate monies due from manufacturers to the state. The perception is inaccurate. The outstanding balance is, in great part, due to usual billing errors by pharmacies, and other errors introduced into the rebate accounting system, such as the example here which greatly overstated the outstanding balance for the 2nd quarter of 2003, highlighted above.

Over the last three years the Legislature has provided DHS with additional resources to collect pharmaceutical manufacturers rebates. The actions include: increased resources to implement the new rebate tracking system in the Budget Act of 2001; added four new staff to assist in processing aged rebates and enacted trailer bill legislation to prevent the loss of state drug rebates if manufacturers retroactively reduced their prices to reduce rebates in the Budget Act of 2002; and provided eleven new staff to assist in processing aged rebates in the Budget Act of 2003.

The 2004-2005 Fiscal Year budget projects the state will collect $29.5 million, $14.750 million General Fund, of the $302.3 million balance. Of the $29.5 million, $5.9 million will be collected in 2003-04 and $23.6 million is for 2004-05.

COMMENTS:

Rescind prior vote to adopt as budgeted.

Increase the amount to be collected for the aged drug rebates by $30 million ($15 million General Fund) and adopt trailer bill language to require the DHS to report quarterly on the collection of all rebate funds. This saves the General Fund $15 million. Conforms with the Senate.

ISSUE 23: MEDI-CAL REFORM – MANAGED CARE EXPANSION

BACKGROUND:

An expansion of the Medi-Cal Managed Care is one aspect of the Governor's proposed restructuring of the Medi-Cal Program. The expansion could increase the number of counties in the managed care program from 22 to 36. There are approximately 3.5 million people enrolled in Medi-Cal Managed Care at this time. The expansion is projected to add 414,000 beneficiaries to the Medi-Cal Managed Care rolls. In addition, the Department will be exploring options for the voluntary enrollment of the aged, blind and disabled beneficiaries to the rolls in the non-County Organized Health System (COHS) counties.

The Department will be seeking authority to restructure the Medi-Cal Program through an 1115 waiver from the Federal Government's. Center for Medicare and Medicaid Services. The state has many waivers for the various aspects of the Medi-Cal program and may seek a waiver that encompasses all of the existing waivers or it may seek one less comprehensive in nature. A 1115 waiver allows the flexibility in design of the system by waiving certain aspects of federal law and regulation. The state would be obligated to demonstrate that the cost of the program are less under the waiver than what they would be in a non-waiver program.

The state has three different managed care models:

- **COHS:** The County Organized Health Systems are health-insuring organizations organized and operated by the county. COHS are not required to be State Licensed HMO. All Medi-Cal beneficiaries residing within the county are required to enroll regardless of their eligibility category. Beneficiaries do not have the option of obtaining Medi-Cal services through the traditional fee-for-service Medi-Cal system. Five COHS plans operate in the following counties: Santa Barbara; San Mateo; Solano; Napa; Orange; Santa Cruz; Monterey and Yolo Counties.

- **Two-Plan:** The DHS contracts with one locally developed health care service plan known as the Local Initiative and one non-government operated Health Maintenance Organization, referred to as the Commercial Plan. In general, enrollment is mandatory for beneficiaries in public assistance linked and percent of poverty aid code categories, and voluntary for the aged, blind and disabled aid categories. The following counties participate in the model: Alameda; Contra Costa; Fresno; Kern; Los Angeles; Riverside; San Bernardino; San Francisco; San Joaquin; Santa Clara; Stanislaus and Tulare Counties.

- **Geographic Managed Care:** Under the Geographic Managed Care model Medi-Cal beneficiaries are given the option of choosing from among multiple commercial HMO's to receive their health care services. The model first employed in Sacramento County and then it was extended to San Diego County. Enrollment is mandatory for beneficiaries in public assistance linked and percent of poverty aid code categories and voluntary for the aged, blind and disabled code categories.

The expansion could be as follows:

- **County Organized Counties**: Marin, Mendocino, Sonoma, San Luis Obispo, Ventura and San Benito.
- **Two Plan**: Madera and Merced.
- **Geographic Managed Care**: Butte, El Dorado, Imperial, Placer, Sutter and Yuba.

The Department projects savings would begin in the 2005-2006 budget year. The estimated savings for 2005-2006 before staff and contractor costs are $24.2 million in total funds, $12.1 million General Fund. After subtracting the savings will total $16.3 million total fund, $8.15 million total Funds. The savings for budget year 2006-2007 and thereafter before subtracting staff and contractor costs are projected to be $37.2 million total funds and $18.6 million General Fund. After subtracting for the additional costs the savings are projected to be $32.9 million total funds, $16.45 million General Fund.

The Legislative Analysts notes that two of the COHS are in serious financial difficulties. The difficulties the LAO notes are that capitation rates are lagging inflation; "profits" are used for services and persons outside of Medi-Cal; rates paid to health care providers are greater than fee-for-service; and the lack of monitoring of the finances.

COMMENTS:

Motion:

- **Approve the expansion, limit mandatory enrollment to the CalWORKs enrollees and the voluntary enrollment of the Aged, Blind and Disabled**.

ISSUE 24: PUBLIC HEALTH ESTIMATES – CCS, GHPP & CHDP

BACKGROUND:

The May Revision proposes that Item 4260-111-0001 be increased by $8,668,000 and Item 4260-111-0890 be increased by $11,858,000 to reflect health care cost adjustments in the CCS, CHDP, and the GHPP related to fully funding caseload growth. The Assembly Budget Subcommittee 1, at its April 12 hearing fully funded CCS and

GHPP. It also established a Special Account to receive and account for rebates from pharmaceutical manufacturers.

COMMENTS:

Motion:
- **Rescind the previous votes on CCS and GHPP.**

Motion on CCS:
- **Adopt the May Revision**
- **Adopt $2.5 million in rebates to offset General Fund**
- **Adopt the placeholder trailer bill language adopted in the Subcommittee hearing.**

Motion on GHPP
- **Adopt the May Revision**
- **Adopt $5 million in rebates and offset the General Fund**
- **Adopt the placeholder trailer bill language adopted in the Subcommittee hearing.**
- **Fund AGPA to work on rebates, $89,000 General Fund.**

Motion on CHDP
- **Adopt the May Revise.**

ISSUE 25: ADAP DRUG ASSISTANCE PROGRAM

BACKGROUND:

The May Revision proposes that Item 4260-111-0001 be increased by $2,760,000, Item 4260-111-0890 be increased by $3,151,000, and that Reimbursements be increased by $21.0 million to fund projected caseload for 2004-05. The May Revision resources provided by the proposal would maintain expenditures at the level necessary to meet the Ryan White Care Act maintenance-of-effort requirement. The Assembly Budget Subcommittee 1 voted to fully fund the ADAP Program at its April 12 hearing. It also adopted Trailer Bill Language to create a Special Fund for the receipt and accounting of pharmaceutical rebates.

COMMENTS:

Motion:
- **Rescind the previous actions taken on ADAP.**
- **Adopt the May Revision funding proposed by the Administration and also retain the placeholder trailer bill language the Subcommittee adopted on April 12.**

ITEM 4260 DEPARTMENT OF HEALTH SERVICES

ISSUE 26: MEDICAL MARIJUANA IDENTIFICATION CARD

BACKGROUND:

SB 420 (Chapter 875, Statutes of 2003) requires the establishment and maintenance of a Medical Marijuana Identification Card (MMIC) Program. The identification cards will be issued to participants that have been prescribed by physicians to use marijuana for medicinal purposes. The MMIC Program will initially be funded with a $983,000 loan from the Health Statistics Special Fund (Fund 0099). The loan will be repaid using fees collected from the issuance of the identification cards. The program would require 8 positions (5 Permanent, 3 Limited Term).

4260-001-3074—For support of Department of Health Services,
for payment to Item 4260-001-0001, payable from the
Medical Marijuana Program Fund……………………………..$983,000

4260-011-0099—For transfer by the Controller, upon order of the Director of Finance, from the Health Statistics Special Fund to the Medical Marijuana Program Fund…………………..($983,000) Provisions: The transfer made by this item is a loan to the Medical Marijuana Program Fund. Notwithstanding any other provision of law, this loan shall be repaid no later than June 30, 2008 with interest calculated at the rate earned by the Pooled Money Investment Account at the time of the transfer.

COMMENTS:

Motion: Adopt the May Revision.

ITEM 4260 DEPARTMENT OF HEALTH SERVICES – PUBLIC HEALTH

ISSUE 27: RADIATION CONTROL FUND SOVENCY

BACKGROUND:

The May Revision proposes language be added to Item 4260-001-0075 to reconcile expenditures from the Radiation Control Fund (0075) with actual revenue received in the budget year. This proposal would prohibit the Department from incurring expenditures that are greater than the level of revenue generated during that fiscal year. To the extent additional fee revenue is generated, pursuant to the passage of anticipated regulations, additional expenditures would be authorized.

Add the following provision to Item 4260-001-0075:

1. Of the amount appropriated in this item, $6,050,000 shall not be available for expenditure on the Radiologic Control Program, except to the extent that fee revenues above the $12.0 million that is currently projected for 2004-05 are deposited in the Fund.

COMMENTS:

Motion: Adopt the May Revision.

ISSUE 28: REVERSION OF PRIOR YEAR SAVINGS

BACKGROUND:

The May Revision proposes Item 4260-495 be added to revert the unencumbered balance of various prior year appropriations for public health programs. Savings generated from this reversion item include $31.5 million General Fund and $16.3 million Tobacco Settlement Fund.

2004-05 May Revision
Proposed Budget Bill Language

Reversion of Prior Year Savings In Public Health Programs—Issue 390

4260 –495—Reversion, Department of Health Services. As of June 30, 2004, the balances specified below, of the appropriations provided for in the following citations shall revert to the fund balance from which the appropriation was made:
0001—General Fund

(1) $15,656,299 from Program 10 - Public and Environmental Health in Item 4260-001-0001, Budget Act of 2000 (Ch. 52, Stats. 2000).
(2) $250,000 from Program 10 - Public and Environmental Health in Item 4260-001-0001, Budget Act of 2000 (Ch. 52, Stats. 2000) as reappropriated by the Budget Act of 2001 (Ch. 106, Stats of 2001), the Budget Act of 2002 (Ch. 379, Stats of 2002) Item 4260-491, and as reappropriated by the Budget Act of 2003 (Ch. 157, Stats. of 2003).
(3) $145,000 in Chapter 841, Statutes of 2000.
(4) $63,000 from Program 10.20.040 – Drinking Water in Item 4260-111-0001, Budget Act of 2001 (Ch. 106, Stats. 2001).
(5) $11,100,000 from Program 10.30.040 – Chronic Diseases in Item 4260-111-0001, Budget Act of 2001 (Ch. 106, Stats. 2001).
(6) $3,000,000 from Program 20.30 – County Health Services in Item 4260-111-0001, Budget Act of 2001 (Ch. 106, Stats. 2001).
(7) $736,000 from Program 20.40 – Primary Care and Family Health in Item 4260-111-0001, Budget Act of 2001 (Ch. 106, Stats. 2001).

(8) $500,000 in Chapter 751, Statutes of 2001 – Valley Fever Vaccine Research.

3020-Tobacco Settlement Fund

(1) $2,648,063 from Program 10.30.40.70 – Cancer Detection in Item 4260-001-3020, Budget Act of 2001 (Ch. 106, Stats. 2001).

(2) $13,675,000 from Program 20-40 – Primary Care and Family Health in Item 4260-111-3020, Budget Act of 2001 (Ch. 106, Stats. 2001).

COMMENTS:

Motion: Adopt the May Revision.

ITEM 4260 DEPARTMENT OF HEALTH SERVICES – PUBLIC HEALTH

ISSUE 29: CALIFORNIA NUTRITION NETWORK RECONCILIATION

BACKGROUND:

The May Revision proposes Items 4260-001-0001 and 4260-111-0001 be amended by increasing Reimbursements by $5.0 million and $23,104,000 respectively, to correctly schedule Reimbursements for the Nutrition Network Program. Though the Department of Social Services' subvention estimate projected total funding of $90.0 million, the Department of Health Services' budget reflects only $61.9 million. This request aligns the expenditures of the two Departments.

COMMENTS:

Motion: Adopt the May Revision.

ISSUE 30: WEST NILE VIRUS

BACKGROUND:

The May Revision proposes Item 4260-001-0001 be increased by $977,000 to fund 2.0 positions to develop a long-term, strategic plan and program for West Nile Virus surveillance, prevention, and control. This proposal would provide the Department of Health Services and local agencies with the capacity to conduct various scientific tests, create a geographic information system to predict risk, and produce professional outreach and educational materials.

COMMENTS:

Motion: Reject the funding and staff for the West Nile Virus project.

ITEM 4260 DEPARTMENT OF HEALTH SERVICES

ISSUE 31: COMMUNITY CHALLENGE GRANTS

BACKGROUND:

The May Revision proposes that Items 4260-001-0001 and 4260-111-0001 be amended by increasing Reimbursements by $866,000 and $19,134,000 respectively, to restore funding for Community Challenge Grants. Temporary Assistance for Needy Families (TANF) block grant funding through the DSS has been restored, resulting in the opportunity to restore the Community Challenge Grants. Promoting responsible parenting and reducing the number of teenage and unintended pregnancies assists in offsetting future costs associated with welfare dependency.

COMMENTS:

Motion: Adopt the May Revision

ISSUE 32: PROPOSITION 99 EXPENDITURE PLAN

BACKGROUND:

Due to increased revenue estimates for the Cigarette and Tobacco Products Surtax Fund, the May Revision proposes to increase the following items:

- Item 4260-001-0231 by $97,000 for DHS' Tobacco Education and Research Oversight Committee and Evaluation Program.
- Item 4260-111-0231 by $1,261,000 to support Competitive Grants ($411,000), Media Campaigns ($418,000), and Local Lead Agencies ($432,000) in DHS' Health Education Program.
- Item 4260-111-0232 by $2,377,000 to support California Healthcare for Indigents ($2,244,000) and Rural Health Services ($133,000) in DHS' County Health Services Program.
- Item 4260-111-0233 by $679,000 to support California Healthcare for Indigents ($611,000) and Rural Health Services ($68,000) in DHS' County Health Services Program.
- Item 4260-111-0236 by $1,650,000 to provide additional funding for Breast Cancer Early Detection.

COMMENTS:

Motion: Adopt the May Revision.

ITEM 4260 DEPARTMENT OF HEALTH SERVICES

ISSUE 33: PROSTATE CANCER TREATMENT PROGRAM

BACKGROUND:

The Budget Act of 2003 includes language (Item 4260-491) that authorizes the reappropriation of prior year funding to support the ongoing costs of the Prostate Cancer Treatment Program and the Cancer Research Program. This reappropriation language will allow the DHS to continue funding the programs through 2004-05. Pursuant to discussions with DHS staff, the Department of Finance anticipates that the Department will expend $5.0 million in 2003-04 and $6.5 million in 2004-05 from the Tobacco Settlement Fund to continue the Prostate Cancer Treatment Program. We also anticipate the DHS will expend approximately $760,000 from the Cancer Research Fund in the budget year.

COMMENTS:

Motion: None needed, the Subcommittee previously adopted the proposed re-appropriation.

ISSUE 34: ELIMINATION OF THE METHADONE REGULATORY PROGRAM

BACKGROUND:

The Subcommittee heard the issue of elimination of the Methadone Regulatory Program Finance Letter at its April 12 hearing. The Subcommittee voted to accept the proposed trailer bill language to eliminate the program.

The state has provided certification and licensing for laboratories that provide forensic toxicology tests since 1972. These lab tests determine if any type of controlled or illegal drugs is present in specimens taken from people in drug treatment programs such as the Methadone Maintenance, on probation or incarceration or required to test for employment purposes. The certification of these labs is distinguished from the Federal Clinical laboratory Amendment (CLIA) certification because CLIA does not require nor have a mechanism to perform proficiency testing for labs that perform forensic toxicology tests.

In the 1970's, there were approximately 15 labs that were approved throughout the state. However, that number has decreased over the years and today there are approximately 3 labs that are certified and approved to do forensic toxicology tests in the state with one out of state lab. The number of labs has decreased over the years due to the decreased profitability of some labs and their inability to meet the state proficiency standards.

The state's rigorous proficiency standards assure validity and reliability by utilizing "blind sampling" that sends "spiked" samples along with hose submitted by clinics. These are tested and validated for accuracy and the state's standards and require that the lab results exceed a 90% reliability standard. Given that eligibility to drug treatment, probation and employment rely on accurate testing, this standard is desirable. There will be increased errors with less proficiency. If bad tests show that a patient is under the influence, there is not much these patients can do to challenge the test results when they are sent back to jail or prison, denied drug treatment or lost their jobs.

The federal Substance Abuse and Mental Health Administration (SAMSHA) program and the state MDAL program their services. These labs have not pursued federal approved status before this time because the state standards extesting necessary for the MDAL labs. California Opioid Maintenance Providers (COMP) notes that the laboratory that does most of the NTP testing does so at a cost of approximately $2.00 less than most labs because of economies of scale. However, given the small number of labs currently being certified by the state, COMP request that there be a transition period to allow the labs currently regulated by the state to pursue federal SAMSHA approval without a disruption in service to the clinics and other entities utilizing their services. These labs have not pursued federal approved status before this time because the state standards exceeded the federal standards and it was not necessary in order to perform their functions.

If the clinics lose their state licensure because the state regulatory program is discontinued, the clinics may have to close their doors. Clinics have two options, seek licensure pursuant to the CLIA or SAMHA. The CLIA licensure standards are not as high as the states and it would take a long time for a clinic to become licensed. The SAMHA licensure would be appropriate but it too, would take a long time. In either event the clinic's need time to transition if the state were to end its Methadone Regulatory Program.

COMMENTS:

Motion: Rescind the previous vote to approve the Finance Letter.

Motion: Reject the Finance Letter

ITEM 4260 DEPARTMENT OF HEALTH SERVICES

ISSUE 35: COUNTY COST CONTROL

BACKGROUND:

The Governor's Budget would require the Department to develop and implement a cost control plan to help limit the growth in county welfare department allocations associated with Medi-Cal eligibility determinations. The initial phase of the plan would be put into effect for the 2004-2005 Fiscal Year process.

The purpose of the plan is to ensure that counties have sufficient staff to complete required eligibility activities and annual re-determinations in a cost-effective manner. The plan is to have staffing guidelines, policies to control overhead costs, and utilizes budget bill language that limits wage increases while maintaining the integrity of the eligibility determination process.

The California Welfare Directors Association (CWDA) states that the department essentially wants the ability to reduce the allocation of counties that have more caseworkers per eligible cases than the average of the counties automation consortium. CWDA thinks their changes are overly simplistic and could result in new inequities in budgeting. First, caseworkers per eligible is not the best sole measure of productivity. For example, it ignores the work associated with taking applications that are ultimately denied. Second, not all cases require the same effort. For example, cases with complicated household compositions (e.g., with mixed eligible categories) are much more time consuming and complex that single person cases. So counties that encourage applications and have more complicated cases (ie. San Francisco) could be disadvantaged by the formula. Moreover, comparing to the mean of the welfare automation consortium has problems. For example, 2 of the 4 consortia are converting from their old systems to the new systems. CWDA thinks this distorts the mean, at least for the next several years. Additionally, LA is a consortium unto itself, so it will only ever be compared to itself, thus it will never to subject to the process as it was described to us by DHS.

The following placeholder trailer bill language would establish a collaborative approach and reporting to the Legislature to achieve the objectives of the Department of Health Services.

"The department, in collaboration with the County Welfare Directors Association shall develop options and recommendations for modifying the budgeting and allocation methodologies for county Medi-Cal administration. The recommendations shall at a minimum consider the number of eligible cases, the complexity of cases, the way in which caseload growth funds are allocated, and the workload associated with denied applications. The department shall consider options for the establishment of productivity features that result in efficient and effective administration of the Medi-Cal program, including accurate and timely determinations of eligibility and redeterminations and reasonable access to eligibility services for potential eligibles. The department shall report their options and recommendations to all fiscal committees of both houses of the Legislature by January 10, 2005."

COMMENTS:

Motion: Adopt the placeholder trailer bill language.

ITEM 4260 DEPARTMENT OF HEALTH SERVICES

ISSUE 36: PROPOSITION 50 APRIL FINANCE LETTER

BACKGROUND:

This proposal requests the restoration of Proposition 50 local assistance budget authority for Fiscal Year (FY) 2004-05. This authority is essential to fulfill the provisions of Proposition 50. In FY 2004-05, the Department will use $17 million in local assistance from Proposition 50 for the 20 percent state match to access annual federal capitalization grants of approximately $85 million from the United States Environmental Protection Agency (USEPA). Senate Bill (SB) 1307 (Chapter 734, Statues of 1997, Health and Safety Code) enacted the Safe Drinking Water State Revolving Fund (SDWSRF) Law of 1997. It established the framework to implement the SDWSRF and authorized the Department to enter into assistance agreements for capitalization grants with the federal government. The USEPA administers the federal capitalization grants. The funding from each federal capitalization grant with a 20 percent state match is deposited in the SDWSRF. The Division of Drinking Water and Environmental Management (DDWEM) administers the SDWSRF to provide low-interest loans and grants to Public Water Systems for infrastructure improvements to meet applicable federal and state drinking water requirements.

COMMENTS:

Motion: Adopt the Finance Letter.

ITEM 4260 DEPARTMENT OF HEALTH SERVICES

ISSUE 37:SUDDEN INFANT DEATH SYNDROME - MANDATE

BACKGROUND:

In the Budget Act of 2002, two local mandates were mandates were suspended. The mandates were:
SIDS Contacts by local Health Officers, Chapter 268, Statutes of 1991, requires the State Controller to reimburse each local health officer for their mandated contact with the person who is caring for a victim of SIDS at the time of death to inform them of the nature and causes of SIDS and provide support, referral and follow-up services.
SIDS Notices, Chapter 453 Statutes of 1974, requires coroners to notify the local health officer within 24 hours of a presumed death by SIDS. The local health officer must immediately contact the parent of the decreased to provide support, referral, information, and follow up services.

The 2004-2005 budget proposes to eliminate to eliminate funding for the SIDS mandates and to repeal all of the statute related to the mandates.

COMMENTS:

Motion: Adopt the Governor's budget of no General Fund support and adopt the proposed trailer bill language.

ITEM 4260 DEPARTMENT OF HEALTH SERVICES

ISSUE 38: BIOTERRORISM

BACKGROUND:

The DHS is requesting budget authority of $108.876 million in federal funds for the 2004-2005 budget year. Of the total amount $76.509 million is additional federal funding for 2004-2005. Of the $76.509 million new funding, $29.270 million is for state operations and $47.239 million is for local assistance. The base allocation for 2004-2005 is $32.367 million. The Department also requests 18.8 new limited term positions.

Of the $108.776 million in expenditure authority $70.102 million is for the Centers for Disease Control and Prevention (CDC) co-operative agreement and $38.774 million is for the Health Resources and Services Administration (HRSA) co-operative agreement. Of the CDC funding, $23.308 million is for state operations and $47.064 is for local assistance. Of the HRSA funding, $13.574 million for state support and $25.200 million is for local assistance.

CDC Co-operative Agreement
The funding requires the state to meet new critical benchmarks and activities for both grants. CDC grants are for the purpose of upgrading state and local public health jurisdictions' critical capacities related to preparedness for and response to bioterrorism in seven areas: Planning and Readiness Assessment; Surveillance and Epidemiology capacity; Communications and Information Technology; Health Risk Communications and Information Dissemination; and Education and training. As a condition of the funding, the Department must meet 16 critical capacities and 25 critical benchmarks. CDC has expanded the requirements to include two new benchmarks and nine new activities. Therefore, the Department is requesting additional resources for: public health command and control; training; incident response; water and food bio-security; additional laboratory support; health facility preparedness; providing information to the public; and rapid surveillance. The funding for the Local Health Districts – the entities with primary responsibility for responding to public and environmental health aspects of disasters, outbreaks or bioterrorism attacks – will be continued in 2004-2005 with a greater proportion of available funds, 72 percent, directed to meet local needs.

HRSA Co-operative Agreement
The HRSA grant has been for Hospital Bioterrorism Preparedness Program. The Department contracted with Emergency Medical Services Authority to administer the grant to complete a needs assessment of hospitals' and clinics' capabilities to respond to a bioterrorist occurrence. A lot of concern has been expressed because there is no

inter-hospitals or regional planning to manage a bioterrorist incident. This leads to non-standardized plans that may conflict or be unable to mesh with county or regional approach to incidents. The new HRSA funding will no longer be contracted out to EMSA and it will be coordinated within DHS through the newly established Joint Advisory Committee.

COMMENTS:

Motion: (1) Reduce the support item by $2.3 million (which is 10 percent of the CDC grant portion of the states support amount) (2) Adopt Budget Bill Language directing the DHS to include implementation of SB 2065, Statutes of 2002, in the state's application to the CDC, and (3) Adopt Budget Bill Language directing the DHS to provide notification to the Legislature regarding any changes the federal government makes to the state's application, including funding and policy changes.

ITEM 4260 DEPARTMENT OF HEALTH SERVICES

ISSUE 39: BIOTERRORISM – FINANCE LETTER

BACKGROUND:

The Department is requesting 10 permanent positions to continue implementing the CDC co-operative agreement.

The additional staff positions will be to co-ordinate on a regional basis local establishment of bioterrorism plans and protocol. In addition, the new staff will perform fiscal monitoring of grant expenditures awarded by the Department on funds received from the Federal Government.

- One position will be responsible for coordinating at the local level the national stockpile, a reserve of pharmaceuticals, medical supplies and equipment to be accessed by the government during periods of emergency.
- Six positions will provide local guidance and liaison activities to maintain proper direction of local activities consistent with federal guidelines.
- Three positions will provide fiscal monitoring and accounting of local grant expenditures to ensure consistency with federal guidelines and rules.

The CDC Co-operative Agreement for Public Health Preparedness and Response for Bioterrorism is organized around seven focus areas: Planning and Readiness Assessment; Surveillance and Epidemiology capacity; Communications and Information Technology; Health Risk Communications and Information Dissemination; and Education and training. In addition to the seven primary focus areas, the Co-operative Agreement also includes two areas of emphasis: Strategic National Stockpile for pre-positioning of medical supplies to respond to emergencies; and Smallpox Preparedness to continue efforts to vaccinate public health and hospital care responders. The Department must meet 16 critical capacities and 25 critical benchmarks to fulfill terms of the CDC co-operative agreement and to qualify for future funds.

The Department currently has 76 limited-term positions to address the requirements of the CDC bioterrorism co-operative agreement. Ten technical positions in the Bay Area are open because of attrition and the state's inability to recruit and retain technical people because of its inability to offer competitive compensation in a highly competitive job market for scientific expertise. The positions would be redirected to management of the CDC co-operative agreement and would be located outside the Bay Area.

COMMENTS:

Motion: Adopt as budgeted.

ITEM 4260 DEPARTMENT OF HEALTH SERVICES – PUBLIC HEALTH

ISSUE 40: NEWBORN SCREENING PROGRAM

BACKGROUND:

Issue: Proposal to expand the Newborn Screening Program – Tandem Mass Spectrometry Pilot Program

Background: Under the Newborn Screening Program, newborns are screened for a series of treatable preventable metabolic disorders, such as phenylketonuria (PKU), hypothyroidism, galactosemia (GALT), and Sickle Cell Disease. At the time of birth, the heel of the infant is pricked and a drop of blood tested for different disorders. These birth defects have no immediate visible effects on a baby but, unless detected and treated early, can cause physical problems, mental retardation, coma, and death.

When test results are abnormal, early diagnosis and proper treatment can make the difference between lifelong impairment and healthy development. Further, significant cost savings can be achieved through early detection and in most cases, simple dietary treatment. Cost benefit analyses have found that expanded newborn screening produces significant net benefits. The DHS estimates that for every dollar spent on expanded screening, two dollars and fifty-nine centers ($2.59) is saved in average lifetime costs.

Pilot Project: California's Tandem Mass Spectrometry Pilot Program screened for 24 disorders between January 2002 and June 2003 (as required by AB 2426, Kuehl, Statutes of 2000). Under the Tandem Mass Pilot, the DHS offered families, who consented to participate in the test screening, additional newborn screening for disorders at no additional cost (using a surplus in the Genetic Disease Testing Fund). Over 320,000 newborns were tested in the pilot. The pilot program ended when one-time state funding was exhausted. Although the required report has not yet been submitted to the Legislature, in a February 2004 hearing chaired by Senator Alpert's select committee, DHS noted that expansion of the program is under consideration.

According to a recent GAO report, *Newborn Screening, Characteristics of State Programs* (March 2003). At least 40 other states screen for more disorders than

California. Further, California's program has a higher expenditure per infant screened than most other states.

Birth defects are the leading cause of infant death in California and the United States. Yet, California conducts newborn screening for only four disorders. Recent technological advances, Tandem Mass, have made it possible and affordable to screen for larger numbers of treatable metabolic disorders, more than 20 from a single blood sample. At least 26 states have implemented this new technology.

Senate Bill 142 (Alpert) as amended May 3, 2004: Among other things, SB 142 would expand the existing Newborn Screening Program to include tandem mass screening for selected disorders of fatty and organic acid disorder and congenital adrenal hyperplasia by no later than July 1, 2005. If the department is unable to provide statewide screening of these disorders, the legislation would require the department to temporarily utilize one or more laboratories through a competitive bid process. Fees for the program would be done through the regulation process.

COMMENTS:

Motion: Adopt SB 142 as placeholder trailer bill language as an effort to continue discussions with the Administration on expanding and improving the Newborn Screening Program. Conform to Senate.

ITEM 4260 DEPARTMENT OF HEALTH SERVICES

ISSUE 41: CCS MANGED CARE CARVEOUT EXTENSION

BACKGROUND:

CCS was established in 1927 to manage the care of children with special health care needs, such as leukemia and other cancers, cleft palate, congenital heart disease, HIV, spina bifida, diabetes, cerebral palsy, sickle cell anemia, muscular dystrophy, premature birth, and other serious, life-threatening conditions. CCS provides children with these types of health care needs with a state-certified pediatric specialist provider network, highly specialized treatment plans, and multi-disciplinary pediatric case management teams. Less than two percent of California's children have special health care needs that fall within the jurisdiction of CCS. CCS is available to any minor with a serious medical condition that is covered by CCS, who either has a family income of less than $40,000, or for whom the out-of-pocket medical expenses are expected to be more than twenty percent of the family income.

CCS Carve Out

During the 1990s, as California began enrolling increasing numbers of Medi-Cal beneficiaries (including children) into managed care plans, health experts and advocates became concerned that CCS-eligible children would fail to receive the same quality of care as they did through CCS. As a result, in 1994, a "carve out" for CCS-eligible children, who are enrolled in Medi-Cal managed care, became law, requiring these children to continue receiving highly specialized care for their CCS-eligible condition through CCS, while receiving preventive and general care through a managed care plan. The law contains a sunset that has been extended twice.

The statute which created the carve out also authorized DHS to approve, implement, and evaluate limited pilot projects to test alternative managed care models tailored to the special health care needs of children under the CCS program. The law requires all pilot programs to utilize CCS program-approved standards and providers, and requires DHS to submit an evaluation to the Legislature of any pilot program, based on at least one full year of operation. The purpose of such an evaluation would be to determine the effectiveness of a managed care model in providing care to children with special health care needs, including the level of access to timely referrals and coordinated care, and the degree to which CCS program standards have been adhered to by the pilot program. To date, no pilot programs have been implemented, and therefore no evaluations have been done.

The California Children's Hospital Association (CCHA), one of the co-sponsors , reports that, "Studies of access to care for children with special health care needs under traditional managed care have demonstrated delays and denials of access to such services as pediatric specialty care and physical and occupational therapy," the types of services provided by CCS.

CCHA believes that although some fragmentation within the CCS carve out still exists, it has been greatly reduced since Senate Office of Research released its report, as a result of managed care plans becoming accustomed to the carve out and to the need for referrals to be processed quickly. CCHA also argues that the carve out helps managed care companies by absolving them of the fiscal responsibility for the most expensive treatment for some of the most expensive beneficiaries. The Children's Specialty Care Coalition, another co-sponsor, states that research shows that although this type of care is expensive, it costs less through CCS than through other types of care systems simply due to the mistakes in care that often occur in systems that do not specialize in providing this type of care. Similarly, the California Nurses Association states that, "If children receive inappropriate care from uncertified providers or delayed referral to the specialty, multi-disciplinary care they need, the cost of caring for this population of vulnerable children will soar!"

To extend the carve-out until September 1, 2008 and address a technical issue with respect to the definition the Santa Barbara Health Authority the following language has been proposed by the interests involved:

Section 14094.3 of the Welfare and Institutions Code is amended to read:

14094.3. (a) Notwithstanding this article or Section 14093.05 or 14094.1, CCS covered services shall not be incorporated into any managed care contract entered into after August 1, 1994, pursuant to Article 2.7 (commencing with Section 14087.3), Article 2.8 (commencing with Section 14087.5), Article 2.9 (commencing with Section 14088), Article 2.91 (commencing with Section 14089) Article 2.95 (commencing with Section 14092); or either Article 2(commencing with Section 14200), or Article 7 (commencing with Section 14490) of Chapter 8, until ~~August 1 2005~~ September 1, 2008, except for contracts entered into for a county organized health system or Regional Health Authority in the Counties of San Mateo, Santa Barbara, Solano, Yolo, Marin and Napa.

COMMENTS:

Motion: Adopt the placeholder trailer bill language to extend the sunset and clarify the status of the Santa Barbara Health Authority. .

ITEM 4260 DEPARTMENT OF HEALTH SERVICES

ISSUE 42: CCS & GHPP

BACKGROUND:

In the May Revision the Governor withdrew the 10 percent provider rate reduction that he proposed in the Mid-Year Reduction. The five percent provider reduction enacted as part of the 2003-2004 budget has been enjoined by the courts. As a result of the court order restraining the implementation of the provider rate reduction the five percent reduction only applies to Medi-Cal Managed Care entities and providers in state only programs like CCS and GHPP.

The impact of the provider rate reduction is as follows in a table prepared by the Department of Health Services.

Provider 5% Payment Reduction						
	2003-04		**2004-05**		**Total**	
	GF	**Title XXI FFP**	**GF**	**Title XXI FFP**	**GF**	**Title XXI FFP**
CCS						
State Only	$ 236,000		$ 472,000		$ 708,000	
HFP	$ 55,000	$ 205,000	$ 110,000	$ 410,000	$ 165,000	$ 615,000
Total	**$ 291,000**	**$ 205,000**	**$ 582,000**	**$ 410,000**	**$ 873,000**	**$ 615,000**
CHDP						
State Only	**$ 403,000**		**$ 190,000**		**$ 593,000**	
GHPP						
State Only	**$ 1,156,000**		**$2,535,000**		**$3,691,000**	
Total	**$ 1,850,000**	**$ 205,000**	**$3,307,000**	**$ 410,000**	**$5,157,000**	**$ 615,000**
Fiscal Forecasting and Data Management Branch- May 19, 2004						

To repeal the rate reduction on CCS and GHPP providers effective January 1,2004 would increase expenditures by $5

COMMENTS:

Motion:

- **Amend the provider rate reduction and exclude state only CCS and GHPP providers from the reduction.**

ISSUE 43: NURSING HOME SPECIAL REVENUE FUND

BACKGROUND:

California United for Nursing Home Care is a coalition of all who care about quality nursing home care, including senior citizens, providers, employees, family members, community groups, religious leaders, elected officials and others. The principles of the coalition are:

- Establish a new Medi-Cal funding system that reimburses the costs necessary to improve the quality of life for nursing home residents.
- Ensure the accountability of nursing home operators for the care they provide by establishing cost centers and spending limits.
- Enhance staffing so that residents receive more care.
- Increase nursing home employees' pay and benefits to help recruit and retain a stable and experienced workforce.
- Upgrade facilities to better meet the needs of today's nursing home residents.
- Prevent nursing home operators with a poor record of providing care from getting additional licenses.
- Support availability of adequate, affordable professional liability insurance and appropriate compensation for residents who suffer harm.

The nursing home industry and the union are developing a proposal to fund the industry. The funding for the proposal would be a quality insurance fee levied on the non-Medicare gross revenues of each facility. The funds would be distributed to the nursing homes through a new reimbursement methodology that recognized the costs of each nursing home, including capital. The reimbursement method also would recognize the role and importance of labor in providing care in the long term care facilities.

COMMENTS:

Motion:

- **Establish a Special Fee Fund through placeholder TBL to receive the proceeds of a quality insurance fee imposed on the long- term care industry.**
- **Establish a 6 percent quality insurance fee on free standing skilled nursing facilities through placeholder TBL.**

ISSUE 44: QUARTERLY MEDI-CAL ELIGIBILITY FILE RECONCILIATION

BACKGROUND:

Quarterly Medi-Cal Eligibility File Reconciliation (Issue 76)—It is requested that Item 4260-001-0001 and Item 4260-001-0890 each be increased by $50,000 to reflect the addition of 1.0 position to monitor the quarterly Medi-Cal eligibility data file reconciliation process. This change is estimated to achieve 2004-05 savings of $18.0 million ($9.0 million General Fund).

COMMENTS:

Motion: Conform with Agenda Item 15

ITEM 4270 CALIFORNIA MEDICAL ASSISTANCE COMMISSION

ISSUE 1: SUPERVISING NEGOTIATOR

BACKGROUND:

The California Medical Assistance Commission is seeking restoration of a Supervising Hospital Negotiator position that was inappropriately swept up in the Section 4.10 position. The supervising hospital negotiator position has responsibilities in hospital Medi-Cal contract negotiations, internal office and project management duties and in establishment and maintenance of communications, both inside and outside the Commission.

COMMENTS:

Motion: Adopt the May Revision.

ITEM 4280 MANAGED RISK MEDICAL INSURANCE BOARD

ISSUE 1: HEALTHY FAMILIES CASELOAD ESTIMATE

BACKGROUND:

Year-end caseload is expected to reach 714,400 children, which is 18,000 less than the caseload projected in the 2004-05 Governor's Budget. This decrease is primarily due to an adjustment in the caseload attributed to the Child Health and Disability Prevention (CHDP) Gateway Program. The total caseload decrease will lower expenditures by $9,422,000 ($3,495,000 General Fund) in the current year.

In the Budget Year, the year-end children's caseload is expected to reach 774,100 children, which is 36,800 children more than the caseload projected in the Governor's Budget. This caseload increase is due to the rescission of the enrollment cap proposed in the Governor's Budget, as well as an adjustment in the expected caseload attributed to the CHDP Gateway Program. The May Revision also reflects a change in the capitation rate structure for infants up to two months old transitioning from the Access for Infants and Mothers (AIM) program to the HFP. Further, the May Revision rescinds the Block Grant for immigrants enrolled in the HFP and other social service programs, which was originally proposed in the Governor's Budget. Expenditures are expected to be $32,953,000 ($13,578,000 General Fund) above the Governor's Budget.

The May Revision proposes that Item 4280-101-0001 be increased by $12,636,000, Item 4280-102-0001 be increased by $942,000, Item 4280-101-0890 be increased by $20,426,000, Item 4280-102-0890 be increased by $157,000, Reimbursements be increased by $1,947,000, and Item 4280-104-0236 be reduced by $3,155,000. These adjustments represent changes in anticipated caseload and expenditure growth within the Healthy Families Program.

COMMENTS:

Motion: Rescind the previous motion rejecting the caseload cap and block grant.

Motion: Adopt the May Revision.

ITEM 4280 MANAGED RISK MEDICAL INSURANCE BOARD

ISSUE 2: HEALTHY FAMILIES PREMIUM INCREASE

BACKGROUND:

The Administration proposes to replace the Governor's Budget Two-Tiered Benefit Proposal with a Premium Increase Proposal. This new proposal would increase premiums for all HFP children with family incomes between 201 and 250 percent of the federal poverty level (FPL), effective July 1, 2005. Subscribers at all income levels would be offered the same benefits package, but subscribers above 200 percent of the FPL would be charged higher monthly premiums for HFP benefits. The monthly premiums would be increased from $9 per child and $27 for three or more children to $15 per child and $45 for three or more children. The premium increase would not cause families' total out-of-pocket costs (premiums and co-pays) tot exceed the 5 percent maximum allowed under federal regulations with the premium increase. The increased premium would represent 2.3 percent of families' total out-of-pocket costs. The May Revision continues to reflect administrative start-up costs of $750,000 ($263,000 General Fund) in the budget year. Statutory changes to implement the Premium Increase Proposal are attached.

COMMENTS:

Motion: Reject the May Revision

ISSUE 3: ACCESS FOR INFANTS & MOTHERS CASELOAD ESTIMATE

BACKGROUND:

The average monthly enrollment is expected to reach 12,970 women and infants, compared to 13,990 as originally estimated in the 2004-05 Governor's Budget, which represents a 7.3 percent decrease. Current year expenditures are expected to decrease by $5,367,000 ($284,000 General Fund, $4,555,000 Proposition 99, $528,000 federal funds), due to lower than anticipated enrollment of women and infants in the program.

In the Budget Year the average monthly enrollment is expected to reach 12,540 women and infants, compared to 14,140 as originally estimated in the Governor's Budget, which represents a decrease of 11.3 percent. This decrease is due to the elimination of outreach funding in the Budget Act of 2003. However, the May Revision also includes health plan average monthly capitation rate increases that range from 8 percent to 9.1 percent above current year rates. The net result of the enrollment decline and the capitation rate increase is an increase in budget year expenditures of $1,418,000 ($81,000 General Fund decrease, $1,649,000 Proposition 99 increase, $150,000 federal funds decrease).

The budget proposes to reduce Item 4280-101-0001 $81,000, Item 4280-101-0890 by $150,000, and Item 4280-111-0236 by $1,649,000, as a result of the caseload decrease and capitation rate increase for health plans that participate in the AIM program.

COMMENTS:

Motion: Adopt the May Revision.

ISSUE 4: COUNTY HEALTH INITIATIVE MATCHING FUND PROGRAM

BACKGROUND:

The County Health Initiative Matching Program, established by Chapter 648, Statutes of 2001 (AB 495, Diaz), allows county or local public agency funds to be used to match unused federal State Children's Health Insurance Program (S-CHIP) funds to provide health care for children with family incomes between 250 percent and 300 percent of the FPL and for parents with family incomes up to 200 percent of the FPL. Due to delays in federal approval for the CHIM program, matching S-CHIP funds have not yet been provided to counties and local agencies. Current year expenditures are expected to decrease by $149,377,000 ($52,282,000 CHIM Fund, $97,095,000 federal funds), due to the delay in federal approval. The counties that are part of the State Plan Amendment are Santa Clara, Alameda, San Mateo and San Francisco.

In the Budget Year it is anticipated that federal approval for the CHIM program will be received in the budget year. However, due to adjustments in local funding amounts, budget year CHIM expenditures are expected to decrease by $38,452,000 ($13,458,000 CHIM Fund, $24,994,000 federal funds).

The May Revision proposes Item 4280-103-3055 be decreased by $13,458,000 and Item 4280-103-0890 be decreased by $24,994,000 as a result of adjustments in the estimated funding that counties and local entities will provide for the CHIM program

COMMENTS:

Motion: Adopt the May Revision.

ITEM 4300 DEPARTMENT OF DEVELOPMENTAL SERVICES

ISSUE 1: DEVELOPMENTAL CENTERS ESTIMATE

BACKGROUND:

The May Revision proposes the following amendments to the Developmental Centers budget:

- A reduction of $2,474,000 ($1,183,000 General Fund) and 28.0 positions to reflect reduced staffing need due to a decline in the Developmental Centers population. In addition, a decrease of one position is requested to allow redirection of resources for community facilities staffing contracts for critical but hard-to-fill positions.
- A reduction of $476,000 General Fund and an equal increase in Reimbursements to reflect a Medi-Cal base funding adjustment.
- An increase of $38,000 in funding available from the Lottery Education Fund.
- An increase of $2,273,000 ($1,750,000 General Fund) to reflect the cost of the newly bid and awarded janitorial contracts.
- An increase of $750,000 in Reimbursements from Regional Centers for the Life Services Alternatives Project to assist consumers transitioned from Agnews Developmental Center.

COMMENTS:

Motion: Adopt the May Revision.

ITEM 4300 DEPARTMENT OF DEVELOPMENTAL SERVICES

ISSUE 2: EMPLOYEE COMPENSATION

BACKGROUND:

The May Revision proposes to increase the Developmental Centers budget for increased employee compensation costs that began in 2003-2004. The proposal requests that Item 4300-003-0001 be increased by $7,331,000 and amended by increasing Reimbursements by $5,581,000. Also, It requests that Item 4300-017-0001 be increased by $3,000 and amended by increasing Reimbursements by $3,000. This reflects the budget year impact of increased employee compensation costs beginning in 2003-04. The current year costs are included in SB 1842, the Omnibus Deficiency bill

COMMENTS:

Motion: Adopt the May Revision.

ISSUE 3: AGNEWS CLOSURE FACILITY PREPARATION

BACKGROUND:

The May Revision proposes to increase Item 4300-003-0001 by $11,049,000 and amended by increasing Reimbursements by $66,000. This reflects funding for facilities improvement at Sonoma Developmental Center and other costs to transition consumers from Agnews Developmental Center into new settings. Closure preparation is necessary in 2004-05 to ensure timely closure of Agnews by July 2006.

COMMENTS:

Motion: Adopt the May Revision.

ITEM 4300 DEPARTMENT OF DEVELOPMENTAL SERVICES

ISSUE 4: CONTRACTING OUT FOOD SERVICES

BACKGROUND:

The May Revision requests that Item 4300-003-0001 be increased by $910,000 and amended by increasing Reimbursements by $690,000. This restoration of funding and 459.3 positions reflects delayed implementation of the Governor's Budget proposal to contract out food services in the Developmental Centers. The restoration reflects no contracting out of food services in 2004-05.

COMMENTS:

Motion: Adopt the May Revision.

ISSUE 5: REAPPROPRIATION

BACKGROUND:

The May Revision proposes that Item 4300-495 be added with language to permit the reversion of $5.0 million General Fund for the Bay Area Project in 2003-04 due to the one-year delay in the closure of Agnews Developmental Center. The proposed language is attached. Budget year funding for the Bay Area Project is included in Issue 153 above.

4300-495—Reversion, Department of Developmental Services. As of June 30, 2004, the balances specified below of the appropriations provided in the following citations shall revert to the balance of the fund from which the appropriation was made:

0001—General Fund

(1) Item 4300-003-0001, Budget Act of 2002 (Ch. 379, Stats. 2002), as reappropriated in Item 4300-490, Budget Act of 2003 (Ch. 157, Stats. 2003). $5,000,000 in (1) 20-Developmental Centers Program.

COMMENTS:

Motion: Adopt the May Revision.

ITEM 4300 DEPARTMENT OF DEVELOPMENTAL SERVICES

ISSUE 6: REGIONAL CENTERS ESTIMNATE

BACKGROUND:

The May Revision proposes that Item 4300-101-0001 be increased by $12,641,000 and amended by increasing Reimbursements by $13,908,000. It is further proposed that Item 4300-101-0890 be increased by $696,000. These changes are comprised of the following adjustments:

- Regional Centers operations will increase by a net $1,007,000 total funds due to updated caseload, contract and legal costs, and increased information technology costs.

- Regional Centers purchase of services will increase by a net $26,238,000 total funds due to the following:

- $17.4 million increase based on updated expenditure data for base costs and decreased savings from the contracted-services rate freeze.

- $12.6 million increase for community placement plan and continuation costs based on the annual January regional center survey.

- $2.0 million decrease to reflect updated savings for Community Care Facilities and the Average-Cost-Increase/Service-Level freezes.

- $1.8 million decrease to reflect decreased need for Gap Resource Development.

COMMENTS:

Motion: Adopt the May Revision.

ITEM 4300 DEPARTMENT OF DEVELOPMENTAL SERVICES

ISSUE 7: DELAYED IMPLEMENTATION OF THE CALIFORNIA DEVELOPMENTAL DISABILITES INFORMATION SYSTEM (CADDIS)

BACKGROUND:

The May Revision proposes that Item 4300-101-0001 be increased by $5,091,000 to reflect the delayed implementation of the CADDIS. This increase is offset by a natural reversion of $5,091,000 unexpended funds appropriated for this purpose in fiscal year 2001-02.

The target date for implementation of CADDIS in all 21 RCs had been June 2004. Due to the delay, the Administration is requesting that $5.1 million in unexpended General Fund appropriated for this purpose in 2001-02, but that will revert on June 30, 2004, be appropriated to allow their expenditure in 2004-05. The Administration also has requested $1.1 million in General Fund for CADDIS for maintenance and support and $1 million in additional General Fund for increased Health and Human Services Data Center storage costs.

The Legislative Analyst Office notes that several of the administration’s proposals to increase federal funding for the RC program are contingent on implementation of CADDIS. However, the project is experiencing significant budget and schedule difficulties, which may be an indication of project and contract management problems. While the project is clearly needed, the LAO is concerned about the department's ability to successfully implement the new system.

For these reasons, the LAO recommends that the Legislature approve the May Revision proposal to continue funding for the CADDIS project, but also adopt Budget Bill language (1) directing the Department of Finance to conduct a review of the project and (2) requiring DDS to submit quarterly status and oversight reports on CADDIS.

Item: 4300-001-0001
Provision X. On or before September 1, 2004, the Department of Finance shall provide to the chairpersons of the budget committees in each house of the Legislature and the Chairperson of the Joint Legislative Budget Committee an oversight report on the Department of Developmental Services' California Developmental Disabilities Information System Project. The report shall include, but is not limited to, an overall project status report identifying the project's tasks that have been completed and those which are still outstanding, an assessment of the project's ability to meet critical deadlines, and actions the department must take to address project and contract management issues identified by the project's independent oversight consultant and the Department of Finance.

Provision X. Beginning July 1, 2004, the Department of Developmental Services shall provide, on a quarterly basis, to the Chairperson of the Joint Legislative Budget Committee copies of the monthly status and oversight reports submitted to the Department of Finance for the California Developmental Disabilities Information System Project.

COMMENTS:

Motion: Adopt the May Revision along with the Budget Bill Language included in the agenda.

ISSUE 8: ACCELERATED MEDICAID WAIVER ENROLLMENT

BACKGROUND:

The May Revision requests that Item 4300-101-0001 be increased by $2,784,000. This funding for Regional Centers operations will allow accelerated enrollment of consumers on the federal Home and Community-Based Services Waiver up to the increased federal cap.

COMMENTS:

Motion: Adopt the May Revision.

ITEM 4300 DEPARTMENT OF DEVELOPMENTAL SERVICES

ISSUE 9: REGIONAL CENTER STAFFING

BACKGROUND:

The May Revision proposes that Item 4300-101-0001 be increased by $6,674,000. This funding reflects the impact on Regional Centers operations of the following proposed purchase-of-services cost containment measures:

- $570,000 increase for Family Cost Participation Program implementation.
- $6,104,000 increase for Statewide Purchase-of-Services Standards implementation. Regional Centers implementation costs include additional clinical staff for clinical reviews, costs for the mailing of annual statements, and increased contract costs for additional mediations and fair hearings.

COMMENTS:

Motion: Adopt the May Revision.

ISSUE 10: HABILITATION SERVICES PROGRAM

BACKGROUND:

The May Revision proposes that Item 4300-101-0001 be decreased by $1,447,000. This net change reflects the following adjustments:

- $3.1 million decrease to reflect updated caseload data.
- $1.7 million increase for costs to temporarily place consumers into day programs, reflecting the fact that some habilitation groups will not convert their group size to reflect higher consumer-to-staff ratios by July 1, 2004 as required by statute.

COMMENTS:

Motion: Adopt May Revision.

ISSUE 11: AGNEWS DEVELOPMENTAL CENTER CLOSURE

BACKGROUND:

The closure of Agnews Developmental Center was announced in the 2003-2004 Fiscal Year budget. The closure was projected to be July 1, 2005.

The Department of Developmental Services announced in an early April letter that it was delaying the closure of Agnews until July 1, 2006.

The decision to postpone the closure was based on stakeholder input and the Department's analysis of the existing capacity of the Bay Area community to provide the range and type of services needed by 2005. The Department recognized that up to 100 Agnews residents would need to be transferred to the Lanterman Developmental Center, potentially putting their health and safety at risk and jeopardizing the continuity of family contact. The Department concurred with stakeholder recommendations that the following issues must be addressed prior to closure:

- The stability of the living arrangements must be assured;

- An appropriate array of service options designed to meet the special needs of Agnews' residents must be available;
- Systems must be in place to ensure continuity of services between the institution and the community; and
- On-going quality of care must be assured.

According to the Department, "To ensure the health, safety, and proper care of residents of Agnews as they transition to less restrictive, more integrated community placements, the State must ensure the essential building blocks are in place, including development of necessary housing, alternative models of service delivery, and appropriate quality issues."

The Department announced that it will shortly bring forth-specific budget and legislative proposals, as well as a timeline for moving forward.

COMMENTS:

Discussion only

ITEM 4300 DEPARTMENT OF DEVELOPMENTAL SERVICES

ISSUE 12: STATEWIDE PURCHASE OF SERVICES STANDARDS

BACKGROUND:

The Administration again has proposed the imposition of Statewide Purchase of Services standards for the 2004-2005 fiscal year. The budget projects savings of $100 million from a variety of measures, one of which is the imposition of Statewide Purchase of Services Standards. They were first proposed in the 2002-2003 fiscal year and again in the 2003-2004 fiscal year. The Legislature rejected the standards in both of the prior years.

The Department, in conjunction with Association of Regional Center Agencies, each year establishes the level of funding for each Regional Center. The budget attempts to address the changing budget and programmatic needs of the regional center system. However, a Regional Center's budget will largely reflect what it received last year plus a component to recognize the growth.

There is a wide variation in expenditures between Regional Centers. The Department has examined through statistical analysis the variation in expenditures. To a certain extent, variation in expenditures between Regional Centers should occur because the services provided to each client of the system should reflect the individual needs of the client. An additional source of variation is the amount of generic services (services provided by other public agencies) that are available in the various communities. Variation is the norm.

In February, the LAO withheld recommendation on the Administration’s January budget proposal to impose statewide purchase of service standards for the RC system. At that time the savings estimates related to each of the proposed regulatory changes, as well as many other important details, were not available. Absent this information, the Legislature did not have the information it needed to determine whether the Administration's proposal would achieve the level of savings that had been budgeted.

The Administration's May Revision budget proposal provides additional documentation of its proposal. According to the May Revision spending plan, $11.9 million in state General Fund savings would be achieved from its adoption in 2004-05. These state savings would increase to $23.9 million in 2005-06 and to $35.8 million in 2006-07. These savings would be partially offset by an increase of $6.1 million in General Fund costs to the RC operations budget to provide the RCs with the additional resources necessary to implement the new standards.

Given the state's fiscal difficulties and the rapid growth in RC purchase of services expenditures, the Legislative Analyst Office recommends approval of the Governor's budget proposal, but with one significant modification. The LAO is concerned that the Administration's proposed trailer bill language to implement this proposal is so broad as to give the department almost unlimited authority to establish limits on the scope, amount, duration, and location of services and supports purchased by RCs. The language, as proposed, does not allow for sufficient Legislative oversight over the implementation of purchase of services standards, and goes well beyond the authority needed for the specific changes in purchase of service standards now being proposed by the department to help contain program costs.

Accordingly, the LAO recommends that the Legislature modify the language of the bill to more narrowly authorize only the specific changes in purchase of services standards presented by the department. The LAO believes the department would still have all the authority it would need under our more narrow language to achieve the state savings contemplated in its May Revision budget plan.

PROPOSED TRAILER BILL LANGUAGE FOR PURCHASE OF SERVICE STANDARDS

SEC. 4. Section 4791 is added to the Welfare and Institutions Code, to read:

a) <u>To standardize the services, funding, and administrative practices of regional centers throughout the state, and to increase cost effectiveness and maintain budget growth within sustainable levels, the Director shall adopt regulations prescribing standards for regional centers and planning teams to use when determining the services and supports to be purchased by regional centers for consumers and their families.</u>

b) <u>Any subsequent amendment(s) to the initial regulations promulgated pursuant to this section shall be transmitted to the appropriate policy committees of the Legislature for review at least 30 days prior to adoption by the director.</u>

c) <u>Regulations promulgated pursuant to this section shall be deemed an emergency necessary for the immediate preservation of the public peace, health, and safety, or general welfare for purposes of subdivision (b) of Section 11346.1 of the Government Code.</u>

d) Regulations promulgated pursuant to this section shall include a process whereby the regional center may grant individual exceptions.

e) Regulations promulgated pursuant to this section shall apply at the time of development, scheduled review, or modification of a consumer's individual program plan developed pursuant to sections 4646 and 4646.5 of the Welfare and Institutions Code, or to an individualized family service plan pursuant to section 95020 of the Government Code, except for activities and items that are prohibited in those regulations, which shall apply the effective date of the regulations.

f) Regulations promulgated pursuant to this section shall require the regional center to take into account, when identifying the consumer's service needs, the family's responsibility for providing similar services to a child without disabilities.

g) Regulations promulgated pursuant to this section may:
   1) establish standards to ensure the uniform statewide provision of services and supports to consumers and consistency in the administrative practices of regional centers.
   2) prohibit the purchase of specified activities or items.

h) Regulations promulgated pursuant to this section shall not:
   1) endanger a consumer's health or safety.
   2) lead to a consumer's placement into a more restrictive living arrangement than the consumer's current living arrangement.

i) A consumer whose services or supports have been denied, modified, reduced or terminated pursuant to this section or the regulations promulgated pursuant to this section shall have a right to a fair hearing as described in Chapter 7, section 4700 et seq., and the regional center shall provide notice pursuant to Chapter 7, section 4700 et seq.

j) This section, and the regulations promulgated hereunder, shall become inoperative on July 1, 2007, and, as of January 1, 2008, is repealed, unless a later enacted statute, that becomes operative on or before January 1, 2008, deletes or extends the dates on which it becomes inoperative and is repealed. The department shall assess the affect of any regulations adopted pursuant to this section on regional center consumers and community program costs and present its findings at hearings of the appropriate Senate and Assembly budget subcommittees annually until 2007-08.

SEC. 5. Section 4434, subd. (d) of the Welfare and Institutions Code is amended to read:

d) As part of its responsibility to monitor regional centers, the department shall collect and review printed materials issued by the regional centers, including, but not limited to, ~~purchase of service policies and other~~ policies and guidelines utilized by regional centers when determining the services needs of a consumer, instructions and training materials for regional center staff, board meeting agendas and minutes, and general policy and notifications provided to all providers and consumers and families. ~~Within a~~ reasonable period of time, the department shall review new or ~~amended~~

~~purchase-of-service policies prior to implementation by the regional center to ensure compliance with statute and regulation.~~ The department shall take appropriate and necessary steps to prevent regional centers from utilizing a policy or guideline that violates any provision of Division 4.5 (commencing with Section 4500) or any regulation adopted thereunder.

COMMENTS:

Motion:
- **Adopt the LAO Statewide Purchase of Services Standards Draft Trailer Bill language and the associated General Fund Savings.**
- **Adopt May Revision resources to implement the POS Staandards**

ITEM 4300 DEPARTMENT OF DEVELOPMENTAL SERVICES

ISSUE 13: REGIONAL CENTERS COST CONTAINMENT – FINANCE LETTER

BACKGROUND:

The Finance Letter proposes to increase funding to the Department of Developmental Services by $900,000. The Finance Letter also provides $600,000 to support consultant and project contracts to implement cost containment measures proposed for regional centers.

The funding will be for nine staff positions that will implement four Regional Center cost containment measures proposed in the 2004-2005 budget request. The cost control strategies are: statewide purchase of service standards; family co-payment for certain regional center services; standardization of rates; and self-directed service expansion. The contract funds are for the development of: standardized rate system; technology enhancements to integrate the new rate system into the current computer system; and development of a Federal Independence Plus Waiver to ensure the expansion of the self-directed service model is cost neutral to the state.

To implement the statewide purchase of service standards two positions are requested. Development of the standards will involve researching and resolving complex policy and legal issues of the most sensitive nature. To meet the requirements of the Administrative Procedures Act, the standards will need to be: well-crafted; legally sound; acceptable to the community; and defensible.

The family co-payment for certain regional center services is proposed to be administered by the Regional Centers and thus does not need any new positions.

The Finance Letter proposes to add four positions for rate standardization. To accomplish rate reform a multi-year strategy is necessary to effectively review the existing methodology, identify drawbacks and inconsistencies, identify and develop alternatives, identify and develop statutory and regulatory changes, as necessary and implement and monitor the revised methodology. In addition to the four staff requested, the Department also will be utilizing consultants to conduct research and provide technical assistance and recommendations relative to identification and grouping high cost areas throughout the state, appropriate indicators for determining cost differences based on geographic areas and cost differences for each geographic area.

The Finance Letter would restore two limited term positions lost by the Department through the 4.10 cuts last fall. The Letter also would add one counsel to address statute changes, regulations oversight and other legal issues that will arise during the development and implementation of the cost containment strategy.

COMMENTS:

Motion: Approve the two positions related to the Statewide Purchase of Service Standards.

ITEM 4300 DEPARTMENT OF DEVELOPMENTAL SERVICES

ISSUE 14: REGIONAL CENTER VENDOR AUDITS – LAO ISSUE

BACKGROUND:

In the Analysis of the 2004-05 Budget Bill, the LAO recommended that the Department of Developmental Services (DDS) report at budget hearings on the feasibility of shifting the responsibility for field audits of Regional Center (RC) vendors from the RCs to DDS headquarters. The department was directed in budget hearings to develop such a proposal and to present that proposal at the time of the May Revision. The department did provide a written response to the Legislature's request which provides a significant amount of detailed information on how the department would implement such an approach. Specifically, the DDS indicates that it would increase headquarters staffing by 34 positions and $3.8 million total funds to accomplish such a change. Under their approach, funding for RC vendor audit functions in the RC operations budget would be reduced from $4.4 million total funds to $3.3 million. This approach would result in a net increase in total spending of $2.7 million.

Given the state's current fiscal situation, the LAO recommends a more modest approach to development of a state audit program for RC vendors that would result in little or no increase in state spending in the budget year. Under the LAO's approach, the DDS headquarters staff would increase by 23.5 positions and $2.3 million total spending, and funding for RC vendor audit functions in the RC operations budget would be reduced from $4.4 million total spending to $2.3 million. This would result in a net increase in total spending of about $275,000. The costs would probably be offset in their entirety in 2004-05 by increased audit recoveries. A much larger increase in state audit recoveries — potentially amounting to as much as $6 million annually — would be likely to result in 2005-06 and subsequent fiscal years.

Regional Center Vendor Audit Proposal Summary Page						
	DDS		**LAO**		**Difference (DDS less LAO)**	
	Number of Staff	Cost	# of Staff	Cost	# of Staff	Cost
Current Staffing (BY 2004-05)						
1. Regional Center						
Salary & Fringe (net of 5.5% Salary Savings)						
Fiscal Monitors	59	$3,490,000				
Support Staff	10	$268,000				
Subtotal	69	$3,758,000				
Operating Expenses (OE) and Rent		$598,000				
Total		$4,356,000				
Proposed Staffing - Dual Approach						
1. Regional Center						
Salary & Fringe (net of 5.5% Salary Savings)						
Fiscal Monitors and Support Staff	51	$2,806,000	36	$1,979,000		
Operating Expenses (OE) and Rent		$446,000		$315,000		
Total for Regional Center	**51**	**$3,252,000**	**36**	**$2,294,000**	**15**	**$958,000**
2. Department						
Salary & Fringe						
(net of 5.0% Salary Savings DDS - 25% LAO)	34	$2,503,000	23	$1,352,834		
Operating Expenses (OE) and Rent*		$1,059,000		$830,000		
		$3,562,000	23	$2,182,834		
Office of Administrative Appeals Contract		$87,000		$87,000		
Legal Assistance for DDS Auditors	1	$135,000	0.5	$68,000		
		$222,000		$155,000		
Total for Department	**35**	**$3,784,000**	**23.5**	**$2,337,834**	**11.5**	**$1,446,166**
Total for Dual Approach	**86**	**$7,036,000**	**59.5**	**$4,631,834**	**26.5**	**$2,404,166**
Cost Difference Between Current Vs. Dual Approach						
Total for Dual Approach	86	$7,036,000	59.5	$4,631,834		
Less Current Regional Center (BY 2004-05)	69	$4,356,000	69	$4,356,000		
Difference	17	$2,680,000	-9.5	$275,834		

COMMENTS:

Motion: Adopt the LAO proposal.

ITEM 4300 DEPARTMENT OF DEVELOPMENTAL SERVICES

ISSUE 15: OPERATIONS UNALLOCATED REDUCTION

BACKGROUND:

The Administration's budget proposes to reduce the Regional Center Operations budget by $6.5 million for the 2004-2005 budget year. The total reductions to Regional Center Operations for the 2004-2005 fiscal year will be $49.457 million (see table below) if the $6.5 million reduction is adopted.

2004-05 Fiscal Year	
Reduction to the core-staffing formula	$ 29,544,000
service coordinator case load ratios	
supervisor to service coordinator ratios	
secretary support ratios	
Note: full-year Impact	
Proposed reduction to Administration portion of	$ 6,458,000
core-staffing formula	
Unallocated reduction carry forward	
from 1991-92 fiscal year	$ 10,559,000
Total Reduction 2004-05 fiscal year	$ 46,561,000

Source: Association of Regional Center Agencies

The expenditures for Regional Center operations are projected to be $420.1 million in the budget year. Personal services expenditures at Regional Centers are projected to be $379.6 million, see the table below from the Department of Developmental Services. Of that amount $263.4 million is for direct services. The projected expenditures for administration personal services are $52.6 million. Operating expenses are projected to $63.5 million and the proposed reduction is ten percent of that.

OPERATIONS
Breakout of Staffing
by Direct Services and Administration
BY 2004-05

CORE STAFFING	**Total**		**Direct Services**	**Administration**
Personal Services:				
Salaries	$260,639,000		$216,820,000	$43,819,000
Positions	7,512.71		5,694.14	1,818.57
Fringe Benefits	61,771,000		51,386,000	10,385,000
Salary Savings	-10,687,000		-7,706,000	-2,981,000
Subtotal Personal Services	$311,723,000		$260,500,000	$51,223,000
Early Start/ Part C Admin/Clinical Support	694,000		347,000	347,000
Enhancing FFP, Phase II	3,623,000		2,564,000	1,059,000
Total Personal Services	**$316,040,000**		**$263,411,000**	**$52,629,000**
Operating Expenses:				
Operating Expenses	$30,115,000		$22,832,000	$7,283,000
Rent	33,411,000		25,225,000	8,186,000
Total Operating Expenses	$63,526,000		$48,057,000	$15,469,000
SUBTOTAL CORE STAFFING	**$379,566,000**		**$311,468,000**	**$68,098,000**
Cost Containment	**-$6,458,000**		**$0**	**-$6,458,000**
Community Placement Plan	**$9,826,000**		**$9,138,000**	**$688,000**
Intake and Assessment	**-4,465,000**		**-4,015,000**	**-450,000**
SUBTOTAL	**$378,469,000**		**$316,591,000**	**$61,878,000**

Percent Relationship		*100.0%*		*83.7%*	*16.3%*
Unallocated Reduction a/		**-10,559,000**		**-8,833,000**	**-1,726,000**
TOTAL STAFFING		**$367,910,000**		**$307,758,000**	**$60,152,000**
FUNDING:	**General Fund**	$233,126,000	63.4%	$195,011,000	$38,115,000
	General Fund Match	*119,056,000*	*32.4%*	*99,591,000*	*19,465,000*
	General Fund Other	*114,070,000*	*31.0%*	*95,420,000*	*18,650,000*
	Reimbursements	$124,566,000	33.9%	$105,725,000	$18,841,000
	Targeted Case Management	*101,989,000*	*27.7%*	*85,314,000*	*16,675,000*
	Medicaid Administration	*9,327,000*	*2.5%*	*9,327,000*	
	Medicaid Waiver Administration	*13,250,000*	*3.6%*	*11,084,000*	*2,166,000*
	Federal Funds	$10,218,000	2.8%	$8,547,000	$1,671,000
	Early Start	*10,218,000*	*2.8%*	*8,547,000*	*1,671,000*

a/ Distributed between Direct Services and Administration based on percent relationships in Staffing above.

Source: Department of Developmental Services

COMMENTS:

Motion: Approve as budgeted.

ISSUE 16: FAMILY CO-PAYMENT

BACKGROUND:

The Assembly adopted the Administrations language on the Family Co-Payment proposal. The Senate adopted different language.

COMMENTS:

Motion:

- **Rescind the previous approval of the Administration's co-payment trailer bill language.**
- **Adopt the language adopted by the Senate. Conform with the Senate**.

ITEM 5160 DEPARTMENT OF REHABILITATION

ISSUE 1: VOCATIONAL REHABILITATION PROGRAM BASELINE CASELOAD CHANGES

BACKGROUND:

The Vocational Rehabilitation Program provides employment skills training for both physically and mentally-disabled individuals. The May Revision projects an increase in caseload of approximately 2.3 percent, or 1,838 consumers. However, the Department of Rehabilitation also projects that this caseload increase would be offset by a decrease in the cost of services, for net savings of $5,455,000. The May Revision proposes that $4,021,000 of the savings be permanently redirected to personal services to offset Social Security Reimbursement funding as discussed below.

COMMENTS:

Motion: Adopt the May Revision.

ITEM 5160 DEPARTMENT OF REHABILITATION

ISSUE 2: SOCIAL SECURITY REIMBURSEMENT

BACKGROUND:

The 2004-05 Governor's Budget proposed total expenditures of $20.8 million from Social Security Reimbursements (SSR) received by the Department of Rehabilitation for assisting recipients of Social Security Disability Insurance (SSDI) and Social Security Income (SSI) to attain employment and discontinue SSI/SSDI payments. However, based on the Department of Rehabilitation revised estimate of SSR resources available, a reduction of $4,269,000 would be required to adjust expenditures to available resources. To address this problem, an April 1, 2004 Finance Letter was submitted to the Legislature proposing reductions of $4.3 million, including a reduction in personal services support of $2.8 million that was offset by redirection of other funds. However, these reductions only maintained SSR solvency through 2004-05, and the Department was directed to find a permanent solution for the structural deficit in the SSR for the next budget cycle.

The May Revision proposes that personal services funding of $4,021,000 SSR be reduced and the reduction offset by a redirection of the savings discussed in the issue above, which are budgeted in operating expenses and equipment. In the absence of the redirection, the reduction of SSR support in State operations would result in the layoff of 87.0 positions (75.6 VRP direct services staff). This, in turn, would result in a change in the Order-of-Selection, whereby only the most significantly-disabled clients would receive services, which would ultimately result in increased General Fund costs in the Habilitation Services Program (HSP) because of increased caseload.

COMMENTS:

Motion: Adopt the May Revision.

ITEM 5160 DEPARTMENT OF REHABILITATION

ISSUE 3: REAPPROPRIATION

BACKGROUND:

The Mid-Year Revision included the reversion of $7.5 million General Fund from the Budget Act of 2002 items. However, $6,436,000 of the $7.5 million had already been included in the 2003 Budget Act reversion item and had already been reverted. Upon passage of the Special Session reversion legislation, the State Controller reverted the $7.5 million General Fund, creating a shortfall in the Budget Act of 2002 items and leading to the inability of the DOR to pay anticipated claims and encumbrances. Since this occurrence, the DOR has revised its estimated 2002-03 projected outstanding claims for caseload expenditures, and has determined that the shortfall would be $1,736,000 General Fund.

The 2003-04 Governor's Budget for the Vocational Rehabilitation Program (VRP) and Habilitation Services Program reflect sufficient savings to offset the shortfall through a reappropriation. Given the revised need of $1,736,000 General Fund for projected outstanding claims, $736,000 General Fund would be reappropriated from current year VRP savings. The balance of $1.0 million would be reappropriated from current year savings in the HSP.

Item 5160-490

5160-490—Reappropriation, Department of Rehabilitation. $1,736,000 of the balance of the appropriations provided in the following citations is reappropriated to pay for expenditures from 2002-03, and shall be available for expenditure until June 30, 2005:
0001 – General Fund

1) Item 5160-001-0001, Budget Act of 2003 (Ch. 157, Stats. 2003), $736,000 from Schedule (1) 10 – Vocational Rehabilitation Services
2) Item 5160-101-0001, Budget Act of 2003 (Ch. 157, Stats. 2003), $1,000,000 from Schedule (1.5) 20 – Habilitation Services

COMMENTS:

Motion: May Revision.

ITEM 5160 DEPARTMENT OF REHABILITATION

ISSUE 4: CENTER FOR THE PARTIALLY SIGHTED

BACKGROUND:

An April 1, 2004 Finance Letter proposed the elimination of a contract with the Center for the Partially Sighted (CPS) due to reports of underutilization, and the conversion to a fee-for-service system for Vocational Rehabilitation Program consumers. Since then, the CPS has provided records that show a higher utilization rate than was previously estimated and the DOR has identified alternative funding to the SSR funds that were previously supporting this contract. Specifically, the DOR proposes:

Support for VRP consumer services provided through a traditional case services contract for approximately $254,000.

CPS will competitively bid for existing Title VII federal grant funding to address the remainder of its budget need. The CPS currently has two other Title VII grants and is familiar with the competitive application process. A Title VII grant would be sufficient to provide the $284,000 funding required to restore the CPS without reducing grants to other providers because of unexpended awards and increases in the grant.

COMMENTS:

Motion: Adopt the May Revision.