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

Assemblymember Hector De La Torre, Chair
MONDAY, MAY 2, 2005 4PM
STATE CAPITOL, ROOM 447

ITEMS TO BE HEARD

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ITEM 4140 OFFICE OF STATEWIDE HEALTH PLANNING AND DEVELOPMENT

ISSUE 1: IMPLEMETATION OF AB 1629

The Governor's 2005-06 Budget proposes an expenditure of $59,000 to the Office of Statewide Health Planning and Development (OSHPD) to acquire the resources necessary for the Office to collect the information needed by the Department of Health Services to implement AB 1629 (Frommer, Chapter 875, Statutes of 2004).

Since 1977, each licensed long-term care facility has been required to submit an annual financial disclosure report to the OSHPD. In 1986, the annual financial disclosure report was merged with the Medi-Cal Cost Report. The integrated report is collected by the Office and used by the Office as well as the Department of Health Services for data dissemination and rate-setting respectively. OSHPD's reporting requirements are specified in statute and regulation. Financial reporting requirements are guided by generally accepted accounting principles and industry practices. The California Health Policy and Data Advisory Commission and its sub-committee, the California Health Data and Policy Information Committee, must approve regulatory changes before they are released for public comment.

AB 1629 (Frommer), Chapter 875, Statutes of 2004, requires each skilled nursing facility, with some exceptions, to pay an annual quality assessment fee to the Department of Health Services, which will be used to enhance federal financial participation in the Medi-Cal program and to provide additional reimbursement and support for quality improvement efforts. The bill also requires the Department of Health Services to implement a facility specific rate-setting system by August 1, 2005. The Department of Health Services will be required to base the reimbursement rates on the Long-Term Care Facility Integrated Disclosure and Medi-Cal Cost Report that is collected by OSHPD, and to update each facility-specific rate annually.

The cost-based reimbursement rate methodology must include cost components such as: direct patient care; indirect labor costs; indirect non-labor costs; administrative costs; capital costs, and direct pass through of proportional Medi-Cal costs for specific items.

To collect all of the information needed by the Department of Health Services to implement this bill, the Office will need to modify the Long-Term Care Facility Integrated Disclosure and Medi-Cal Cost Report through the regulatory process. Additionally, the Office will need to modify its annual financial desk auditing system that is used to add, validate and disseminate submitted financial disclosures.

ITEM 4140 OFFICE OF STATEWIDE HEALTH PLANNING AND DEVELOPMENT

ISSUE 2: FUNDING FOR SONG BROWN PROGRAM

The 2005-2006 fiscal year Budget proposes to fund the Song-Brown Program with $4.1666 million, 50% from the General Fund and 50% from the California Health Data Planning Fund (CHDPF). The resources will fund the Song-Brown program and allow the Family Practice Residency Training, Residency Training Programs, Physician's Assistant and Family Nurse Practitioner Training Programs to continue to provide healthcare to California's low income and uninsured people. In addition, two positions would be continued to administer the training programs receiving Song-Brown program funds.

The Legislature eliminated funding for the program after June 30, 2005. Historically, the program had been funded by the General Fund. In the 2004 budget deliberations the Legislature provided all of the funding from the CHDPF for one year and required the Office to report on alternative sources of funding for the program. For the 2005-2006 budget OSHPD proposes to split the funding 50-50 between the General Fund and the CHDPF. The Office notes that continued reliance on the CHDPF will deplete the fund and adversely effect data projects and threaten the collection and dissemination of statutorily required health facility data.

The Song-Brown Family Physician Training Act has been an important policy instrument the State of California has used to increase the training of primary care health professionals. The Song-Brown Family Physician Training Act was adopted by the California Legislature in 1973. The law created a program with the goal of expanding the training of family practice residents and primary care physician assistants by providing needed funding. Later amendments added the authority to fund osteopathic family physician and family nurse practitioner programs.

The Song-Brown Act established a ten-member Healthcare Workforce Policy Commission. The Commission acts as the applications review panel and makes recommendations to the OSHPD for the award of contracts at public meetings held twice a year.

OSHPD administers this medical training contract program, providing support for the expansion of family practice residency programs, family nurse practitioner and primary care physician assistant training programs. The program's primary objective is to increase primary care services by encouraging graduates of these programs to practice in designated underserved areas of California. At present, 30 California family practice residency programs and 12 physician assistant/family nurse practitioner programs receive on-going support from the Family Physician Training Act.

The Song-Brown program provides support funding to family practice, family nurse practitioner and physician assistant training programs. Funding is not provided to

individual students that have been accepted into any of the training programs funded by Song-Brown. The goals of the Song-Brown Program are:

- Increase the number of family physicians as well as, primary care physicians assistants and family nurse practitioners to provide comprehensive primary care to the people of California;

- Improve the training of medical students and residents in family practice; and

- Improve access to primary care services in California's medically underserved areas.

Song-Brown funds do not replace existing resources, but are used to support primary care training programs. Family practice residency programs are funded in increments of $51,616 per capitation cycle. A capitation cycle represents the amount of funding Song-Brown program gives to support one family practice residency position for three years ($17,205 per year). The three-year funding cycle corresponds to the three yeas of residency training required for the family specialty. The funding level per capitation cycle was established when the Song-Brown Program was initially implemented. It covers only a portion of the annual cost of training a resident which has been estimated to exceed $150,000 per year.

Alternative Revenue Sources

Alternative 1

Assess fees on General Practice, General Internist, General Pediatricians, Obstetricians, Family Practice Physicians, Physician's Assistants and Nurse Practitioners.

Pros

A fee of 12% would be assessed against the professional licenses of each of the disciplines listed above. Such a fee would generate approximately $4.4 million dollars, sufficient revenue from the health professions that directly benefit from the Song-Brown program.

Cons

There would be strong opposition from the health professionals and their associations who are assessed a fee. The Legislature has previously determined that such a fee would be considered a tax increase.

Alternative 2

Fund Song-Brown with funding from public and/or non-profit foundations.

Pros

Funding the Song-Brown program from non-profit foundations would diminish the burden on the General Fund and the Data Fund.

Cons

Historically, philanthropic foundations only fund not-for-profit 501(c)3 organizations, and do not fund government entities. Those that do fund government-based programs, however, are only interested in supporting new and innovative projects. With a 30-year history of successfully improving access to medically underserved communities, the Song-Brown Program does not qualify as new and innovative. Such funding would not provide a reliable ongoing source of funding.

Alternative 3

Seek a statutory change to increase the rate of the annual hospital assessment fee cap from the 0.035% allowed under existing legislation to a level 0.040% and fund the Song-Brown program 100% from the data fund.

Pros

Raising the annual hospital assessment fee rate to 0.040% will increase the data fund by approximately $4.5 million. This amount would cover the required funding for the Song-Brown Program.

Cons

Currently hospitals are charged an annual assessment fee at the rate of 0.027% based on Health and Safety Code section 127280. The fee is determined by the Office by applying the rate to the gross operating cost of each facility. At a rate of 0.027%, the reserve of the CHDPF will be reduced to approximately $1.4 million due to the addition of The Song-Brown Program. In prior fiscal years the CHDPF reserve in place for economic uncertainties has been approximately $5.0 million.

The CHPDF is comprised of revenues generated by fees assessed on licensed health facilities. The revenues are to be used for health planning, data consolidation, and other health related programs that are required to be administered by the Office. The assessed fee of 0.035% was reduced to 0.027%, this change effectively reduces the reserve balance in the data fund thus providing only one-year of stable funding for Song-Brown and eliminating funding for data related projects. Diverting funds to the Song-Brown program threatens the maintenance and development of the statutorily required outcomes studies for the Healthcare Outcomes Center, Healthcare Information Resource Center, Healthcare Information Division and the California Health Policy and Data Advisory Commission (CHPDAC). The CHPDAC, Healthcare Information Division and the Centers all play a critical role in the production of hospital outcome reports and the collection and dissemination of health facility data and information. The data and information is used for critical health policy research for the State

The California Healthcare Association has expressed support for the Song-Brown program but stated that using the CHDPF in lieu of the General Fund to support the program would be an inappropriate use of the data fund.

Finally, this alternative would require a statutory change to increase the assessment fee cap to 0.040%.

Alternative 4

Fund the Song-Brown Program from the General Fund at 100% for fiscal year 2005-06 and thereafter.

Pros

The Song-Brown Program has been funded with General Fund dollars since the inception of the program in 1973.

Cons

This funding stream is vulnerable on a year-to-year basis due to fluctuations in the State budget.

Alternative 5

Fund the Song-Brown Program with 50% General Fund and 50% Data Fund.

Pros

This alternative reduces the General Fund Song-Brown program costs by 50% (approximately $2.05 million). The 50% funding from the CHDPF provides the remaining costs while still providing for the maintenance of statutorily required Healthcare Information Division projects such as Medical Information Reporting for California (MIRCal) and its Automated Licensing Information and Report Tracking System (ALIRTS).

Increasing the assessment fee to the most recent rate of 0.035% is consistent with the previous rate billed to licensed health facilities and will not create an additional burden.

Cons

This alternative would reduce reserve funds and could affect data projects currently under consideration. In order to fund planned projects and provide for the 50% funding portion for the Song-Brown Program, the existing assessment fee rate would be increased from 0.027% to 0.035%.

Diverting funds from the CHDPF to the Song-Brown program could diminish the development of statutorily required and needed improvements to existing data collection programs.

ITEM 4140 OFFICE OF STATEWIDE HEALTH PLANNING AND DEVELOPMENT

ISSUE 3: LOGBOOK REDESIGN PROJECT: - APRIL FINANCE LETTER

OSHPD is requesting an augmentation of its budget for the 2005-2006 fiscal year. The Office requests an appropriation increase of $223,000 for the procurement phase of the redesign of its health facility Logbook Database System which is used by the Facilities Development Division to track hospital construction in the State of California. The replacement Logbook Database System will integrate the Office's business needs and requirements and replaces the current system consisting of add-on modules and poorly integrated database tables.

Additionally, the Office is requesting the following language be added to Section 4140-001-0121of the Budget Bill:

- *Of the amount appropriated in this item, the $233,000 allocated for procurement activities of the Logbook Redesign Project shall not be expended until the Department of Finance approves a Feasibility Study Report submitted by the OSHPD for the project.*

OSHPD is responsible for performing the review of hospital and skilled nursing facility construction plans and monitoring the construction to ensure the safety of California's health facilities. The Logbook Database System is used by OPSHPD's Facilities Division to track health facility construction projects through plan review and construction. The Logbook System has additional modules to facilitate tracking health facilities compliance with Seismic Safety requirements, tracking inspector of Record Certificates and facilitating Emergency Operations in the event of a natural disaster. The current Logbook System is functional, but it does not meet the needs of the Facilities Development Division's business needs. The system does not provide for time-saving enhancements such as remote access for field staff, multiple user document review, and the ability to accept electronic files containing building specifications and plans. A variety of technologies are currently being utilized to navigate the existing database and have become cumbersome and increasingly difficult to manage.

OSHPD plays an important role for the Safety of California hospitals and skilled nursing facilities. OSHPD's role in the construction of healthcare facilities, including new buildings, additions, modifications, remodels, retrofits and demolitions is to:

- Develop California building codes and regulations to ensure health facilities are consistently built and structurally sound for health care recipients and providers;

- Approve construction plans and issue building permits pursuant to building codes and regulations;

- Monitor the construction of facilities pursuant to building codes and regulations;

- Review and approve seismic evaluations, compliance plans and structural and non-structural performance category ratings as mandated by SB 1953 (Seismic Safety legislation form 1994); and

- Inspect the structural soundness of facilities following an emergency, such as earthquakes or other natural and man-made disasters.

During the 2003-2004 fiscal year, OSHPD contracted with contractors to develop a Feasibility Study Report (FSR) to determine the best method to redesign the Logbook. A complete business needs assessment was included as part of the scope of work to be performed by the contractor prior to the development of the FSR. The total project costs are projected to be $11.2 million, including $7.6 million in one-time development costs, and $3.5 million in ongoing costs over the five-year project period beginning in the 2005-2006 Fiscal year.

The full OSHPD proposal is as follows:

1. $223,000 in fiscal year 2005-2006 to fund the procurement phase of the replacement Logbook System, including $148,000 in contractor services.

    - Independent Verification and Validation vendor to provide oversight of design, development and deployment of the technical system.

    - Specialized security consultant to assist the OSHPH Information Security Officer with development and oversight of Office security policies and standards related to integration of the preferred solution technologies.

2. $2.7 million (one-time and ongoing funding) and one permanent, full time position in the 2006-2007 fiscal year for help desk support and $3.5 million (one-time and ongoing funding) and one permanent in the 2007-2008 fiscal year to finalize the design and development of the replacement system to be requested in the 2006-2007 and 2007-2008 Budget Change Proposal (BCP) budget processes.

3. $0.8 million in the 2008-2009 fiscal year and $0.7 million in the 2009-2010 fiscal year and future years for implementation and ongoing operation and maintenance of the replacement Logbook system.

All costs will be financed from the Hospital Building Fund (HBF), a special revenue fund. Fees charged to health facilities for plan review and construction observation support the HBF. Currently, the rate for Skilled Nursing Facilities is 1.5 percent of estimated construction costs and hospitals currently are charged a rate of 1.64 percent of estimated construction costs. The proposed system will not result in a fee increase to the HBF.

Approval of the request will enable OSHPD to proceed with the procurement phase of the project to write the requirements and conduct the procurement to contract with the vendors in the 2006-2007 fiscal year to design and implement a system that will:

- Improve plan review productivity
- Improve confidence in management tools and data
- Reduce costs for storing project files
- Improve emergency response capabilities
- Replace obsolete and failing technology
- Improve information sharing with the Hospital Seismic Retrofit Program.

Table 1: Business Problems Traced to Business Objectives

PROBLEM/OBJECTIVES	Improve Plan Review Productivity	Improve Field Staff Satisfaction & Productivity	Improve Customer Satisfaction	Improve confidence in management tools & data	Reduce costs for storing plans/files	Improve Emergency Response	Replace obsolete/failing technology	Generate More Revenue	Improve Information Sharing for SB 1953
Plan Review Productivity Needs Improvement									
Large volume of paper documents must be manually identified, tracked and stored.	x	x			x				
Increased plan review and approval timelines due to hand delivery of hardcopy project files for review and routing.	x								
Collaborative reviews and sharing of information (internally and externally) not possible.	x		x						
Reviewer comments often logged on plans rather than in Logbook, resulting in comments being lost once plans mailed back to facility.	x		x						
Retrieval of documentation from archives subject to delays if must be retrieved from SRC.	x	x	x						
No ability to record plan review comments throughout the entire plan review process, which may include several back-check reviews. Currently, the original plan review sets are submitted along with revised drawings which become cumbersome and confusing for large, complicated projects.	x		x	x			x		
FDD staff must personally retrieve or deliver paper documents throughout the workflow.	x								
Multiple staff cannot review documents simultaneously causing review cycle to be prolonged.	x								
Documents may become misplaced or lost during manual workflow processing - causing delays in review cycle.	x								
Staff document comments directly on plans and/or attach copies of their comments to the plans. This limits ability to retain copies of comments for further reviews of clients' plans and slows review process.	x		x						
Field Needs Not Supported									
Field Staff require external access and standardization of inputs to Logbook.		x		x					

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Limitations of current remote access cause Field Staff to have fewer available hours to monitor construction projects, respond to facility needs, and ensure compliance with approved plans and building codes.		x	x						
Non-standardized data inputs make queries for themes, trends, anomalies within and across projects difficult				x			x		
Because of slow or unreliable remote access, handwritten reports submitted by field staff for entry into Logbook leading to dual entry of information and errors.		x							
Limitations of handheld wireless devices for viewing I-Logbook webpages or receiving attachments due to small size of devices.		x							
Wide range of acceptance of technology by staff		x							
Project documents can not be accessed remotely forcing field staff to rely on the completeness and accuracy of facility provided information.		x				x			
Low Customer Satisfaction									
Facilities using automated tools print plans for submission to FDD.			x		x				
Large volume of paper documents are returned to facilities during review process.	x				x				
Because there is usually only 1 copy of hardcopy documents, lost documents must be requested from sender (added cost to clients and lost review time).	x		x						
Online information provided to clients via I-Logbook is difficult to understand because it uses codes and terminology not familiar to clients.			x						
I-Logbook functionality not easy for clients to understand or navigate.			x						
Insufficient information provided to facilities regarding SB 1953 compliance status and ratings.									
Difficult Management of Statewide Efforts									

PROBLEM/OBJECTIVES	Improve Plan Review Productivity	Improve Field Staff Satisfaction & Productivity	Improve Customer Satisfaction	Improve confidence in management tools & data	Reduce costs for storing plans/files	Improve Emergency Response	Replace obsolete/failing technology	Generate More Revenue	Improve Information Sharing for SB 1953
Lack of reliable information in Logbook impact effective management of departmental and personal workload and project activities.	x	x		x					
FDD staff view reporting from Logbook as difficult and cumbersome resulting in reports not being used or require electronic or manual exports for data manipulation and restructuring of reports.				x			x		
Lack of confidence in accuracy of reports due to poor controls on data entry, improperly constructed queries because of lack of understanding of database structure or inability to define requirements.				x					
FDD staff unable to quickly and accurately estimate existing and projected workload.	x	x		x					
Assistance of business analysts needed to generate reports due to complicated table structure and inadequate query capabilities.				x			x		
Primarily manual processes for defining project backlogs and staffing needs because of shortcomings of what is currently tracked in Logbook and how data is entered.				x					
Inaccuracies in time-reporting due to manually prepared timesheets, lack of integration of I-Timesheet with logbook, and lack of time code or project code verification.				x					
Construction review process for Testing, Inspection, and Observation forms not fully supported.	x	x							
Multiple or specialized IORs can not be assigned to a project.	x			x					
Projects requiring additional reviews (e.g. multiple years) cannot be flagged.	x			x					
Managers do not receive information needed to make decisions in a timely manner because of difficulties with generating adhoc reports and lack of confidence in data.				x					
Increasing Costs for Project File Storage									
Space limitations at the State Records Center and in FDD offices for archiving.					x				

PROBLEM/OBJECTIVES	Improve Plan Review Productivity	Improve Field Staff Satisfaction & Productivity	Improve Customer Satisfaction	Improve confidence in management tools & data	Reduce costs for storing plans/files	Improve Emergency Response	Replace obsolete/failing technology	Generate More Revenue	Improve Information Sharing for SB 1953
Emergency Response Deficiencies									
During emergency, field staff inspecting facility for structural soundness don't have immediate access to plans (retrieve from archive) - Risk to life increased.						x			
Information needed from ALIRTS system during emergency responses is not available in Logbook. Information is looked up manually -- redundancy, inaccuracies, slows decision making process.						x			
Manual sharing of information with OES						x			
Longer inspection times due to staff unfamiliarity with facility location and layout						x			
Technical Obsolescence									
Logbook design makes keeping current with operating system upgrades difficult, require additional maintenance activities to correct problems.							x		
Outdated and unsupported third party software and utilities used throughout the system put the system at risk of failure.							x		
Outdated design makes it difficult to run and maintain existing OSHPD security infrastructure, requiring additional maintenance activities to provide user access to system.							x		
The absence of a back to front audit trail and logging process leaves the system vulnerable to security threats.							x		
Required security patches are often incompatible with outdated components of the system resulting in system downtime and increased maintenance efforts.							x		
Table structure reduces staff ability to quickly query and report from the database and requires Information Services Section (ISS) to program new reports.				x			x		

PROBLEM/OBJECTIVES	Improve Plan Review Productivity	Improve Field Staff Satisfaction & Productivity	Improve Customer Satisfaction	Improve confidence in management tools & data	Reduce costs for storing plans/files	Improve Emergency Response	Replace obsolete/failing technology	Generate More Revenue	Improve Information Sharing for SB 1953
Reports generally reflect inaccurate or incomplete data, leading to lack of confidence in data in the system, growth of separate databases used by managers and staff to track project status, workarounds, etc.				x			x		
Modifications to accommodate new building codes, standard practices, and regulations is time consuming, cumbersome, and regularly requires programming changes.							x		
Need to Generate More Revenue									
Audit trails and controls are lacking in accounting module.								x	
Inconsistent project definitions between SB1953 and "normal" projects - building identifiers vs. facility.								x	
SB1953 Review time not billed.								x	
FREER, a special type of review, is not easily entered into Logbook and results in delay in plan approval and entry into system for invoicing.	x							x	
Pre-approvals, clinic reviews, and special exams are billed manually.								x	
Time-consuming searches through hardcopy files often needed for project closure processes (size of project files).								x	
SB 1953 Module Integration									
No automatic notification of project closure status									x
No automatic notification of building construction start dates									x
Lack of access to SB 1953 compliance status and reports for Plan Review and Field Staff									x
Inconsistent identification schemes for buildings and facilities.									x

ITEM 4260 DEPARTMENT OF HEALTH SERVICES

ISSUE 1: MEDICAL MARIJUANA IDENTIFICATION CARD PROGRAM – APRIL FINANCE LETTER

The Department of Health Services proposes to increase funding for the Medical Marijuana Identification Card Program by $489,000 from the Medical Marijuana Program Fund for the production of identification cards, distribution of identification cards to counties and maintain a Web-base card verification system.

In the 2004-2005 fiscal year budget process, funding was appropriated through a loan from the Health Statistics Special Fund to provide expenditure and position authority to the Department of Health Services to implement the Medical Marijuana Identification Card Program. It was expected that the funding was needed for the first 18 months of operation until fees collected from card programs uses began to flow into the state to offset program costs and repay the loan.

As the Program moved toward implementation, it became apparent that the program would not be implemented in December 2004 as originally anticipated and that the projected expenditures were insufficient to implement and operate the program. The Finance Letter requests the additional expenditure authority and is based on new revenue and expenditure projections.

Initial revenue projections were based on pilot testing in select counties beginning mid-December 2004 and full implementation in all counties by mid-April 2005. Due to programmatic delays, it is now anticipated that eight pilot counties will be implemented in July 2005 and the remaining counties will be implemented in October 2005. Due to delays the Department projects that 98,000 cards will be issued in the 2005-2006 Fiscal year instead of 150,000.

The pilot testing of the program will occur from May 25 to July 31, 2005. The following counties wil participate in the pilot program: Amador, Del Norte, Marin, Mendocino, Shasta and Trinity, Sonoma is scheduled to join the pilot testing on July 1, 2005.

The program requires that medical marijuana can only be provided to qualified patients and caregivers. Qualified patients include patients with: AIDS, anorexia, arthritis, cancer, glaucoma, migraine, seizures; and persistent muscle spasms that limits the person's ability to conduct one or more major life activities as defined in the Americans with Disabilities Act of 1990. By implementing the program seriously ill, qualified patients will be provided assistance in using and obtaining marijuana for medical use and will acquire some protection against criminal liability.

In November 2004, the United States Supreme Court began to review the legality of prosecuting chronically ill people who grow and use marijuana with a doctor's

prescription. The case in point involves claims by Proposition 215 (from 1996) patients that federal marijuana laws against marijuana should not apply to their personal possession and cultivation of marijuana for medical purposes under California law. It is anticipated that the Supreme Court will announce its decision by June 2005. The future of the Program may be affected in a significant way by the decision of the Supreme Court. The Department, however, does not expect the Supreme Court decision to have a bearing on whether California will cease to operate a Medical Marijuana Program.

ISSUE 2: PROPOSITION 50 WORKLOAD - SAFE DRINKING WATER PROJECTS – APRIL FINANCE LETTER

The Department requests the program appropriation be increased by $761,000 and seven staff be added to carry out the requirements of the Water, Security, Clean Drinking Water, Coastal and Beach Protection Act of 2002, referred to as Proposition 50. The voters approved the $3.44 billon initiative and the Department has responsibility for carrying out drinking water quality projects. The Department estimates the number of projects for which it could be responsible numbers in the thousands. The Finance Letter projected a staffing level need that was lower than what was required. This Finance Letter would add seven additional positions to the existing 13.5 positions. All seven positions would be two-year limited term and are funded by Proposition 50 revenues.

The Department is mandated to carry out a variety of tasks:

- Improving water quality;
- Supporting demonstration and pilot technologies to reduce/remove newly identified water quality contaminants;
- Reviewing projects to ensure they conform with the California Environmental Quality Act (CEQA) requirements;
- Providing assistance to the state's 2,000 disadvantaged communities with water systems;
- Processing grant applications and reviewing technical reports for funding projects;
- Monitoring progress with deadlines such as construction reviews of projects;
- Reducing reliance on Colorado River water to less than 4.4 million acre feet per year; and
- Tracking loans and grants to be in conformance with the Treasurer's Office and Internal Revenue Service requirements relating to arbitrage.

Chapter 3, Section 79520, of Proposition 50 provides $50 million for protecting state, local and regional drinking water systems a from terrorist attack, deliberate acts of destruction or degradation. Security enhancements could include monitoring and early warning systems, such as fencing, protective structures, contamination treatment facilities, emergency interconnection, communications systems and other projects designed to prevent damage to water treatment, distribution and supply facilities.

Chapter 4, Section 79530(a), of Proposition 50 provides $435 million to the Department. Approximately $100 million is provided as ongoing funding to provide a 20% state match to access annual federal capitalization grants of approximately $85 million annually for six years. The grants and state match are used to provide low-interest loans to Public Water Systems for infrastructure improvements. Of the remaining funds, $261 million in grants is directed to southern California water agencies to reduce their reliance on water from the Colorado River. The $70 million in grants remaining is divided into five general categories to meet new federal rules and to improve water quality: drinking water sources; treatment facilities for contaminant reduction/removal; monitoring facilities; transmission and distribution infrastructure.

The Division of Drinking Water and Environmental Management requested Public Water Systems to submit pre-applications for Proposition 50 funding by December 1, 2004. The water districts submitted 920 pre-applications for funding and have been received. The Proposition 50 program has six engineering staff to review and rank the pre-applications. The Department states that the level of staffing is inadequate to review and rank the pre-applications. Moreover, when the full applications with all of the technical detail are submitted by the Public Water Systems, lengthy details will continue because of the low numbers of engineering and environmental science staff. Also the lack of staff for CEQA reviews will also delay the Proposition 50 program implementation. With the seven positions the Department believes that the Proposition 50 funding would be committed in six to ten years.

In addition, the Metropolitan Water District of Southern California and other Public Water Systems have requested the Department approve Proposition 50 projects even though the projects have not gone through any review process. The reviews are necessary to ensure that public funds are used consistent with Proposition 50. The Public Water Systems argue that the Proposition 50 funds are to benefit the public and delays affect their ability to meet water quality standards and fail to reduce reliance on Colorado River water. Insufficient program resources to carry out the review of pre-applications, CEQA documentation and applications will result in the Department being unable to implement Proposition 50 in a reasonable time frame.

ITEM 4260 DEPARTMENT OF HEALTH SERVICES

ISSUE 3: SAFE DRINKING WATER CAPACITY DEVELOPMENT AUGMENTATION - APRIL FINANCE LETTER

The Finance Letter requests contract authority of $400,000 to support three contract positions for the Capacity Development Program within the Safe Drinking Water State Revolving Fund. The funds are to assist small water systems to meet technical, managerial, and financial requirements necessary to become eligible for loans to correct water quality deficiencies. The staff would be contract staff for technical assistance to carry out capacity development requirements. The funding for the staff would be from the Water System Reliability Act.

The Capacity Development Program is funded from an annual Assistance Agreement with the United States Environmental Protection Agency and is a set-aside of the Safe Drinking Water State Revolving Fund. The contract authority will provide essential support and technical assistance to small water systems to assist them in meeting the technical, managerial, and financial (TMF) requirements necessary to become eligible for loans to correct water quality deficiencies. To qualify for the Department of Health Services low-interest loans the water systems must meet TMF requirements. Small water districts have insufficient resources to meet federal and state drinking water standards. The contract positions will work with the Small Water Districts to achieve the critical TMF requirements.

ISSUE 4: HOME MEDICAL DEVICE RETAILER FACILITIES - APRIL FINANCE LETTER

The Department proposes the establishment of 9 permanent full-time Senior Food and Drug Investigator positions to conduct statutorily mandated licensing inspections and two permanent full-time Supervising Food and Drug Investigator to administer the Home Medical Devise Retailer Facility program. Also, the Department requests an increase in appropriation authority of $1.167 million from the Drug and Device Safety Fund, which currently collects $2.5 million annually in Drug, Medical Device and Home Medical Device retailer facilities licensing fees and fines.

The Food and Drug Branch mission is to protect the public health by ensuring the safety of foods, drugs, and medical devices. The mission is accomplished through licensing and inspection of these regulated industries. Home Medical Device Retailer facilities sell medical equipment and medical oxygen for homebound patients that require life supporting equipment and supplies.

The program is funded through a special fund that receives licensing fees from three program areas with the Food and Drug Branch. The programs are Drug Safety, Medical Device Safety, and Home Medical Device Retailers. State statute require all new drug and medical device manufacturers be inspected before the Department of Health Services issues a license, and thereafter, every two years for license renewals.

The staffing level for the program was established before it was known how many retailers there would be. There are 2000 Home Medical Devise Retailers in the state. An investigator can accomplish 150 inspections per year and the program, at current staffing levels, can handle 450 licensees per year with the current staff.

The Food and Drug Branch has a backlog of over 200 new license applicants and it is prohibiting facilities from starting operations. Only 20% of the state mandated Home and Medical Device Retailer facility inspections can be conducted at the current staffing levels. The retailers include medical oxygen and medical equipment. California established a licensing and inspection program for those previously unregulated retailers in 2001. As many as 2,000 Home Medical Devise Retailer facilities must be inspected annually and licensed.

According to the Department it will be able to accomplish the following with the addition of the eleven new staff:

- Ensuring appropriate periodic inspections of Home Medical Devise Retailers;
- Eliminating the extensive delay in new Home Medical Device Retailer facilities being licenses;
- Increase Home Medical Device Retailer facilities to remote locations in providing life-saving and life-supporting medical equipment and medical oxygen statewide to all California residents; and
- Providing full implementation of the Food and Drug Branch's regulatory oversight of Home Medical Device Retailer facilities sales.

ITEM 4260 DEPARTMENT OF HEALTH SERVICES

ISSUE 5: CLINICAL LABORATORY IMPROVEMENT FUND WORKLOAD BACKLOG – APRIL FINANCE LETTER

The augmentation of the Department's budget would restore funding for eight existing position in the Laboratory Field Services Section. In the 2003-2004 fiscal year, funding for the positions was eliminated in order to maintain solvency of the Clinical Laboratory Improvement Fund. The positions, however, were not eliminated. The staff would permit the Department of Health Services to carry out recently enacted new responsibilities in the areas of phlebotomy certification, genetic scientist licensure, Medi-Cal contracting support medical laboratory technician licensure.

Laboratory Field Services (LFS) is responsible for a fee-supported licensure and inspection program of the state's clinical laboratories and licensure of laboratory personnel. The Laboratory Field Services has received an increased workload of 3,000 plus more and 120 clinical laboratories applications for phlebotomy certification than had been projected, 200 genetic scientist licensure awaiting inspection for licensure. LFS expects 1,500 medical laboratory technicians' applications the first year when the program is initiated in 2005. LFS also supports the Medi-Cal contracting of laboratory services and has an additional workload of 2,900 plus applications for licensure or registration of facilities seeking a Medi-Cal approval.

Expenditure authority of the Clinical Laboratory Improvement Fund was reduced in 2003-2004 to be commensurate with historical expenditures. The reduction was necessary until revenue collection issues were resolved. There was not a concomitant reduction in position authority. Revenue in the fund are increasing because new programs have been added as well as increases in the number of laboratories that have applied for licensure and registration. Consequently, the Department is requesting to fill its vacant positions to address the workload of laboratory and personnel applications. LFS currently has 56 authorized positions and of those, 45 positions are filled. The additional expenditure authority will permit the Department to fill the eight vacancies.

ITEM 4260 DEPARTMENT OF HEALTH SERVICES - MEDI-CAL

ISSUE 1: LONG TERM CARE INTEGRATION – APRIL FINANCE LETTER

The Department proposes to increase the funding for the Long Term Care Integration Program. The augmentation would be used to extend the term of three positions expiring June 30, 2005 by one additional year. Extending the term of the expiring positions by one year will allow the state to continue implementing Long Term Care Integration pilot programs. The Administration is developing outcome measures to use in determining if the positions should be extended past June 29, 2006.

The Office of Long Term Care in the Department of health services operates three programs. The Long Term Care Integration Program is one of them. The Long Term Care Integration Program includes a grant program and technical assistance that provides support and grant funding to local organizing groups. Awards to the local organizing groups for Long Term Care Integration is an annual competitive process through a request for application selection process.

The staff of the Long Term Care Integration program manages the request for application and contract development processes. The staff is also responsible for managing the grant awards and monitor state contracts while providing technical assistance for multi-county collaboration on data analysis and integrated system development issues. The state staff also is responsible for assisting staff from local projects and provide ongoing state support that will eventually result in implementation of an integrated system.

The Long Term Care Integration Project will integrate Medi-Cal and Medicare services and financing. The goal is to improve access, coverage and overall health status and outcomes using a comprehensive acute and long-term care, managed care delivery system. It is expected that Long Term Care Integration will foster integrated delivery, while at the same time, accomplishing improved overall health outcomes and efficiencies not present in the fee-for-service delivery system. At least 14 other states including Arizona, Minnesota, and Wisconsin have implemented or are in the process of implementation integrated funding and services of acute and Long Term Care Programs. In 2002, an independent study of the program in Texas estimated savings from the program as $123 million for the period of March 1999, through August 2002, a 17 percent reduction in state expenditures.

ITEM 4260 DEPARTMENT OF HEALTH SERVICES – MEDI-CAL

ISSUE 2: PROVIDER ENROLLMENT AUTOMATION AND WORKLOAD – APRIL FINANCE LETTER

The Department requests an increase in appropriation for the Medi-Cal Program for the 2005-2006 Fiscal year. The request would increase General Fund expenditures by $414,000 and Federal Funds by $1.240 million to address the growing backlog in Medi-Cal provider enrollment. The funds would be used for 13 three-year limited-term positions and the development and implementation of an automated provider enrollment system ($500,000). Prior to the expenditure of the funds for the information technology project, Department must receive approval of a feasibility study report.

The $500,000 for outside consulting includes the cost for the integration contractor, hardware, and software. The Department of Health Services will work closely with its Project Office to develop the Feasibility Study Report (FSR). The Department anticipates having the FSR completed 30 days after budget adoption. DHS estimates that the solution can be implemented in 120 days after FSR approval.

The Legislative Analyst Office believes that the proposed new internet application to streamline the provider enrollment process would significantly reduce the number of errors currently found in provider applications, thereby reducing the time the Department spends processing applications. However, notes the LAO, the internet application is only the "front end" of the automated system that the Department of Health Services hopes to install eventually, and a vendor hired by DHS is currently performing a business process review to evaluate the needs for a comprehensive automated system. In order to ensure that the front-end portion of the system currently proposed will work efficiently with the "back end" portion of the system that DHS indicates it will submit for approval in a future budget year, the Legislative Analyst Office recommends that the Legislature add budget bill language to that proposed by the department.

In early 2002, the Bureau of State Audits conducted an audit of the Provider Enrollment Branch (PEB) procedures and practices. The audit revealed inadequacies that required corrections, especially in the areas of identifying appropriate staffing levels and appropriate use of staff sufficient to meet statute and regulation. PEB was advised to discontinue and/or reconsider the use of borrowed contractor staff and students for these activities. The workload performed by contracted/student staff had to be absorbed by state staff, which significantly added to the growing inventory of workload. With the release of loaned contractor staff and student assistants, PEB lost fourteen (14) Full Time Equivalent positions, which were critical to maintaining production levels.

As of July 2004, the application inventory was approximately 10,173; in January 2005, the application inventory had increased to approximately 10,566. Although, PEB

experienced significant staffing losses during this period, new staff were hired, received training and PEB is currently meeting all mandated enrollment timeframes. As of March 31, 2005, PEB processed 25,060 applications, denied 1,997, and reduced the inventory to approximately 9,786 applications. The Legislative Analyst Office notes the Legislature should deny the 13 limited-term positions that are proposed to address the applications backlog. The LAO states that DHS should be able to reduce its application backlog significantly through combination of streamlining its current application review procedures and redirecting staff within the Provider Enrollment Branch (see the accompanying flow chart prepared by the Department of Health Services. The LAO suggests that for the Department only subject a much smaller percentage, 25 percent, of applications to secondary review. The percentage of applications could be based on statistical modeling that the Audits and Investigations is currently applying to some of its work. The LAO also notes a means to reduce personnel requirements for processing provider applications may be identified by the vendor currently conducting the business process review, which the Department of Health Services anticipates will be completed in June 2005.

The Administration proposes the following amendment to the 2005-2006 Budget Bill:
Item 4260-001-0001

6. Of the funds appropriated for new information technology projects, including but not limited to the provider enrollment automation project, no funds may be expended prior to approval of feasibility study reports by the Director of Finance.

The following language, proposed by the Legislative Analyst Office, would be amended at the end of the language proposed by the Department.

Prior to the expenditure of funds appropriated in this item for the provider enrollment automation project, the department shall obtain approval from the Department of Finance for a feasibility study report covering the complete provider enrollment automated system that the department intends to implement.

ITEM 4260 DEPARTMENT OF HEALTH SERVICES – MEDI-CAL

ISSUE 3: ADULT DAY HEALTH CARE STATE PLAN AMENDMENT – APRIL FINANCE LETTER

The Department of Health Services is requesting an increase in expenditure authority of $48,000, $24,000 General Fund to administer the submission of the Adult Day Health Care State Plan Amendment. The funds would support one two-year limited-term position to facilitate the submission of the State Plan Amendment to the Centers for Medicare and Medicaid Services of the federal government. The ostensible purpose of the position would provide the resources necessary to ensure the State Plan Amendment conforms to federal requirements and that the savings in the Budget are realized.

ISSUE 4: FEDERAL PARTICIPATION FOR ADULT DAY TREATMENT AND TRANSPORTATION – APRIL FINANCE LETTER

The Department requests the appropriation be increased by $145,000, $72,000 General Fund, to restructure the Intermediate Care Facilities for the Developmental Disabled program under a State Plan Amendment to allow the state to receive additional federal funds anticipated to be in the range of $30.0 million to $50.0 million. The funds would support two positions to be established in September 2005.

The Finance Letter requests the augmentation of two positions to accommodate and maintain the initial workload associated with restructuring the current Intermediate Facilities for the Developmentally Disabled (ICF/DD) reimbursement rate under a State Plan Amendment to include adult day treatment programs and the associated non-medical transportation in the facilities per diem rate. Inclusion of these community services in the ICF/DD's rate, if approved by Centers for Medicare and Medicaid Services will allow the state to receive Federal Financial Participation for these services, which are currently paid with 100 percent State General Fund dollars. The Department anticipates the need for additional staffing and for contract dollars in the 2006-2007 fiscal year to implement the changes.

Under the current California State Plan, ICF/DD services are provided by Medi-Cal eligible California residents who are certified by the Regional Center as being developmentally disabled and who are unable to reside otherwise in the community. ICF/DD services are provided in facilities, which are licensed and certified as Medi-Cal providers by the Department of Health Services Licensing and Certification. The two types of ICF/DD facilities relevant to the are ICF/DD-N (Nursing) and ICF/DD-H (Habilitative) facilities. These are small (4-15 bed), facilities that specialize in consumers with skilled nursing needs (ICF/DD-N) and those consumers who do not

have a skilled nursing need (ICF/DD-N). Regional Centers are responsible for the development of a consumer's IPP in which these community services are specified. Oversight of the IPP and its ongoing implementation and update is done by the Regional Centers. The Department of Developmental Services represents the Department of Health Services via an interagency agreement. Medi-Cal receives Federal Funds Participation at an approximate 50 percent ratio for the cost of providing ICF/DD services to the Medi-Cal recipients.

ISSUE 5: MEDI-CAL FOR NATIVE AMERICANS – APRIL FINANCE LETTER

The Department is requesting an increase in Medi-Cal funding to support nine positions to facilitate the collection of federal funds on the behalf of Native American tribal organizations for allowable Medi-Cal Targeted Case Management services and Medi-Cal Administrative Activities.

The amendment allows Native American tribes, tribal organizations, and tribal subgroups within the definition of a Local Governmental Agency to contract for administrative and case management activities. SB 308 (Figueroa), Chapter 253, Statutes of 2003, modified the Welfare and Institutions Code to include Native American Tribes, tribal organizations, and tribal subgroups as participants in either or both of the Targeted Case Management and Medi-Cal Administrative Activities programs. SB 308 potentially empowers over 200 such groups to contract with the Department of Health Services.

The Department requests five additional permanent, full-time positions established July 1, 2005 to support the additional workload required by SB 308 (Figueroa). In addition, the Department of Health services requests four additional permanent, full time positions be established, if workload required, on June 30, 2006.

ITEM 4260 DEPARTMENT OF HEALTH SERVICES – MEDI-CAL

ISSUE 6: PROPOSITION 63 IMPLEMENTATION – APRIL FINANCE LETTER

The Administration is requesting an increase in the appropriation for the Department of Health Services to carry its responsibilities under Proposition 63, the Mental Health Services Act. The requested appropriation increase is $105,000 Total Funds, $52,000 Proposition 63 Funds. The Administration also requests one three-year limited term position to review policy issues related to the provision of mental health services, develop regulations, resolve claiming and billing issues and participate in the renewal of the Special Mental Health Waiver. The position would facilitate the relationship with the Department of Mental Health to maximize federal funds relating to the provision of mental health services.

The Administration requests the following Budget Bill Language be added to Item 4260-001-3085.

4260-001-3085---For Support of Department of Health Services,
for payment, to Item 4260-001-0001, payable from the Mental Health Services Fund

1. *Funds appropriated in this item are in lieu of the amounts that are otherwise would have been appropriated for administration pursuant to Section 5892(d) of the Welfare and Institutions Code.*

ITEM 5160 DEPARTMENT OF REHABILITATION

ISSUE 1: PROPOSITION 63 IMPLEMETATION – APRIL FINANCE LETTER

The Administration is requesting an increase in the appropriation for the Department of Rehabilitation to carry its responsibilities under Proposition 63, the Mental Health Services Act. The requested appropriation increase is $195,000 Total Funds from Proposition 63 Funds. The Administration also requests two two-year limited term positions to expand mental health cooperative programs. The positions would facilitate the building on existing collaborative efforts with the Department of Mental Health to provide employment and independent living services to individuals with severe mental illness.

The Administration requests the following Budget Bill Language be added to Item 4260-001-3085.

5160-001-3085---For Support of Department of Rehabilitation,
for payment, to Item 5160-001-0001, payable from the Mental Health Services Fund
2. Funds appropriated in this item are in lieu of the amounts that are otherwise would have been appropriated for administration pursuant to Section 5892(d) of the Welfare and Institutions Code.