

**AGENDA
SUBCOMMITTEE No. 1
ON HEALTH AND HUMAN SERVICES**

ASSEMBLYMEMBER PATTY BERG, CHAIR

**WEDNESDAY, MAY 9, 2007
STATE CAPITOL, ROOM 444
1:30 P.M.**

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CONSENT CALENDAR

4300 DEPARTMENT OF DEVELOPMENTAL SERVICES

ISSUE 1: CHANGES TO CAPITAL OUTLAY REQUESTS (SPRING LETTER)

BACKGROUND

The Subcommittee is in receipt of a Finance Letter requesting a reduction of \$191,000 (General Fund) to reflect updated estimates of the cost for preliminary plans and working drawings for: (1) the Fairview Developmental Center, including installation of personal alarms (used to protect employees and residents) and installation of air conditioning at the school and activity center on the campus; and (2) the Porterville Developmental Center, including the installation of personal alarms.

**ISSUE 2: TECHNICAL CORRECTION TO THE GOVERNOR'S BUDGET – FUND SHIFT
(SPRING LETTER)****BACKGROUND**

The Subcommittee is in receipt of a Finance Letter requesting a fund shift to correct a technical error within the Developmental Centers budget (Item 4300-003-0001). Specifically, the General Fund amount needs to be decreased by \$5 million and the Reimbursements need to be increased by \$5 million. These Reimbursements are received from the Department of Health Services through the Medi-Cal Program, and as such, reflect the availability of some federal funds.

This technical adjustment is necessary because the funding split for salary increases within the Developmental Centers item was incorrectly calculated in the Governor's budget released on January 10, 2007.

5160 DEPARTMENT OF REHABILITATION

ISSUE 1: MENTAL HEALTH SERVICES ACT POSITIONS (BCP)

BACKGROUND

The budget proposes \$203,000 in Mental Health Services Act (MHSA) funds and two limited-term positions for the Department of Rehabilitation (DOR) to assist in the implementation of provisions of the MHSA that relate to assisting persons with severe psychiatric disabilities to obtain employment and independent living skills. The 2005-06 Budget Act provided MHSA funding and two 2-year limited-term positions to DOR; the 2007-08 proposed budget continues that funding and positions for another two years.

The DOR has third party cooperative agreements with 25 county mental health agencies and four state hospitals that provide a wide array of individualized vocational services specifically targeted to the needs of mental health consumers. In 2005-06 and 2006-07, the percentage of DOR consumers statewide who had mental health disabilities increased as a result of the MHSA. In addition, the percentage of mental health consumers served by Independent Living Centers (ILCs) has also increased with the implementation of MHSA. It is expected that as more counties' MHSA plans are approved and programs are funded, there will be further increases in referrals to the DOR/mental health cooperative programs and ILCs.

In the past two years, the MHSA staff in DOR have served as liaisons for training, technical assistance, and support for local collaborative efforts to identify opportunities for new or expanded cooperative programs and services with county mental health and education agencies. In the next two years, the requested positions will continue to support local efforts to identify opportunities for new cooperative programs and provide technical assistance for future expansions of existing cooperative programs; begin monitoring and reviewing new cooperative programs to ensure they meet state and federal requirements; and continue to act as a liaison between ILCs and the county mental health agencies.

The following data has been provided by the department and is projected from December of 06/07 (half of the current year) compared to last year's totals:

- Applications for all mental health consumers have increased by two percent (232 applications).
- Increased plans for the mental health population have increased by four percent (311 plans).

The following data was reported by the department for the first year and one half of implementation of the MHSA funds and positions:

- The department has received 21 new MHPA Program Proposals and 10 requests to augment existing programs to include MHPA funding as match.
- To date, the department has funded 13 of these programs. MOUs have been developed with eight counties.
- Technical Assistance Visits have been made to all counties and 186 topic specific training has been provided statewide.

Other DOR Data:

- For the Mental Health Cooperative Programs, employment outcomes are up five percent over the same time last year. Total successful employment outcomes for last year was 1,089.
- For all DOR mental health consumers, 2025 have reached successful employment outcomes, this too is an increase of nearly 800 individuals over the previous year.

5175 DEPARTMENT OF CHILD SUPPORT SERVICES

ISSUE 1: CALIFORNIA CHILD SUPPORT AUTOMATION SYSTEM (CCSAS)**BACKGROUND**

The Department of Child Support Services (DCSS) has submitted an April Finance Letter requesting \$40 million (\$12.7 million General Fund) in adjustments to align the California Child Support Automation System (CCSAS) budget with recently approved CCSAS project changes. The funding for these adjustments is proposed to be provided through the reappropriation of unexpended funds from 2004-05, 2005-06, and 2006-07. In addition, DCSS proposes to use reappropriated funding for any unanticipated system needs necessary for certification. This Finance Letter corresponds to a Control Section 11 letter submitted to the Joint Legislative Budget Committee on March 30, 2007.

VOTE-ONLY ITEMS

5175 DEPARTMENT OF CHILD SUPPORT SERVICES

ISSUE 1: RECOVERY OF NON-SUFFICIENT FUNDS (NSF)

BACKGROUND

The Department of Child Support Services (DCSS) has submitted an April Finance Letter requesting position authority for seven permanent positions and three 1-year limited-term positions for the research, analysis, and processing of Non-Sufficient Funds (NSF) returned items. The DCSS proposes to redirect \$872,000 (\$296,000 General Fund) in savings from existing contracts to fund the positions and administrative funds currently provided to Local Child Support Agencies (LCSAs).

Historically, a certain percentage of child support payments are drawn on accounts with non-sufficient funds. Prior to the implementation of the State Distribution Unit (SDU), each LCSA was responsible for collecting their respective NSF items. With the implementation of CCSAS, child support payments are received and processed at the SDU and distributed to families within two days. This creates a loss to the state if a payment is returned by a bank. Annual projected NSF are estimated at about 9,000 cases totaling \$5.7 million, with a projected recovery of \$3.3 million based on the current recovery percentage of 57.6 percent. Processing efficiencies, both manually and through the system, are being made, which may increase this collection percentage.

The DCSS is currently redirecting 10 positions from the Full Collection Program to cover this workload. The requested new positions will allow the existing 10 positions to resume their collections activities while conducting the manual activities necessary to recover NSF items and maintain the current level of recovered funds. There is no expected increase in the percentage of NSF being recovered as a result of this request.

ISSUE 2: STATE DISTRIBUTION UNIT (SDU) BANK EXCEPTIONS**BACKGROUND**

The Department of Child Support Services (DCSS) has submitted an April Finance Letter requesting position authority for two permanent positions and one 1-year limited-term position to perform increased accounting activities for analyzing and processing bank exceptions. The DCSS proposes to redirect \$288,000 (\$98,000 General Fund) in savings from existing contracts to fund the positions.

Exceptions to normal bank processing occur due to a variety of situations. Banking exceptions include checks that are negotiated for an amount other than the legal amount on the check, duplicate items, stale-dated items, payment stopped items, closed account items, and others. Each banking exception requires individual analysis and processing by accounting staff in order to ensure that the proper corrective action is taken. Prior to the State Distribution Unit (SDU), banking exceptions were resolved by each Local Child Support Agency. With the implementation of CCSAS, the SDU has assumed responsibility for resolving banking exceptions.

The DCSS has temporarily redirected other accounting staff to work on banking exceptions. However, the workload has been increasing and cannot continue to be absorbed without sacrificing other core accounting activities.

ISSUE 3: INFORMATION SECURITY OFFICE**BACKGROUND**

The Department of Child Support Services (DCSS) has submitted an April Finance Letter requesting position authority for six permanent positions to expand the Information Security Program. The DCSS proposes to redirect \$677,000 (\$230,000 General Fund) in savings from existing contracts to fund the positions.

There are ongoing activities specifically identified in the Federal Certification Questionnaire Review that are in need of further development in DCSS in order to satisfy federal certification requirements. These include risk management, disaster recovery, system monitoring, vulnerability assessments, and oversight of system security. According to DCSS, preliminary feedback from the Federal Certification team indicates that they have approved the organizational structure in place to manage statewide security and privacy; however, the team expressed concern regarding the adequacy of existing and proposed DCSS staffing to support the organizational structure and security activities required for certification. The DCSS indicates that the requested positions are those that are urgently needed for certification.

The DCSS currently has seven positions assigned to the Information Security Office. The six requested positions would develop and implement a Statewide Risk Management Program, replace two contract positions currently managing the DCSS' disaster recovery efforts, perform ongoing monitoring of the access and use of CCSAS systems and support systems, and perform security review, assessment, and verification activities related to CCSAS.

ISSUE 4: CENTRALIZED FINANCIAL WORKER**BACKGROUND**

The Department of Child Support Services (DCSS) has submitted an April Finance Letter requesting position authority for three 2-year limited-term positions to manage, maintain, and resolve suspended collections to financial data. The DCSS proposes to redirect \$250,000 (\$85,000 General Fund) in savings from existing contracts to fund the positions.

Suspended collections are those payments that the automated system is unable to identify a participant or a case. The State Distribution Unit (SDU) processes more than a million payments each month. Most can be identified as a particular case or individual and processed and distributed to the appropriate party. However, there are some for which the system is unable to make this decision and manual intervention is needed.

In the 2006-07 Budget Act, the DCSS was provided 10 positions to work on suspended collections. The actual suspended collections workload is larger than originally anticipated, however. Suspended collections are expected to continue to grow although it is not known by how much. Existing Full Collections program staff are currently being redirected to ensure that all suspended collections are processed in a timely manner to eliminate any negative impact on custodial parents, but that redirection has resulted in an estimated loss of collections of approximately \$4.3 million (\$555,000 General Fund) in the current year.

5180 DEPARTMENT OF SOCIAL SERVICES

ISSUE 1: HUMAN RESOURCES STAFFING (BCP)

BACKGROUND

The budget requests \$1.1 million (\$457,000 General Fund) and nine positions for the Department of Social Services' (DSS') human resources office to support workforce management, payroll and benefits, and consultation to supervisors and managers. Included in the total is \$395,000 in ongoing workforce development funding.

The DSS has identified a number of deficiencies in their human resources office including the following:

- Employee Payroll Services – During the past year, Employee Payroll Services has had a staff turnover rate of 50 percent which as led to a roster size of over 400 employees per Personnel Transaction Specialist. A recent study conducted by Cooperative Personnel Services finds that the normal roster size for a Personnel Transaction Specialist in departments of comparable size range from 200:1 to 240:1. The high roster size has led to payroll errors, leave discrepancies, errors on separation transactions, illegal appointments, a negative internal control review from the Department of Finance, and CalPERS violations. This request would provide eight new positions and bring the roster size to 230:1.
- Management Consultation and Employee Discipline – There is insufficient staff to provide consultation to supervisors and managers regarding preventative and progressive measures in addressing disciplinary issues, drafting and serving employee actions, and ensuring compliance with civil service laws, rules, and regulations. Over the past year, there has been a significant increase in adverse actions, consultations, and Family Medical Leave and catastrophic leave requests. As new managers and supervisors enter DSS, consultation with human resources personnel in these areas becomes crucial to prevent critical and costly errors and to support and retain supervisors. One position is requested to assist with this workload.
- Staff Development – An analysis conducted by DSS of their workforce data indicates a serious staff replacement and development problem at all levels of the Department. In the next five years, DSS estimates it will have to replace 62 percent of its workforce, approximately 2,200 employees. Currently, 42 percent of staff and 69.5 percent of managers and supervisors are 50 years of age or older. This request would provide \$395,000 to cover ongoing annual training costs for managers, analysts, and attorneys.

ITEMS TO BE HEARD

4260 DEPARTMENT OF HEALTH CARE SERVICES

ISSUE 1: NURSING HOME RATES—TRAILER BILL LANGUAGE

The Governor's Budget includes a savings of \$28.8 million (\$14.4 million General Fund) in 2007-08 from proposed Trailer Bill legislation to modify the requirements of AB 1629 (Frommer) of 2004, which established a facility-specific rate setting system for health facilities providing long-term care services (nursing homes). The budget proposes the following three key changes affecting the provisions of AB 1629:

1. A reduction in the maximum annual rate increase or "growth cap" to 4.5 percent, instead of the present 5.5 percent for the 2007-08 rate year, beginning August 1, 2007. This change results in the savings. The administration contends this change is necessary due to recent federal law changes regarding "Quality Assurance Fees", as well as an overall need to reduce General Fund expenditures.
2. Extension of the sunset date for the AB 1629 nursing home rate methodology and the Quality Assurance (QA) fee by one year, from July 31, 2008 to July 31, 2009. The language also includes licensing and certification fees under the cap for the QA fee and clarifies that the total fee cannot exceed the amount allowed under federal law.
3. For the 2008-09 rate year, the maximum annual increase in the weighted average Medi-Cal rate for nursing homes would be adjusted based on a consumer price index (the administration indicates that it will revise this to refer to a medical consumer price index).

Nursing Home Rate-Setting under AB 1629

This legislation created a "facility-specific" Medi-Cal reimbursement methodology for nursing homes, and authorized a provider QA fee to assist in providing a Medi-Cal rate increase. The key components of this nursing home rate methodology are as follows:

1. Establishes a baseline reimbursement rate (weighted average rate) and state maintenance of effort level (methodology in effect as of July, 2004 plus certain specified adjustments). The facility-specific rate and QA fee rate increases are built upon this baseline.
2. Establishes a "facility-specific" Medi-Cal reimbursement methodology for nursing homes. Payment is based upon each facility's projected costs for five major cost categories: (1) labor costs; (2) indirect care non-labor costs; (3) administrative

costs; (4) capital costs—“fair rental value system”; and (5) direct pass-through costs (proportional share of actual costs, adjusted by audit findings).

3. Imposes a QA fee on all nursing homes (about 1,200 facilities). The QA fee is levied on a daily per-bed basis and is set at six percent of statewide average daily nursing home revenues per bed (excluding Medicare revenues). The QA fee is deposited in the state treasury and is used (along with federal matching funds) to fund the specified rate increases, as well is used to offset some General Fund expenditures (amounts vary each year for the rate increase and General Fund savings levels).
4. Limits growth in the overall Medi-Cal reimbursement rate for nursing homes through the use of spending caps. These spending “caps” were included to limit the otherwise inflationary effect of the facility-specific reimbursement system—if rates automatically and fully covered each facility's costs, then there would be no incentive for facilities to control their costs. The spending “caps” imposed by AB 1629 are:
 - a. 2005-06: eight percent (of the weighted average rate for 2004-05).
 - b. 2006-07: five percent.
 - c. 2007-08: 5.5 percent (Budget proposes reduction to 4.5 percent).

Upcoming Federal Reduction in Allowable QA Fees

Within specified limits, federal Medicaid law allows states to collect fees from providers to use as the non-federal share for certain Medicaid (Medi-Cal in California) expenditures. California is one of about 20 states using this provider fee financing mechanism. California presently uses a QA fee to help finance Medi-Cal nursing home rates under the AB 1629 nursing home rate methodology, as well as within the Medi-Cal Managed Care Program.

Effective January 2008, federal law reduces the existing six percent cap for these provider fees to 5.5 percent. According to the DHCS, this change will not affect the state's General Fund in 2007-08 because of payment lags since Medi-Cal is budgeted on a cash basis.

Potential Impact on QA Fee Needs Clarification. The state's six percent fee cap currently excludes licensing and certification fees paid by nursing homes. However, the federal QA fee cap includes those expenditures. The proposed Trailer Bill Language makes this change. Thus, the reduction in the QA fee cap will be the combination of the reduction from six percent to 5.5 percent plus the reduction needed to include licensing and certification fees within the cap. However, there also is room to increase the amount of QA fees consistent with federal law. This is because the current revenue

base used to calculate the QA fee *excludes* Medicare revenues, while the federal limit is calculated *including* Medicare revenues.

Bureau of State Audits Report

In a February 2007 audit, the Bureau raised the following main concerns regarding the DHCS administration of the AB 1629 process:

- DHCS has not adequately documented the methodology underlying the reimbursement rate system.
- DHCS, through the fiscal intermediary claims billing system, inadvertently authorized duplicate payments of \$3 million for some facilities. The DHCS needs to formalize a rate change process that documents the reason for a rate change and provides a notification of the rate change to the fiscal intermediary (Electronic Data Systems).
- DHCS has not yet been able to collect all of the QA fees owed to the state.

Generally, the DHCS concurred with the audit findings and in the process of making changes.

Background—Illustration of Benefits of the AB 1629 Rate Mechanism

Based on information provided by the department for the current year, the AB 1629 rate mechanism had the following fiscal effects, compared with the rates that would have been provided under the previous rate methodology and without QA fees:

• QA fee revenue (millions)	\$245
○ Less portion retained by General Fund (state savings)	<u>-62</u>
• Remainder of QA fee revenue	\$183
• Plus federal match	<u>183</u>
• Total increased Medi-Cal payments to nursing homes	\$366
○ Less QA fee payments	<u>-245</u>
• Net benefit to nursing homes statewide	\$121

As shown in the illustration above, nursing homes receive a net benefit of \$121 million (equivalent to a 3.8 percent rate increase) and the state saves \$62 million. Increased federal match of \$183 million is the source of these funds.

Concerns with Governor's Proposal. Representatives of the long-term care industry, labor organizations and others have expressed concern with the administration's proposal—particularly with the proposed reduction to the cap in the increase to the reimbursement rate. These groups contend that this reduction undermines the agreement and understanding that was the basis for the QA Fee and the new rate methodology and that was intended to provide additional money to improve the quality of care in nursing homes.

STAFF COMMENTS

The Department of Health Care Services should address the following issues:

1. How would the existing "AB 1629" nursing home reimbursement rates change under the budget proposal in 2007-08?
2. How would nursing home rates be set in 2008-09 if the AB 1629 methodology were to sunset at the end of 2007-08, as specified in current law? How would those rates compare with the rates under the administration's proposal?
3. What will be the effect in 2008-09 of the federal reduction in the QA fee cap and the inclusion of licensing and certification fees in the cap?
4. What would be the effect of including Medicare revenues in the QA fee base? Does federal law require this or merely permit it?
5. Why does the administration want to extend the sunset date for only one-year (from June 30, 2008 to June 30, 2009)?
6. Has the department responded to the BSA audit and what actions will the department take to remedy deficiencies?

ISSUE 2: COUNTY PERFORMANCE STANDARDS--TRAILER BILL LANGUAGE

The administration is proposing trailer bill language to increase the change its a performance standard used to measure Medi-Cal eligibility processing by counties to 95 percent from the current 90 percent accuracy level.

Staffing Request. In addition, the department is requesting an increase of \$195,000 (\$97,000 General Fund) to support two Associate Medi-Cal Eligibility Analysts to maintain oversight of this county performance measure system.

Existing County Performance Standards for Medi-Cal

Federal Medicaid law requires states to use a governmental entity to make eligibility determinations. In California, county social services departments are responsible for administering Medi-Cal eligibility and for interpreting state guidance on policies and procedures. Counties determine eligibility for Medi-Cal under a set of complex rules that require staff to collect and verify a variety of information.

In 2003, the Legislature enacted comprehensive "county performance standards." Under these standards, counties must meet specified criteria regarding completing Medi-Cal Program eligibility determinations, re-determinations, and other eligibility transactions within specific timeframes. The standard was set at meeting these timeframes 90 percent of the time.

If a county does not meet any of these performance standards, it must agree to, and carry out, a corrective action plan. Ultimately, the department may sanction a county by reducing its administrative funding by up to two percent. Timely performance of eligibility determinations and re-determinations reduces Medi-Cal costs by removing non-eligible people from the Medi-Cal rolls. However, it also provides more rapid enrollment for qualifying applicants.

Medi-Cal Eligibility Processing is Complex

Each county is responsible for implementing state and federal Medi-Cal eligibility rules and for interpreting state guidance on policies and procedures. Counties determine eligibility for Medi-Cal under a set of complex rules that require staff to collect and verify a variety of information. DHS provides counties with a 900-plus page state *Medi-Cal Eligibility Procedures Manual* that is updated on a constant basis through state issued "All County Letters". There are more than 150 "aid codes" (categories of eligibility), and dozens of state Medi-Cal related forms.

Counties are provided with an annual allocation from the state to conduct Medi-Cal eligibility processing activities (federal law requires that a governmental entity complete all Medicaid applications and California has employed counties for this purpose). Both because of the size of the population on Medi-Cal and the complexity of the eligibility rules, the cost of county administration is substantial. The budget proposes

expenditures of about \$1.4 billion (\$662.5 million General Fund) for county administration of Medi-Cal in 2007-08.

Federal Deficit Reduction Act (DRA) Adds Complexity. Among other things, the DRA placed significant made changes to the Medicaid Program (Medi-Cal) that require citizenship and identity documentation, asset eligibility, and disabled Supplemental Security Income (SSI). These requirements have placed additional administrative requirements on counties for Medi-Cal eligibility processing.

The DRA requires that any person who declares to be a citizen or national of the U.S. must now provide documentation of both citizenship and identity (for example, a birth certificate and a driver's license). People applying for Medi-Cal must provide that documentation (usually in the form of original documents) before full scope Medi-Cal can be approved. If this documentation is not provided, Medi-Cal is limited to emergency and pregnancy-related services. Enrollees that are now receiving Medi-Cal services who enrolled prior to the DRA changes must provide documentation at their next redetermination in order to receive full-scope continuing Medi-Cal services. This citizenship documentation requirement will affect over four million individuals, or about 62 percent, enrolled in Medi-Cal.

With respect to asset eligibility, the DRA requires individuals who are requesting long-term care services or waiver services will have to undergo an additional asset eligibility determination for payment of those services. Although these individuals may be eligible for all other covered services, they may not be eligible to receive Medi-Cal-funded long-term care and waiver services. The asset eligibility changes also applies to individuals requesting services who, in the past, have received Medi-Cal automatically based on an eligibility determination made by the Social Security Administration for SSI/SSP or by CalWORKS.

Federal Payment Error Rate Measurement (PERM) Review Imminent

The department has cited the upcoming PERM reviews by the federal government as one reason for imposing a higher performance standard on counties. The PERM is a multi-year process in which the federal government performs case reviews to spot errors in a variety of areas, and ultimately seeks to establish a national error rate, presumably with potential penalties or corrective action associated with it. The federal CMS hired contractors to perform statistical calculations, records collection, and medical review of selected state Medicaid fee-for-service (FFS) claims throughout Federal Fiscal Year (FFY) 2006. In FFY 2007, CMS was expected to expand the program to include the measurement of eligibility and managed care improper payments in Medicaid and SCHIP (Healthy Families in California).

Since 1999, the state has participated in an error measurement process called the Geographic Sampling Plan (GSP) pilot project. The initial pilot was implemented on July 1, 1999, and has been extended effective every July 1st thereafter through 2006-07. CMS's ongoing approval of the GSP pilot project freezes the dollar error rate for the State of California at 0.635 percent. This percentage is the computed dollar error rate

for fiscal year 1997. The terms of the GSP pilot project preclude MEQC fiscal repercussions or sanctions for the duration of the pilot project.

It is unclear whether or when PERM will replace GSP, and thus expose the state to penalties for the first time since 1999. Other questions are what level of error rate might subject the state to a penalty and what opportunities states will have for corrective action prior to penalties.

County Welfare Directors Association (CWDA) Proposal

The CWDA indicates that it does not oppose the move to 95 percent, but that this change should be done in a more thoughtful manner that does not negatively impact other important program outcomes, such as the implementation of the federal DRA citizenship and identity requirements. Accordingly, the CWDA proposes the following revisions to the budget proposal:

1. **One year delay of reporting cycle** – Counties are nearing the completion of a two-year reporting and corrective action cycle. The next reports from all counties are due in 2008. However, the Medicaid citizenship and identification requirements will be going into effect during mid-to late 2007 and it is anticipated that implementation will take 12 to 18 months. For these reasons, CWDA recommends a one-year delay in the reporting cycle. This would start the next full reporting cycle in January 2009, with higher performance thresholds as set forth in items 2 and 3 below.
2. **Phase in over two reporting cycles** – CWA recommends a standard of 92 percent for the first cycle (2009) and 95 percent for the second cycle (2011).

CWDA also makes the following proposals for improving the Medi-Cal administration in connection with an increase to a 95 percent performance standard:

1. **Provide technical assistance to counties** – Enact language requiring the state staff being approved in the BCP to, as part of their duties, work with CWDA to identify best practices in eligibility determinations and annual redetermination processing and to work with counties to disseminate those practices, and/or to provide technical assistance to counties needing improvement.
2. **Require state to update regulations** – Require a review with CWDA of regulations, program manuals and all-county letters to identify outdated instructions and issue clean instructions to counties. This would be a multi-year undertaking. Counties need to have clear instructions about what they are required to do, in one document.
3. **Improve and simplify application processing** - Enact language requiring the state to work with counties and advocates to streamline the eligibility determination process. The language should include commitment to preserving program integrity.

4. **Improve and simplify annual renewal processing** - Enact language requiring the state to work with counties and advocates to streamline the annual redetermination process.

STAFF COMMENTS

Subcommittee Staff Recommendation. **First**, it is recommended to **delete** the \$195,000 (\$97,000 General Fund) to fund two Associate Medi-Cal Eligibility Analysts. The DHCS received four positions to oversee county performance standards originally and has received additional positions to conduct on-site fiscal reviews of counties to verify the accuracy of Medi-Cal claimed costs (for eligibility processing). In addition, the DHCS has a comprehensive Medi-Cal Division (over 1,700 employees) which has core staff available to oversee the counties. Further, the DHCS has an Audits and Investigations Division that can also be used to oversee county functions when applicable.

Second, it is recommended to **hold open the trailer bill legislation** to see if a compromise can be obtained. Subcommittee staff concurs with the CWDA that a 95 percent level is unworkable at this time due to the need for the state to improve its own operations, as well as the need to implement the federal DRA requirements which will be quite difficult and should be focused on.

In addition, the state needs to be a better business partner. The state needs to undertake a review of the Medi-Cal Program manual, regulations and all-county letters. Counties, as well as advocacy groups, should have clear instructions about how the program operates and the requirements they need to fulfill. As such, trailer bill language regarding the states efforts to proceed with this should be part of any compromise language.

The department should respond to the following questions:

1. How does the state currently monitor county administration of Medi-Cal eligibility processing?
2. What has been the experience with the current 90-percent standard? How many counties have failed to meet the standard and have they taken corrective action?
3. When will the federal government implement the PERM process and what will it mean for California in terms of potential federal standards and sanctions?
4. What is the department's response to the CWDA proposal and what resources, if any, would be needed by the department to carry out the technical assistance?

CWDA, please respond to the following question:

Rather than skipping the scheduled 2008 reporting cycle, wouldn't it be useful to have counties report on eligibility processing with a particular focus on the implementation of the DRA requirements, so that any problems can be quickly identified and addressed?

4300 DEPARTMENT OF DEVELOPMENTAL SERVICES

ISSUE 1: UPDATE ON AGNEWS CLOSURE AND MOVE TO COMMUNITY

PRIOR HEARING ON THIS ITEM

The Subcommittee discussed the Agnews Closure item at its April 11 hearing and was able to hear substantial testimony from consumers, family members, advocates, providers, and others interested in various aspects of the closure.

Given the testimony taken at that time and the action to ask the department to return with an update on issues, the Subcommittee will not be taking public testimony on this item at this May 9th hearing.

At the conclusion of the item on April 11, the Subcommittee took the following two actions, which conformed to the Senate:

1. Adopted trailer bill language to ensure the continuity of consumer's health care, by requiring the Secretary of the Health and Human Services Agency to verify that the Department of Developmental Services and the Department of Health Care Services have established protocols to ensure accountability within the Administration, as well as at the community level between the Regional Centers and the health plans participating in the Medi-Cal Program who will be providing services to consumers.
2. Required the DHS and DDS to report back to further discuss the longer-term health care strategies for consumers, including the outpatient clinic.

Similar to the proceedings in the Senate, the Subcommittee asked the administration about their intent to continue to operate the Agnews Developmental Center Outpatient Clinic beyond the administration's projected closure date of Agnews of June 30, 2008. Public testimony urged continuation of the comprehensive health care services provided at the site.

Since the administration needed to conduct further research as to the options available for continuation of these services, the Subcommittee directed the administration to provide additional information, such as clarification of state licensure requirements, the potential for operation after June 30, 2008 and related matters for this hearing.

In the Senate Sub. 3 hearing, the Department of Health Care Services (DHCS) testified that it was their intent to reimburse the above health care plans at an initial interim *rate* that is not yet established, the health care plans would then provide utilization data regarding the health care services provided, and the DHCS would then "settle-up" the remaining costs. It is worth noting that though a verbal description was provided, no

written information has been provided and no existing statutory authority can be cited for this mechanism.

BACKGROUND

Agnews Developmental Center Closure. The plan to close Agnews Developmental Center was developed over a three-year period and formally submitted to the Legislature in January 2005. Enabling legislation to support the implementation of critical elements of the plan has been enacted, including Assembly Bill 2100 (Steinberg), Statutes of 2004, Senate Bill 962 (Chesbro), Statutes of 2005, Senate Bill 643 (Chesbro), Statutes of 2005, and Assembly Bill 1378 (Lieber), Statutes of 2005.

The Agnews Developmental Center Plan closure is different than the two most recent closures of Developmental Centers—Stockton DC in 1996 and Camarillo DC in 1997—both of which resulted in the transfer of large numbers of individuals to other state-operated facilities. In contrast, the Agnews Plan relies on the development of an improved and expanded community service delivery system in the Bay Area that will enable Agnew's residents to transition and remain in their home communities.

Agnews Developmental Center Outpatient Clinic. In March 2006, the DDS expanded the Agnew's license to provide outpatient medical services to individuals with developmental disabilities who reside in the community (both individuals who have transitioned from Agnews, as well as other individuals with developmental disabilities living in the surrounding area). Medical staff from Agnews is used to provide the services. The outpatient clinic at Agnews has provided over 230 services to a total of 185 consumers. The most frequently uses services are dental (accessed 128 times), primary medical care, psychiatry and neurology.

Individualized Health Plan for Each Consumer. As part of their Individual Program Plan (IPP) process prior to transitioning from Agnews, each Agnews' resident will receive a comprehensive nursing and risk assessment which is comprised of over 60 health-related items. This assessment is then used to develop a Health Transition Plan that is incorporated into the IPP. The Health Transition Plan specifically states how each health need will be met following transition from Agnews, as well as the provider of each service.

SENATE ACTION

At its May 7 hearing, the Senate Sub. 3 returned to these issues and took the following actions:

1. Adoption of **Trailer Bill Language for Agnews Outpatient Clinic** to have the DDS continue operation of the clinic until DDS no longer has possession of the property as follows:

Add Section 4474. 8 to the Welfare and Institutions Code as follows:

4474.8 Notwithstanding any provision of law to the contrary, the department shall continue the operation of the Agnews Outpatient Clinic until such time as the Department of Developmental Services is no longer responsible for the property.

2. Adoption of **Proposed Budget Bill Language to Purchase Two Mobile Clinics** to be specifically outfitted to provide a range of health and medical services as determined by the DDS in working with constituency groups as follows:

Item 4300-101-001.

Funds appropriated in this Item for the Wellness Initiative shall be used by the state Department of Developmental Services (DDS) to purchase two Mobile Clinics which will be specifically outfitted to provide a range of health and medical services, as determined by the DDS in working with constituency groups as deemed appropriate.

The DDS may purchase these Mobile Clinics using a competitive process but is to be exempted from Part 2 (commencing with Section 10100) of Division 2 of the Public Contract Code in order to facilitate a timely purchase to assist in ensuring the public health and welfare of people served under the state's Lanterman Act.

The Senate agenda notes that regarding the future use and operation of the Mobile Clinics, the clinics could *be* eventually granted to (1) a non-profit entity, such as a Regional Center and/or the three Bay Area health plans (all are non-profit entities); (2) a County (i.e, Santa Clara, Alameda and/or San Francisco) to be operated as a Federally Qualified Health Care (FQHC) Clinic to obtain cost-based reimbursement as recognized by the federal government; and/or (3) used under Sonoma Developmental Center's license and be operated by state employees (including Agnews employees).

The Legislature first appropriated \$1 million (General Fund) in the Budget Act of 1998 to the DDS for the Wellness Initiative. The DDS was provided these funds for the purposes of improving the health, welfare and safety of people with disabilities living in the community. Since this time, the DDS has had the ability to utilize these funds as deemed appropriate to meet a wide variety of identified needs, such as determining best practices for meeting nutritional needs for individuals or for providing dental services, as well as many, many other uses. These Wellness Initiative funds have been continued as part of the budget since this time. Subcommittee staff has been informed by the DDS that there presently are no identified projects as yet for 2007-08 for the expenditure of these funds. As such, these funds are available for this new purpose.

3. Adoption of **Proposed Trailer Bill Language to Codify Verbal Commitment of the DHCS** regarding reimbursement for Medi-Cal services provided for people transitioned from Agnews to the community as follows:

Add Section 4474.10 to Welfare and Institutions Code (continues to Page 2)

For people transitioning from Agnews Developmental Center who enroll in a participating Medi-Cal Managed Care health plan, the state shall reimburse for all Medi-Cal services, including medical, dental, mental health, and behavioral health, on an encounter basis (fee-for-service) tied to the Medi-Cal fee schedule. The state shall reimburse for actual administrative costs, including, but not limited to, the following:

- Coordination of care and case management;
- Provider credentialing and contracting;
- Quality oversight and action on potential quality issues;
- Liasoning with Agnews staff, Regional Center staff, Department of Developmental Services staff and contractors, and family members;
- Financial management of program, including claims processing.

4. Adoption of **Proposed Modifications to Reporting Information-- Agnews DC Closure** to capture additional information regarding the Agnews transition. Sub. 3 adopted the following changes, indicated with underlining, to existing Budget Bill Language, which was originally crafted in 2005.

“The state Department of Developmental Services shall provide the fiscal and policy committees of the Legislature with a comprehensive status update on the Agnews Plan, on January 10, 2008 and May 15, 2008, which will include at a minimum all of the following:

- (a) A description and progress report on all pertinent aspects of the community-based resources development, including the status of the Agnews transition placement plan.
- (b) An aggregate update on the consumers living at Agnews and consumers who have been transitioned to other living arrangement, including a description of the living arrangements (model being used) and the range of services the consumers receive.
- (c) An update to the Major Implementation Steps and Timelines.
- (d) A comprehensive update to the fiscal analyses as provided in the original plan.
- (e) An update to the plan regarding Agnew’s employees, including employees who are providing medical services to consumers on an outpatient basis, as well as employees who are providing services to consumers in residential

settings.

- (f) Specific measures the state, including the Department of Developmental Services and the Department of Health Care Services, is taking in meeting the health, mental health, medical, dental, and over all well-being of consumers living in the community and those residing at Agnews until appropriately transitioned in accordance with the Lanterman Act.

PANELISTS

- Department of Developmental Services
- Department of Health Services
- Department of Finance
- Legislative Analyst's Office

ISSUE 2: DEVELOPMENTAL CENTERS PROGRAM AND BCPs**BACKGROUND**

The department operates five DCs, and two smaller leased facilities, which provide 24-hour care and supervision to approximately 2,600 clients. All the facilities provide residential and day programs as well as health care and assistance with daily activities, training, education, and employment. More than 7,300 permanent and temporary staff serve the current population at all seven facilities.

The budget proposes \$712 million from all fund sources (\$393 million General Fund) for the support of the DCs in 2007-08. This represents a net decrease of \$9.9 million General Fund, slightly more than 2 percent below the revised estimate of current-year expenditures. The DC budget plan includes the following proposals:

- **Agnews DC Closure (discussed later in this agenda).** The budget plan continues to assume the closure of the Agnews DC in June 2008. In 2007-08, DC expenditures decrease by \$10.4 million (\$5.6 million General Fund) to reflect decreased staffing costs as Agnews' population is relocated into community placements or to other DCs. The RC budget would provide \$50.7 million (\$37.9 million General Fund) to reflect the costs of providing community-based services to former Agnews residents.
- **Employee Compensation.** The budget plan also proposes \$33.1 million (\$19.2 million General Fund) in 2007-08 for increased employee compensation and benefits.

The population of California's developmental centers (DCs) has decreased over time while costs per consumer have increased. The two main drivers of increased costs per consumer are: 1) the changing nature of the DC population and associated required staffing; and 2) the maintenance of the aging DC infrastructure and facilities.

The decrease in the use of institutions began when the community-based system was initiated in 1969 under the newly established Lanterman Mental Services Act, now called the Lanterman Developmental Disabilities Services Act (Lanterman Act). The Lanterman Act promotes the provision of services in the least restrictive environment and emphasizes community settings as the preferred living option for most consumers. The total DC population declined dramatically as the community system expanded, falling from a high of 13,355 individuals in 1968 to about 2,800 today. Declining populations made it possible for the state to cease operating five facilities. Modesto State Hospital was closed in 1970, DeWitt State Hospital in 1972, Mendocino State Hospital in 1973, Stockton Developmental Center in 1995, and Camarillo State Hospital and Developmental Center in 1996. When DDS split from the Department of Health Services in 1978-79, there were eight facilities serving 9,259 consumers. Today, with

the opening of two small community facilities (Sierra Vista in Yuba City and Canyon Springs in Cathedral City), there are seven state-operated facilities serving approximately 2,800 individuals with developmental disabilities.

The development of community services as an alternative to institutional care in California mirrors national trends that support the development of integrated services and the reduced reliance on state institutions. There has been a reduction in the national population of large state facilities of almost 70 percent in the last 25 years. Most states, including California, have reduced the population of their state facilities by over half since 1990. Since 1960, 185 large state facilities have closed across the nation.

As the overall population at the DCs declines, the remaining population is shifting to two primary groups—individuals who have resided in the developmental centers for many years who are aging and requiring increasingly complex medical care; and young adult males with predominantly mild or moderate intellectual disabilities who are admitted through the judicial system. Individuals in the latter group reflect the majority of admissions to DCs today and require an enhanced level of staffing to provide all needed services and ensure a safe environment for all. Consumers in this group include adolescents and adults with severely challenging behavior and/or criminal charges requiring treatment services in controlled settings. This group also frequently has a secondary mental health diagnosis. In fact, between 1996 and present, the percentage of the DC population with a psychiatric diagnosis has more than doubled (from 23 percent to 49 percent). A related increase during the same time is the percentage of the DC population taking psychotropic medications—from 31 percent in 1996 to 43 percent today. Between 1996 and present, the percentage of the DC population functioning in the mild or moderate range of mental retardation has also nearly doubled—from 13 percent to 25 percent. (The percentage of people functioning in the severe or profound range of mental retardation has decreased from 86 percent in 1996, to 74 percent today.)

More than one third of the DC population is over the age of 52, and the aging population is further reflected in the increased percentage of the population older than 41: from approximately 47 percent in 1996 to approximately 66 percent today. In recent years, several individuals at Sonoma Developmental Center have lived past the age of 100. With an older population, there is an emergence of age-related and lifestyle conditions that are similar to those found in the general population, including diabetes, cancer, cardiac problems, strokes, dementia, arthritis and osteoporosis. The service focus is shifting accordingly. Staff training is focusing on issues of aging and end of life care; providing more nursing, mobility engineering and adaptive equipment; moving from active training programs to leisure activities; converting residences from intermediate care units to skilled nursing; and providing specialized programs such as hospice.

The number and type of personnel required to serve this challenging population is driven by state licensing staffing requirements and also the need to maintain federal certification to qualify for federal financial participation.

HEADQUARTERS BUDGET PROPOSAL

The budget proposes \$40 million from all funds (\$26 million General Fund) for support of headquarters. About 62 percent of headquarters funding is for support of the community services program, with the remainder for support of the DC program.

CURRENT CENSUS

Summary of Developmental Center Budget Year Population (Average)

Facility	Revised Current Year 2006-07	Budget Year 2007-08	Difference
Agnews DC	202	82	-120
Canyon Springs (community-based)	61	53	-8
Fairview DC	603	563	-40
Lanterman DC	503	488	-15
Porterville DC	700	673	-27
Sierra Vista (community-based)	46	49	3
Sonoma DC	719	681	-38
Total	2,834	2,589	-245

Information on the cost per consumer in the DCs is included on a chart that is attached to this agenda.

SALARY ENHANCEMENTS FOR MENTAL HEALTH PROFESSIONALS IN DCS (SPRING FINANCE LETTER)

The Subcommittee is in receipt of a Finance Letter requesting an increase of \$6.9 million (\$4 million General Fund) to increase the salaries for certain mental health classifications in facilities operated by the DDS, including the five DCs, Sierra Vista Community Facility and Canyon Springs Community Facility. The Finance Letter provides funding for the budget year. These increases are necessary to retain and hire key professional staff to provide mental health care, treatment and supervision.

The DDS states that the proposed salary increases will bring salaries and wages for incumbents in these classifications to: (1) five percent less than CA Department of Corrections and Rehabilitation (CDCR) for Psychiatrists and Senior Psychologists, and (2) 18 percent less than salaries paid to CDCR for all other mental health-related

classifications including: Unit Supervisors, Psychiatric Technicians, Rehabilitation Therapists, and Clinical Social Workers.

In January 2007, the CDCR increased salaries for mental health classifications as a result of the Coleman v. Governor Schwarzenegger federal court order. In less than three months, the DDS lost a total of 98 employees in Coleman-related classifications. The Coleman-related classifications include Psychiatrists, Medical Directors, Unit Supervisors, Psychologists, Social Workers, Rehabilitation Therapists and Psychiatric Technicians. These are key classifications that are required for treatment and direct provision of mental health services, or the supervision of direct services to consumers for licensing and certification and for the overall health and safety of consumers.

PANELISTS

- Department of Developmental Services
- Department of Finance
- Legislative Analyst's Office

ISSUE 3: COMMUNITY SERVICES PROGRAM, PURCHASE OF SERVICE, AND RATE REFORM**OVERVIEW OF DEPARTMENT RESPONSIBILITIES**

California provides community-based services to approximately 220,000 citizens with developmental disabilities and their families through a statewide system of 21 regional centers. Developmental Disability is defined by the Lanterman Developmental Disabilities Services Act as originating before 18 years of age, continues or can be expected to continue indefinitely, constitutes a substantial handicap and includes mental retardation, cerebral palsy, epilepsy, and autism. The definition can include other handicapping conditions similar to mental retardation but not solely physical in nature. Regional Centers are private, nonprofit agencies under contract with DDS for the provision of various services and supports to people with developmental disabilities. As a single point of entry, regional centers provide diagnostic and assessment services to determine eligibility; convene person-centered planning teams to develop an individual program plan ("IPP") for each eligible consumer; and either provide or obtain from generic agencies appropriate services for each consumer in accordance with the IPP in order to ensure the maximum flexibility and availability of appropriate services and supports for persons with developmental disabilities. In addition to the regional centers, DDS currently operates five developmental centers and two community based facilities.

Unlike most other public social services or medical services programs, services are generally provided to the developmentally disabled at state expense without any requirements that recipients demonstrate that they do not have the financial means to pay. The Lanterman Act establishes the state's responsibility for ensuring that persons with developmental disabilities, regardless of age or degree of disability, have access to services that sufficiently meet their needs and goals in the least restrictive setting. Individuals with developmental disabilities have a number of residential options. Almost 99 percent receive community-based services and live with their parents or other relatives, in their own houses or apartments, or in group homes that are designed to meet their medical and behavioral needs. Slightly more than one percent live in state-operated, 24-hour facilities.

The budget proposes \$4.3 billion (all funds) for support of DDS programs in 2007-08, which is a 5.7 percent increase over estimated current-year expenditures. General Fund expenditures for 2007-08 are proposed at \$2.6 billion, an increase of almost \$37 million, or 1.4 percent, above the revised estimate of current-year expenditures. In addition, the revised 2006-07 budget proposes a \$106.4 million (\$71.2 million General Fund) increase from the enacted Budget to address adjustments for employee compensation, caseload and service utilization as well as the effect of the change in the minimum wage.

Of the total amount proposed for 2007-08, \$3.6 billion (\$2.2 billion General Fund) is for services provided in the community through Regional Centers, \$712.3 million (\$393.6 million General Fund) is for support of the state Developmental Centers, and \$40.1 million (\$26.4 million General Fund) is for state headquarters administration.

Proposed Budget for Department of Developmental Services:

Summary of Expenditures

(dollars in thousands)	2006-07	2007-08	\$ Change	% Change
Program Source				
Community Services Program (RC's)	\$3,314,749	\$3,566,049	\$251,300	7.6
Developmental Centers	\$730,629	\$712,268	-\$18,361	-2.5
State Administration	\$40,084	\$40,106	22	0.1
Total, Program Source	\$4,085,462	\$4,318,423	\$232,961	5.7
Funding Source				
General Fund	\$2,572,111	\$2,608,617	\$36,506	1.4
Federal Funds	\$55,144	\$55,411	\$267	3.6
Public Transportation Account	\$0	\$143,993	\$143,993	100
Program Development Fund	\$2,019	\$2,012	-\$7	-0.3
Lottery Education Fund	\$489	\$489	\$0	0
Developmental Disabilities Services	\$41	\$0	-\$41	-100
Reimbursements: including Medicaid Waiver, Title XX federal block grant and Targeted Case Management	\$1,455,658	\$1,507,901	\$52,243	3.6
Total Expenditures	\$4,085,462	\$4,318,423	\$232,961	5.7

Department of Developmental Services—Demographics Data from 2004

Table 1 Age	Number of Persons	Percent of Total	Table 2 Residence Type	Number of Persons	Percent of Total in Residence
Birth to 2 Yrs.	22,601	11.2%	Own Home-Parent	144,023	71.6 %
3 to 13 Yrs.	57,793	28.7%	Community Care	26,442	13.1%
14 to 21 Yrs.	33,697	16.8%	Independent Living	17,333	8.7%
22 to 31 Yrs.	28,365	14.1%	/Supported Living		
32 to 41 Yrs.	22,812	11.3%	Skilled Nursing/ICF	8,783	4.4%
42 to 51 Yrs.	20,298	10.1%	Developmental Center	3,231	1.6%
52 to 61 Yrs.	10,635	5.3%	Other	1,239	0.6%
62 and Older	4,850	2.4%			
Totals	201,051	100%		201,051	100%

BACKGROUND ON REGIONAL CENTERS

The Community Services program provides community-based services to clients through 21 nonprofit corporations known as regional centers (RCs) that are located throughout the state. The RCs are responsible for eligibility determinations and client assessment, the development of an individual program plan, and case management. They generally pay for services only if an individual does not have private insurance or they cannot refer an individual to so-called “generic” services that are provided at the local level by counties, cities, school districts, and other agencies. The RCs also purchase services, such as transportation, health care, respite, day programs, and residential care provided by community care facilities. The department contracts with the RCs to provide services to more than 212,155 clients each year.

The budget proposes \$3.6 billion from all funds (\$2.2 billion General Fund) for the support of the Community Services Program in 2007-08. This represents a \$47 million General Fund increase, or 2.2 percent, over the revised estimate of current-year spending. The increase is a result of caseload growth, higher utilization rates for services, the effect of the increase in the minimum wage, and other program changes. Of the total \$3.6 billion in funding proposed for RC programs in 2007-08, \$501 million is for RC operations and \$3.1 billion is for the purchase of services.

PURCHASE OF SERVICE

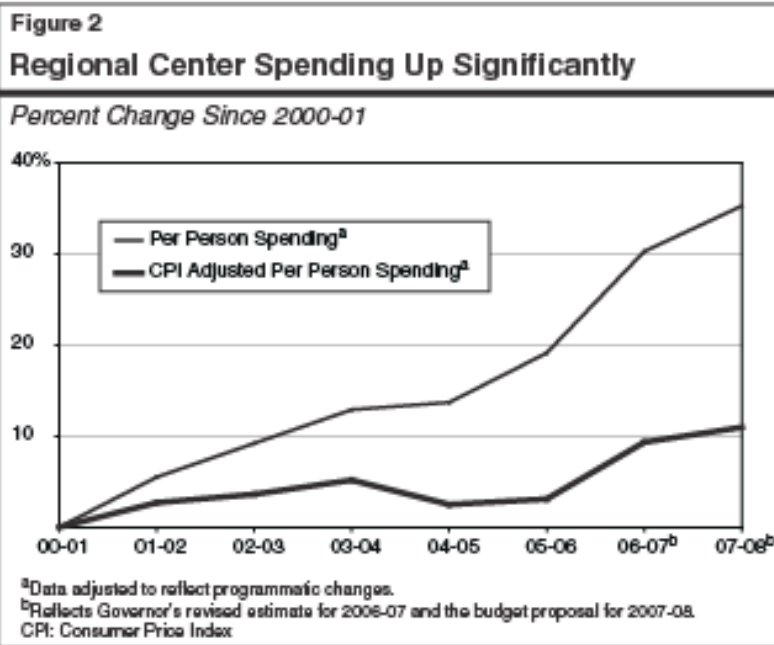
The cost to the state of operating regional centers for persons with developmental disabilities has continued to escalate at a rapid pace with total spending projected to increase by almost \$1.7 billion, or about 89 percent, between 2000-01 and 2007-08. The LAO examined recent caseload and program spending trends, assessed the Governor’s caseload projections, identified an opportunity to draw down additional federal funds (\$11 million in the current year), and thus recommends the Legislature increase oversight of the department’s rate reform effort.

The RCs provide services to clients through two mechanisms. First, RCs purchase services directly from vendors. These services are commonly referred to as “purchase of services.” Secondly, RCs assist their clients in obtaining services from public agencies. These services are commonly referred to as “generic services.” The LAO discusses both types of services further below. The budget for purchase of services consists of ten main service categories, plus one additional category referred to as “other adjustments.” Figure 1 shows the Governor’s proposed spending plan for these purchase of services categories in 2006-07 and 2007-08.

**Regional Centers Purchase of Services Funding
By Service Category**

(All Funds, Dollars in Millions)

Service Category	2006-07a	2007-08a	Difference	Year-to-Year Percent Change
Day programs	\$700	\$754	\$54	7.7%
Community care facilities	688	770	82	11.9
Support services	488	551	63	12.9
Miscellaneous	268	312	44	16.4
Transportation	203	214	11	5.4
In-home respite	165	180	15	9.1
Habilitation services	148	150	2	1.4
Health care	83	91	8	9.6
Out-of-home respite	48	49	1	2.1
Medical facilities	18	18	—	—
Other adjustments b	—	-44	-44	N/A
Totals	\$2,809	\$3,045	\$236	8.4%



GENERIC SERVICES

Under state law, generic services are defined as those being provided by federal, state, and local agencies which have a legal responsibility to serve all members of the general public and that receive public funds for providing such services. There are more than a dozen different generic services that are regularly accessed by RC clients. For example, medical services for an eligible developmentally disabled person might be provided through the Medi-Cal health care program for the poor. City or county park and recreation programs also provide generic services for developmentally disabled clients. State law requires that RCs access generic services first and make purchase of services only when generic services are unavailable.

Under the federal Home and Community-Based Services (HCBS) waiver, federal funds can be drawn down to pay for about one-half the costs of certain community-based services for individuals at risk of institutionalization. The 2007-08 budget plan assumes that RC programs will draw down \$818 million in federal funds under the HCBS waiver.

OVERALL SPENDING AND COST PER CLIENT

Between 2000-01 and 2007-08, total spending is forecast to increase by almost \$1.7 billion if the administration's budget plan was adopted as proposed. During the same period, spending per person, after adjusting for inflation, would go up 11 percent and unadjusted spending per person would go up by 36 percent. Between 2000-01 and 2007-08, the RC caseload is projected to grow from about 163,613 to almost 221,000, an average annual growth rate of almost 4.4 percent. The caseload trend is shown in the table below.

Several key factors appear to be contributing to ongoing growth in the RC caseload. Medical professionals are identifying persons with a developmental disability at an early age and referring more persons to DDS programs. Improved medical care and technology has increased life expectancies for individuals with developmental disabilities. The RC caseload growth also reflects a significant increase in the diagnosed cases of autism, the causes of which are not fully understood.

In accordance with past practice, the 2007-08 budget plan reflects DDS' updated projections for the number of RC clients for the current and budget years. The budget plan indicates that the actual caseload in the RC system in 2006-07 is tracking very closely to the original budgeted level. Specifically the average annual caseload for the current year is estimated at 212,155, or just 70 clients less than the estimate of 212,225 that was the basis for the RC system's appropriations in the 2006-07 Budget Act. The budget plan further estimates that the average annual RC caseload will grow to almost 221,000 in 2007-08, a year-to-year increase of 8,445 clients or four percent.

Regional Center Caseload Growth Trend			
Average Annual Population		Increase From Prior Year	
Fiscal Year	Caseload	Amount	Percent
2000-01	163,613	8,651	5.6%
2001-02	172,714	9,101	5.6
2002-03	182,175	9,461	5.5
2003-04	190,030	7,855	4.3
2004-05	197,355	7,325	3.9
2005-06	203,823	6,468	3.3
2006-07a	212,155	8,332	4.1
2007-08a	220,600	8,445	4.0

As described above, the administration proposes to increase the level of current-year funding provided for RC purchase of services by about \$33 million General Fund. This further adjustment reflects updated expenditure data on utilization and caseloads for RC purchase of services. For 2007-08, the Governor's budget proposes to increase spending for the RC system by about \$251 million including an increase of about \$46.5 million from the General Fund. This increase mainly reflects estimated growth in caseloads, costs, and the utilization of services by RC clients.

CURRENT YEAR DEFICIENCY REQUEST

DDS requests a General fund augmentation to fund a projected deficiency in the Purchase of Services (POS) portion of the Community Services program. The deficiency results from two adjustments: (1) an increase of \$18,340,000 related to the minimum wage increase effective January 1, 2007, and (2) an increase of \$33,432,000 related to updated POS service utilization and caseload projections. These two adjustments result in a total deficiency of \$51,772,000 General Fund.

On the POS deficiency, DDS determined there were increases in expenditures in the fourth quarter of 2005-06 that were inconsistent with the expenditure trends in previous years. Consequently, increased expenditures of \$49,971,000 (\$33,432,000 General Fund) were not captured in the POS expenditure projection included in the 2006 Budget Act. The increased POS costs are due to increases in the number and cost of services provided to consumers who are older, more medically fragile, and those with autism.

Funding for this deficiency request will be pursued through a Supplemental Appropriations Bill.

COST CONTAINMENT PROPOSALS

The administration proposes to continue several different cost containment actions for 2007-08 that were enacted as part of the Budget Acts of 2002, 2003, 2004, 2005, and 2006. These cost containment actions have been previously adopted by the Legislature in lieu of more sweeping and restrictive actions previously proposed by Governor Davis and Governor Schwarzenegger. In total, these cost containment measures are proposed to save about \$250 million (\$172.7 million General Fund) for 2007-08.

The cost containment actions proposed to be continued by the administration are discussed individually below. All of these proposed actions require trailer bill legislation.

1. Delay in Assessment (RC operations) (-\$4,500,000 General Fund): Through the Budget Act of 2002, trailer bill language was adopted to extend the amount of time allowed for the Regional Center's to conduct assessment of new consumers from 60 days to 120 days following the initial intake. The Governor proposes to continue this extension through 2007-08 through trailer bill language. This is the same language as used in previous years.
2. Calculation of Case Management Ratios (RC Operations) (-\$32.8 million or -\$16.2 million General Fund): Through the Budget Act of 2003, trailer bill language was adopted to reduce the average RC case manager to consumer ratio from one to 66 (one Case Manager to 66 consumers). Previously, the ratio was one to 62. The Governor proposes to continue this extension through 2007-08 through trailer bill language. This is the same language as used in previous years.
3. Non-Community Placement Start-Up Suspension (-\$6 million General Fund): Under this proposal, a Regional Center may not expend any purchase of services funds for the startup of any new program unless the expenditure is necessary to protect the consumer's health or safety or because of other extraordinary circumstances, and the DDS has granted authorization for the expenditure. The administration's proposed trailer bill language would continue this freeze through 2007-08. The Legislature did provide \$3 million (General Fund) for this purpose in 2006-07.
4. Freeze on Rate Adjustments for Day Programs, In-Home Respite Agency and Work Activity Programs (-\$3.9 million or -\$2.9 million General Fund): The rate freeze means that providers who have a temporary payment rate in effect on or after July 1, 2007 cannot obtain a higher permanent rate, unless the RC demonstrates that an exception is necessary to protect the consumers' health or safety. It should be noted that these programs did receive rate increases in the Budget Act of 2006. As such, their rates for 2007-08 would be frozen at these levels, unless otherwise adjusted as noted.

5. Freeze Service Level Changes for Residential Services (-\$47.4 million or -\$28.4 million General Fund). This proposed trailer bill language would provide that RCs can only approve a change in service level to protect a consumer's health or safety and the DDS has granted written authorization for this to occur. This action maintains rates at the July 1, 2007 level.
6. Elimination of Pass Through to Community-Care Facilities (-\$3.2 million, or \$1.9 million General Fund): The SSI/SSP cost-of-living-adjustment that is paid to Community Care Facilities by the federal government is being used to off-set General Fund expenditures for these services for savings of \$3.2 million (\$1.9 million General Fund).
7. Contract Services Rate Freeze (-\$160.6 million, or -\$190.7 million General Fund): Some RCs contract through direct negotiations with providers for certain services in lieu of the DDS setting an established rate. Continuation of the rate freeze would mean that RCs cannot provide a rate greater than that paid as of July 1, 2007, or the RC demonstrates that the approval is necessary to protect the consumer's health or safety. The administration's proposed trailer bill language is the same as last year's, with a date extension to include 2007-08.
8. Habilitation Services Rate Freeze (-\$2.2 million, or -\$2.8 million General Fund): The Habilitation Services Program consists of the (1) Work Activity Program (WAP), and (2) Supported Employment Program (SEP). The WAP services are primarily provided in a sheltered setting and are reimbursed on a per-consumer-day basis. SEP enables individuals to work in the community, in integrated settings with support services provided by community rehabilitation programs. The administration's proposed trailer bill language would continue the rate freeze into 2007-08.
9. Non-Community Placement Start-Up Suspension (-\$6 million): Under this proposal, a Regional Center may not expend any Purchase of Services funds for the startup of any new program unless the expenditure is necessary to protect the consumer's health or safety or because of other extraordinary circumstances, and the DDS has granted authorization for the expenditure. The administration's proposed trailer bill language would continue this freeze through 2007-08.

With respect to the startup of new programs, the administration notes that funding would be provided to protect consumer's health and safety or to provide for other extraordinary circumstances as approved by the DDS. Limits on this funding were first put into place in 2002. It should be noted that in the Budget Act of 2006, the Legislature did appropriate \$3 million (General Fund) for these purposes.

RATE REFORM PROGRESS TO DATE

The rate reform process has generally focused on those services for which rates are set through negotiations between RCs and service providers. Over a multiyear period,

several RCs have been surveyed to obtain specific information about how they determine rates for 16 different services provided to RC clients. The last of three waves of surveys were sent out to the RCs in January 2006.

The DDS has developed a regulations package for rates for supported living services that is currently in the formal regulatory review process. Supported living services consist of a broad range of services to developmentally disabled adults who choose to live in homes they own or lease in the community. The DDS planned to circulate an initial regulations package for comment in January 2007 regarding some of the other rates included under the reform effort.

As noted above, DDS was provided \$500,000 in one-time funding for contract resources to enable DDS to develop standardized rates for certain types of RC vendors. In November 2005, DDS awarded a contract to a consultant to provide assistance with analyzing data and evaluating findings and recommendations regarding certain services purchased by RCs. The consultant completed a report and provided it to DDS in the fall of 2006.

Cost containment activities include the continuation of specified rate and service level freezes, the family cost participation program, development of a Self Directed Services Waiver, revisions to the Supported Living Services regulations and the Rate/Service Code Standardization project.

In order for the Department to begin to develop alternatives to the temporary cost containment measures, it is important to understand how the particular interventions impact utilization and cost. DDS contracted with Acumen LLC to analyze data in order to provide expert assistance to help inform policy discussions. With the DDS mission and these goals in mind, the contractor will provide the necessary levels of expertise to review the current caseload and utilization information in order to:

1. Correlate caseload information to utilization and, therefore, costs;
2. Examine the demographics of the population to identify important characteristics that significantly impact costs now and in the future;
3. Explore how the specific cost-containment measures influence utilization; and
4. Prepare a report documenting the analysis, methodology, and conclusions.

DDS has provided an update to the Subcommittee, which includes the following responsibilities for the consultant:

- Review and analysis of the regional centers' responses to the Department's surveys of regional center's use of, and negotiated rates for, 16 specific service codes. Consultant also conducted follow-up interviews with regional centers.

- Research and analysis of regional center expenditures and practices relative to purchasing and managing transportation services for consumers.
- Interviewing select regional centers as well as a vendor providing Transportation Broker services to several regional centers.
- Analysis of eight years of service code expenditure data (i.e. expenditures for consumer services throughout the regional center system).
- Research and interviewing of select regional centers as part of a focused analysis on the use of a particular service code for purchasing behavioral services on behalf of a consumer and another code for purchasing community-based integration and training services.

The consultant's findings included:

- Overall, there is a well established statutory and regulatory framework governing regional center POS
- There is variability in regional center's use of the various service codes for procuring services for consumers: however, when individual service codes are viewed within a broader service category framework one finds greater consistency between RCs in expenditures and service code usage patterns
- "Miscellaneous services" are by definition unique and typically not amendable to standard rate set by DDS – "the focus of such an approach is not "rate standardization" (i.e. deriving the same rate), but on "equity" in rate setting among RCs (i.e., using a common approach, cost components (as applicable), and benchmark cost indicators."
- Effective cost containment requires, among other things, expertise in contract negotiation and rate setting - regional centers do not have the required internal resources
- Lack of specificity in service code definitions and lack of rate setting parameters has led to different rates being paid across the state for same or similar services

LAO RECOMMENDATION

Based on the most recent information available, it appears the caseload is potentially overbudgeted by roughly \$14 million General Fund in the current year and \$15 million General Fund in the budget year. However, the department has indicated that in some cases in the past, lower-than-anticipated caseload costs have been offset by increases in utilization. It is possible that the reduction in caseload will be offset by an increase in utilization cost. The LAO recommends that the Legislature require the department to

report at budget hearings on the specific causes for increased utilization and costs. In our view, without accurate information about what is causing increased utilization and costs, the Legislature lacks the information it needs to assess the causes of the rapid growth in the RC program and determine which policies would be most effective to contain these costs.

LAO recommends that the Legislature require DDS to report at budget hearings on the timeline for implementation of revised rate-setting methodologies for RC services to ensure reasonable progress is made towards implementing rate reform. Specifically, the department should report on the services that are under study for rate reform, the timeline for proposing revised regulations packages and other measures, and the estimated savings for implementing rate reform for specified services. Given the release of the consultant's review of rate reform, the LAO may have a revised recommendation in this area.

The LAO notes that in its 2006-07 Analysis, it recommended directing the Department of Finance's Office of State Audits and Evaluations to conduct an audit to evaluate the accuracy and the consistency of the purchase of services data now being reported by the RCs. Because the accuracy and consistency of these data are now uncertain, the state lacks tools that are needed to exercise strong fiscal oversight over RC spending. An improvement in the way expenditure data are reported has additional potential benefits. It could improve the quality of the data used by DDS for budget forecasts, so that its budget request to the Legislature could more closely match the actual funding required to support community services programs. The administration has indicated that it will provide updated information on the overall RC caseload trend, change in the mix of RC clients, and trends in the cost and utilization of services at the time of the May Revision. The LAO will continue to monitor caseload trends and will recommend appropriate adjustments, if necessary, in May when DDS' updated budget request is presented to the Legislature.

PANELISTS

- Department of Developmental Services
- Department of Finance
- Legislative Analyst's Office

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ISSUE 4: ICFs/DD-CN**BACKGROUND**

The population of the DCs has declined steadily over the last 20 years. The continuing decline in the population of the DC system is partly the result of the 1994 Coffelt v. Developmental Services lawsuit settlement, which required the state to make more community-based residential services available as alternatives to institutions. The DCs initially downsized in population by about 2,000 in response to the Coffelt settlement. The administration is currently implementing its plan to close Agnews DC, by July 2008.

The downsizing of the DCs is also partly a response to federal policies that promote community-based alternatives and a recent federal court decision. Prompted in part by the June 1999 U.S. Supreme Court decision *L.C. & E.W. vs. Olmstead* (“Olmstead”), California, and a number of other states are seeking alternatives to institutional care. In the *Olmstead* case, the U.S. Supreme Court ruled that keeping persons who could transition to a community setting constituted discrimination under the Americans with Disabilities Act, notwithstanding state resources and consumer preference.

Many of the developmentally disabled individuals that reside in Agnews and other DCs are medically fragile and may require regular skilled nursing assessments and interventions due to unstable medical conditions. In response to the needs of these individuals, and a policy of providing services to the developmentally disabled in the least restrictive setting whenever possible, the Legislature in recent years has approved two pilot programs that are describe below.

ICFS/DD-N PILOT PROGRAM

Chapter 845, Statutes of 1999 (AB 359, Aroner), allows for implementation of ICFs/DD-CN under a pilot program. The ICFs/DD-CN provide skilled nursing supervision to clients who have continuous need for skilled nursing care. Residents of ICF/DD-CN require frequent observation and intervention for unstable medical conditions.

The ICF/DD-CN pilot program operates under a waiver approved by the federal CMS that was originally approved in 2001. Six facilities, each with six beds, are currently operating under the waiver and serve, on average, about 35 individuals. The waiver is due to expire on September 30, 2007. The DHCS expects the CMS to grant a waiver extension from October 1, 2007 through September 30, 2009.

The ICF/DDs are often located in the community, sometimes in single-family houses, and provide residential services for the developmentally disabled including 24-hour personal care. In the analysis of the 2004-05 Budget Bill, the LAO described how the state could draw down additional federal funds to offset the state costs of day programs and transportation services provided to RC clients residing in ICFs/DD by modifying the ICF/DD rate and implementing other related changes.

Specifically, in order to capture these additional federal funds, the state would have to redefine the ICF/DD program as an "all-inclusive service." Currently the ICFs/DD are paid a rate based only on the specific nursing care services they provide. Additional services that a client may receive such as transportation or a day program are generally paid for separately by the RC or provided through a generic service provider. Under this option, ICFs/DD would be redefined to be an all-inclusive service and the responsibility for providing day programs, transportation, and other assistance (in cases where generic services were unavailable) would shift from the RC to the ICFs/DD. In turn, these services would be reflected in the rates paid to ICFs/DD.

The budget plan assumes savings in 2007-08. The state plan is an agreement between the federal Center for Medicare and Medicaid Services (CMS) and the state regarding the operation of the state's Medi-Cal Program. The Department of Health Care Services (DHCS) is pursuing a revision to the Medi-Cal state plan to include coverage and payment for day program and nonmedical transportation services for RC clients residing in ICFs/DD. The budget plan assumes (1) approval of the state plan amendment and an increase of \$44 million in federal funds in 2007-08 and (2) a commensurate reduction in state General Fund support for day program and nonmedical transportation services. The budget plan does not assume any savings in 2006-07.

DDS and DHS have provided the following timeline on the ICF-DD Bundled Rate Implementation:

April 25, 2007	Stakeholder Meeting conducted
April 30, 2007	Begin work on state plan amendment (SPA) with assistance from consultant
May 31, 2007	By May 31, 2007 publish federally required notice of intent to revise ICF DD rates to capture federal financial participation for day program and transportation services received by regional center consumers
June 2007	Share draft State Plan amendment with Stakeholders
July 1, 2007	On, or before, July 1, 2007, submit SPA to CMS

CURRENT YEAR OPPORTUNITY

In some cases, once a state plan amendment is approved by the federal CMS, states may submit claims and draw down federal funds retroactively to the date of submission. For example, if the DHCS submitted the proposed state plan amendment to the federal CMS in April of 2007, and it was approved in July of 2007, the state may be able to submit claims for federal reimbursement going back to the date when the state plan amendment was originally submitted.

Based on discussions with DHCS, the department has been working on developing a state plan amendment for about two years. Given the time DHCS has spent on developing this state plan amendment, the LAO believes that it is reasonable to assume that the department will be able to submit it to the federal CMS by April.

The LAO recommends that the Legislature assume that the state plan amendment will be submitted by DHCS to the federal CMS in April of 2007 and that it will be approved. The LAO estimates that this would result in an additional \$11 million in federal reimbursements for 2006-07. The LAO recommends that the Legislature recognize a commensurate amount of state General Fund savings in the current year for RC purchase of services.

SB 962 HOMES

Adult Residential Facility for Persons With Special Health-Care Needs (ARFPSHN). Chapter 558, Statutes of 2005 (SB 962, Chesbro), allows for implementation of a new type of licensed residential care facility under a pilot program. Although ARFPSHNs would provide continuous skilled nursing services similar to those provided by ICFs/DD-CN, they would provide fewer hours of continuous skilled nursing services than ICFs/DD-CN. The pilot program would allow for up to five residents to be placed in each facility, with a program total of a 120 beds. Unlike ICFs/DD-CN, which are privately owned and operated facilities, ARFPSHNs would be owned by a nonprofit entity. The state would contract out the provision of care for residents of these facilities. At the time this analysis was prepared, no ARFPSHN had begun operations although a few ARFPSHNs are expected to begin operations by July 2007. The pilot program is due to sunset January 1, 2010, unless extended in statute.

REPORTING REQUIREMENTS

Chapter 558 requires DDS to contract with an independent agency or organization to evaluate the ARFPSHN pilot program and prepare a written report to the Legislature by January 1, 2009. There is currently no requirement for a report to the Legislature evaluating the ICF/DD-CN pilot program. However, it is noted that DHCS has requested \$250,000 total funds (\$125,000 General Fund) to contract with an independent agency or organization for a final assessment of the cost-effectiveness and feasibility of making the ICF/DD-CN model a permanent new provider type.

GOVERNOR'S PROPOSAL

The 2007-08 Governor's Budget proposes three positions, on a two-year limited term basis, for DHCS state operations to ensure compliance with waiver requirements and develop the State Plan Amendment to add the ICF/DD-CN as a state benefit.

LAO COMMENT AND RECOMMENDATION

"We take no issue with the Governor's request for positions or for the funding request for a final assessment of the ICF/DD-CN pilot program. We note that state law requires that a report be provided to the Legislature regarding the effectiveness of the ARFPSHN pilot program. However, no such reporting requirement exists for the ICF/DD-CN pilot program although DHCS is requesting funds for a consultant to evaluate the program. Without a report evaluating the effectiveness of the ICF/DD-CN pilot program the Legislature will likely have insufficient information to determine whether this model for residential services should be discontinued, maintained, or expanded.

In order to better evaluate how residential models can best serve the needs of medically fragile DDS clients; the Legislature needs to be fully informed about the cost-effectiveness of the two pilot programs currently underway. Given that DHCS will contract for an evaluation of the ICF/DD-CN, we recommend the evaluation be provided to the Legislature and that the evaluation assess the same issues addressed by the ARFPSHN evaluation.

We recommend the Legislature adopt supplemental report language directing the Department of Health Care Services to submit a report based on a comprehensive evaluation of the Intermediate Care Facility for the Developmentally Disabled-Continuous Nursing pilot program. This will help ensure the Legislature has sufficient information upon which to base decisions about the future of this pilot program.

The following Supplemental Report Language is consistent with this recommendation: It is the intent of the Legislature that the Department of Health Care Services (DHCS) shall submit a report to the Legislature evaluating the Intermediate Care Facility for the Developmentally Disabled-Continuous Nursing (ICF/DD-CN) pilot program. This evaluation and subsequent report in writing shall at minimum address the following: (1) the number, business status, and location of all the treatment facilities; (2) the number and characteristics of the residents served; (3) the effectiveness of the pilot program in addressing residents' health care and intensive support needs; (4) the extent of residents' community integration and satisfaction; (5) the consumers' access to, and quality of, community-based health care and dental services; (6) the types, amounts, qualifications, and sufficiency of staffing; (7) the costs of all direct, indirect, and ancillary services; and (8) recommendations for improving the ICF/DD-CN model. The DHCS shall report its findings on this matter by January 1, 2009 to the Chair of the Joint

Legislative Budget committee and the chairs of the fiscal committees of both houses of the Legislature."

PANELISTS

- Department of Health Services
- Department of Developmental Services
- Department of Finance
- Legislative Analyst's Office

5175 DEPARTMENT OF CHILD SUPPORT SERVICES

ISSUE 1: REPORT ON PERFORMANCE IMPROVEMENTS AND CALIFORNIA CHILD SUPPORT AUTOMATION SYSTEM (CCSAS) FUNCTIONALITY

UPDATE ON PERFORMANCE

The Department of Child Support Services (DCSS) has released additional information regarding child support program collections and cost effectiveness performance, and DCSS' strategies to improve the child support program's collections performance. The DCSS submitted a written report to the Subcommittee and will discuss that report in the hearing.

APRIL FINANCE LETTER

The Department of Child Support Services (DCSS) has submitted an April Finance Letter requesting position authority for nine permanent positions and two 1-year limited-term positions to address workload associated with implementation of the California Child Support Automation System (CCSAS). The DCSS proposes to redirect savings from existing contracts to fund the positions.

The requested positions would be used for the following activities:

- **Resolution of Participant Financial and Data Exceptions:** These exceptions occur as a result of duplicate cases open in multiple local child support agencies (LCSAs), incorrect names, dates of birth, or social security numbers that impacts the ability to merge data as needed, and processing errors of employer checks and money transfers. DCSS requests six permanent positions to develop and implement an on-going data quality program.

The LCSAs perform financial and data exceptions work for single county child support cases. The DCSS currently contracts with a vendor for the resolution of the financial and data exceptions for the cases that cross multiple counties. According to DCSS, the workload is proving to be on-going; therefore, they are proposing to move the workload from the vendor to the department. The DCSS would extend \$372,000 of the contract to enable the vendor to provide knowledge transfer to the state and redirect \$697,000 (\$237,000 General Fund) of the contract to fund the six positions.

- **Database Management:** The Child Support Enforcement (CSE) database, within CCSAS, needs to be expanded to retain information on cases pursuant to federal tax law. The DCSS requests one permanent position and to redirect funding of \$93,000 (\$32,000 General Fund) to support the hardware, software,

and database implementation, maintenance, and operation. The request also includes one-time redirected funding of \$100,000 (\$34,000 General Fund) for the procurement of network storage housed at the Department of Technology Services (DTS).

- **User Administration:** The DCSS is responsible for performing CCSAS user administration functions including the establishment and maintenance of user security profiles and access permissions, and for gathering, verifying, and processing security and conflict of interest information on each DCSS CCSAS user. The current infrastructure support of CCSAS user administration inadvertently omitted this workload when the CCSAS project was assigning responsibilities between the FTB and DCSS.
- **Administration of the Enterprise Call Center:** The DCSS is merging the SDU Non IV-D Customer Services Support Center and the Full Collections Program Call Center into one statewide call center beginning in May 2007. The DCSS requests two positions and \$186,000 (\$63,000 General Fund) to ensure all systems are running throughout the State by providing system administration and technical support. The DCSS overlooked system administration workload when resources were originally requested for 2006-07.

PANELISTS

- Department of Child Support Services
- Department of Finance
- Legislative Analyst's Office

5180 DEPARTMENT OF SOCIAL SERVICES

ISSUE 1: UPDATE ON CHILD WELFARE SERVICES METHODOLOGY

BACKGROUND

The Subcommittee heard this issue at its April 18 hearing and requested that the department provide the statutorily required report on child welfare services methodology by April 27. The report was due February 1, 2007 and is required to propose a budgeting methodology to be applied commencing with the 2007-08 fiscal year.

The Subcommittee has not yet received the report and the department has been asked to provide an update.

PANELISTS

- Department of Social Services
- Department of Finance

ISSUE 2: IMPLEMENTATION UPDATE ON DIRECT DEPOSIT**BACKGROUND**

The Subcommittee heard this issue at its April 11 hearing with the following narrative:

Although IHSS is a county administered program, the State Controller makes the payment for IHSS providers by issuing individual checks to each provider. Currently only a small number of IHSS clients that receive "advance pay" receive their funds through a direct deposit payment. Last year's Social Services Trailer bill, AB 1808, contained a provision requiring DSS to expand its direct deposit system to all IHSS caregivers.

The department provided a report on the implementation status of the direct deposit program and has been asked to provide a new update at this hearing. In the interim, the department has provided the following information:

1. The internal PDD Feasibility Study Report (FSR) was completed and the Department of Finance approved a FSR Reporting Exemption Request on February 7, 2007.
2. The Interagency Agreement with the State Controller's Office (SCO) is in process to transfer funds for the required SCO system changes.
3. The CMIPS programming work is being conducted by the CMIPS vendor, EDS, and is in the development stage.
4. CDSS anticipates completion of the programming work before May 2008.
5. Start up activities and full implementation of direct deposit is scheduled for April or May 2008.

PANELISTS

- Department of Social Services
- Department of Finance
- Legislative Analyst's Office
- United Domestic Workers of America
- Service Employees International Union
- Association of Federal, State, County, and Municipal Employees

ISSUE 3: STATE SUPPORT FOR CALWORKS**BACKGROUND**

The budget includes two requests for resources for the Department of Social Services (DSS) to support TANF reauthorization and AB 1808 activities.

- Support for TANF Reauthorization. The budget requests \$2.2 million in federal fund authority and 20 positions for DSS to support data collection for federal work participation in each county, including verification of data and reporting procedures, and to perform oversight and field monitoring of county procedures and case documentation for verification of recipient participation hours at the county level. These positions are intended to improve monitoring and measurement of the performance of counties to meet new federal data quality assurance mandates.
- Support for AB 1808 Activities. The budget requests \$832,000 in federal fund authority and seven limited-term positions for DSS to hold regular performance outcome measurement meetings with the counties to highlight best practices and identify obstacles to performance, and conduct county peer/state reviews to assist counties in improving work participation rates and implementation of the CalWORKs program. The DSS request also includes \$250,000 to fund a contract with a consultant to design, develop, and implement a statewide performance indicator system for the CalWORKs program in the counties. In addition, the budget proposes to use \$244,000 in TANF funds to support county welfare departments' participation in the county/state peer reviews. These funds would be used for travel, per diem, and backfilling staff costs.

PANELISTS

- Department of Social Services
- Legislative Analyst's Office
- Department of Finance

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ISSUE 4: INFORMATIONAL ITEM - HEALTH AND DENTAL SERVICES FOR FOSTER YOUTH**BACKGROUND**

This issue is before the Subcommittee as an informational item only, as it is the subject of a bill that is currently moving through the legislative process (AB 273, Jones). It is Budget Committee policy to not fund *policy* bills that are currently in the legislative process, since doing so would circumvent the legislative process and lead to bad faith relations with the Senate as well as other Assembly Committees. The bill can be amended to include funding, and should it pass the Legislature and be signed into law, this Subcommittee can appropriately consider continuing funding in subsequent budget years. Should the bill be signed into law without funding, then this Subcommittee can consider providing funding in subsequent budget years.

AB 273 seeks to provide additional and sufficient health and dental services to foster youth, given evidence that demonstrates that foster children enter the system in a poor state of health. This bill proposes to:

- Require prescribed health and dental assessments to be provided to foster children.
- Require that the child's most recent health and dental assessments, as required under the bill, be included in the summary of the child's health and education records, and that an appropriate referral be made for a child whose assessment identifies the child as having suspected chronic and acute health care needs.
- Require the report to document that the county has assisted the child in understanding his or her health care needs and in locating health care providers that will be able to meet those needs.
- Revise the definition of an independent foster care adolescent for these purposes, and would require the department to extend Medi-Cal benefits to these children until 21 years of age.
- Require the department to seek all necessary federal approvals and waivers to implement these provisions and to provide state funds for implementation pending federal approval, as specified.

Implementation of the bill would require additional resources toward annual health exams and semi-annual dental exams for foster youth and toward expanded Medi-Cal eligibility for foster youth in Kin-GAP placements. The author's office estimates that the state cost of annual exams will be \$1.2 million annually (GF) with a cost of \$600,000 for fiscal year 2007-08. Expanding extended Medi-Cal eligibility to foster youth currently

excluded (those who receive CalWORKS, Family Maintenance, Kin-GAP, and Adoption Assistance Program) is estimated to cost \$1.15 million annually and \$500,000 for the budget year. A one-time small sum (\$50,000) for the Department of Social Services may be needed to reprogram the Child Welfare Services Case Management System. Federal matching funds would be available for these purposes and the author notes that county social service departments may also need \$135,000 (\$67,500 for 07-08) to assist emancipating foster youth in understanding their health needs.

PANELISTS

- Department of Social Services
- Department of Health Services
- Department of Finance
- Legislative Analyst's Office