

Health and Human Services

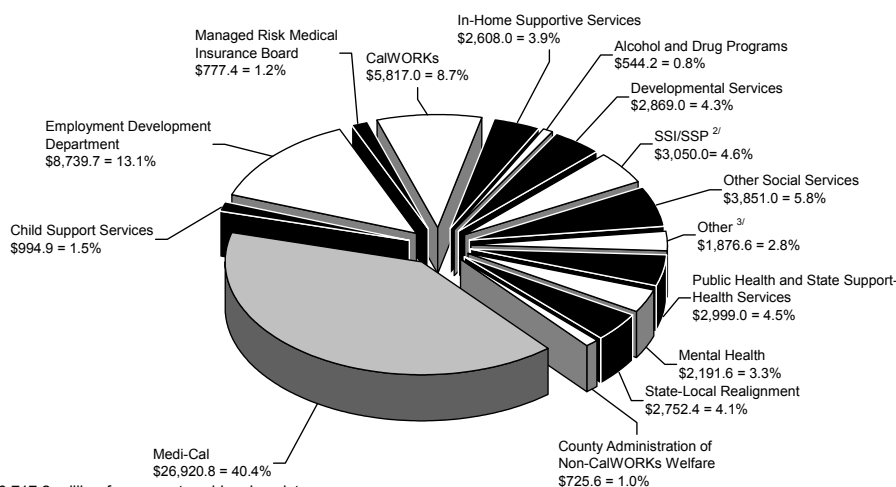
Health and human services programs provide medical, dental, mental health, and social services to California's most needy citizens. For the 2002-03 fiscal year, expenditures for all Health and Human Services Agency budgets total \$66.7 billion in combined State and federal funds. This includes expenditures for approximately 42,300 personnel years.

Figure HHS-1 displays expenditures for each major program area, and Figure HHS-2 displays program caseloads.

Department of Health Services

The mission of the Department of Health Services (DHS) is to protect and improve the health of all Californians. To accomplish this, the DHS administers a broad range of public health programs and the California Medical Assistance Program—Medi-Cal. In 2002-03, the DHS budget totals \$29.9 billion (\$10.7 billion General Fund) and 5,480 personnel years. Funding for 2002-03 reflects a General Fund increase of \$322 million compared to the 2001 Budget Act.

Figure HHS-1 Health and Human Services Proposed 2002-03 Expenditures^{1/} All Funds (Dollars in Millions)



1/ Totals \$66,717.2 million for support and local assistance.

2/ Supplemental Security Income/State Supplementary Payment.

3/ Includes Health and Human Services Agency, Department and Commission on Aging, Departments of Rehabilitation and Community Services and Development, Health and Human Services Agency Data Center, Office of Statewide Health Planning and Development, State Independent Living Council, Emergency Medical Services Authority, Child Development Policy Advisory Committee, California Children and Families Commission, State Council and Area Boards on Developmental Disabilities, California Medical Assistance Commission, and California Workforce Investment Board.

Health and Human Services



PUBLIC HEALTH

The DHS administers numerous public health programs that strive to prevent disease and premature death and to enhance the health and well-being of all

Californians. In addition, the DHS works to prevent and control chronic diseases such as Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome (HIV/AIDS), cancer, cardiovascular disease, and environmental and occupational diseases. Further, the DHS protects the public from consuming unsafe drinking water, manages and regulates the safety of food, drugs, medical devices, and radiation sources, and operates vital public health laboratories that support these activities and programs. Expenditures for all public health programs and State operations total \$3 billion (\$644 million General Fund) in 2002-03. This represents a decrease of \$56.6 million, or 8.1 percent below General Fund expenditures in the 2001 Budget Act.

Significant Augmentations:

The Budget contains the following major funding augmentations:

Expanded Access to Primary Care (EAPC)—The Budget restores \$10 million General Fund in both 2001-02 and 2002-03, originally proposed for reduction in the November 2001 *Proposed Reduction in 2001-02 Spending* plan. In addition, the Budget provides \$17.5 million (Tobacco Settlement Fund) to make services available to children shifted to the EAPC from the Child Health and Disability Prevention program. The EAPC program provides primary care to California's uninsured population.

Figure HHS-2

Major Health and Human Services Program Caseloads

	2001-02 Revised	2002-03 Estimate	Change
California Children's Services ^{a/} (treatment of physical handicaps)	165,900	171,870	5,970
Medi-Cal Certified Eligible	6,195,000	6,499,100	304,100
CalWORKs			
Avg: Monthly persons served	1,477,000	1,461,200	-15,800
Avg: Monthly cases	520,300	532,500	12,200
Foster Care Trend	86,050	86,136	86
SSI/SSP (support for aged, blind, and disabled)	1,103,400	1,126,400	23,000
In-Home Supportive Services	266,900	283,600	16,700
Child Welfare Services ^{b/}	177,757	173,636	-4,121
Non-Assistance Food Stamps	279,400	302,900	23,500
State Hospitals			
Mental health clients ^{c/}	4,799	4,921	122
Developmentally disabled clients ^{c/}	3,710	3,660	-50
Community Developmentally Disabled Services Regional Centers	172,505	182,230	9,725
Vocational Rehabilitation	26,900	27,800	900
Alcohol and Drug Programs ^{d/}	359,500	378,900	19,400
Employment Services			
Job opening listings	1,661,000	1,661,000	0
Job seeker registrations	775,000	775,000	0
Job seekers entering employment	757,000	757,000	0
Unemployment Insurance (total weeks claimed)	22,388,000	23,796,000	1,408,000
Healthy Families Program ^{e/}			
Children	559,000	644,000	85,000

^{a/} Represents unduplicated quarterly caseload in the CCS Program.

^{b/} Represents Emergency Response, Family Maintenance, Family Reunification, and Permanent Placement service areas on a monthly basis. Due to transfers between each service area, cases may be reflected in more than one service area.

^{c/} Represents the year-end population. Includes population at California Medical Facility, Vacaville.

^{d/} Number of participants served during the fiscal year, including Proposition 36 clients.

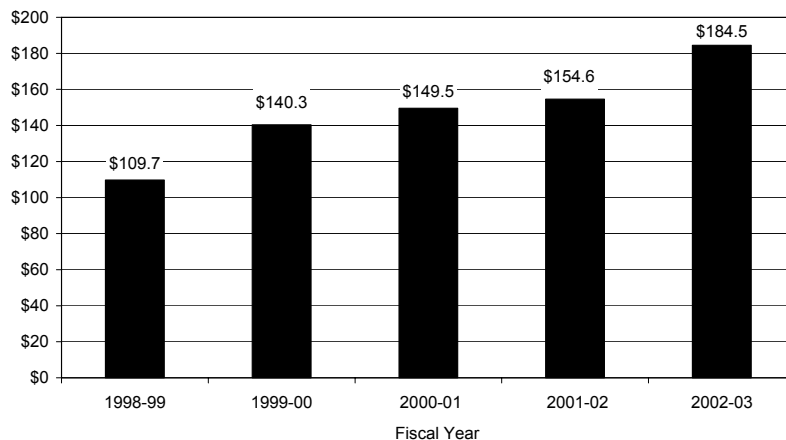
^{e/} Represents the year-end population.

California Children's Services/Genetically Handicapped Persons Program—

These programs provide medical services for children and adults with serious medical conditions such as birth defects and chronic illnesses. For 2002-03, caseload is estimated to increase 5.4 percent. The Budget includes a total of \$111.2 million General Fund, or an increase of \$10.5 million over the 2001 Budget Act.

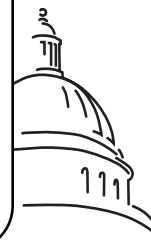
HIV/AIDS Program—Continuing to respond to the changing and emerging needs associated with the AIDS epidemic, the Budget provides \$283.4 million (\$143.8 million General Fund) for HIV/AIDS prevention, education, care, and treatment programs. This includes an increase of \$22.4 million (\$20.4 million General Fund) in 2002-03 for higher AIDS Drug Assistance Program (ADAP) demand and increased drug costs. ADAP spending continues to rise from year-to-year (see Figure HHS-3). Under this Administration, HIV/AIDS program expenditures have increased \$78.4 million (\$48.7 million General Fund), or nearly 38 percent.

Community Challenge Grant Program—The Community Challenge Grant program provides community-based grants to reduce the number of teenage and out-of-wedlock pregnancies. To support California's continued success in the reduction of out-of-wedlock births, the Budget provides \$20 million in federal funds to continue this program.

Figure HHS-3**AIDS Drug Assistance Program
Annual Expenditures
(Dollars in Millions)****Richmond Public Health**

Laboratory—To continue to safeguard the health of California's citizens and protect them against the threat of harmful biological agents, the Budget provides an increase of \$5.5 million (\$4 million General Fund) for the State's newly-completed \$400 million Richmond Public Health Laboratory. This state-of-the-art laboratory is the locus for the State's efforts to safeguard and protect human health, and to locate, analyze, assess, and ultimately remove harmful biological and other contaminants from our environment.

Youth Anti-Tobacco Efforts—The 2001 Budget Act provided \$20 million Tobacco Settlement Fund for a new initiative to reduce the incidence of smoking among youth. The Budget provides an increase of



\$15 million Tobacco Settlement Fund for this program, for a total of \$35 million. Over two years, this Administration has provided \$55 million for this important effort.

Childhood Lead Poisoning Prevention Program—To better protect California’s children from the adverse effects of lead poisoning and to help improve educational outcomes among these children, the Budget provides an increase of \$7.2 million and 8 positions (7.6 person-years). This funding will be used to comprehensively restructure this program and to continue workload formerly performed by limited-term positions. The restructuring plan will improve upon the existing program by identifying more lead exposed children; identifying and managing the sources of lead in the environment; and increasing State and local enforcement activities.

PROPOSITION 99 EXPENDITURES

Californians continue to use fewer tobacco products each year, in part as a result of the effectiveness of the Tobacco Tax and Health Protection Act of 1988 (Proposition 99). As a result, estimated revenues for 2002-03 will decline \$5 million below the 2001 Budget Act level to \$343.2 million. Proposition 99 revenues continue to decline from year-to-year (see Figure HHS-4). However, sufficient fund reserves and increases to other miscellaneous revenues have enabled continuation of all Proposition 99 funded programs at 2001 Budget Act levels. In addition, the Budget provides minor increases to the Breast Cancer Early Detection and Access for Infants and Mothers (AIM) programs.

2001-02 Expenditures—The Budget proposes expenditures of \$450.6 million to continue the base level of services for all programs, except for an increase of \$2.2 million for the Breast Cancer Early Detection Program that will mitigate a funding shortfall in the Breast Cancer Control Account.

2002-03 Expenditures—The Budget proposes expenditures of \$410.4 million to continue the base level of services for all programs, except for increases of \$1.5 million for the Breast Cancer Early Detection Program to mitigate a funding shortfall in the Breast Cancer Control Account, and \$8.4 million for increased caseload in the AIM program.

Figure HHS-4
Cigarette and Tobacco Products Surtax Fund
Proposition 99 Revenues
1989 to 2003
(Dollars in Millions)

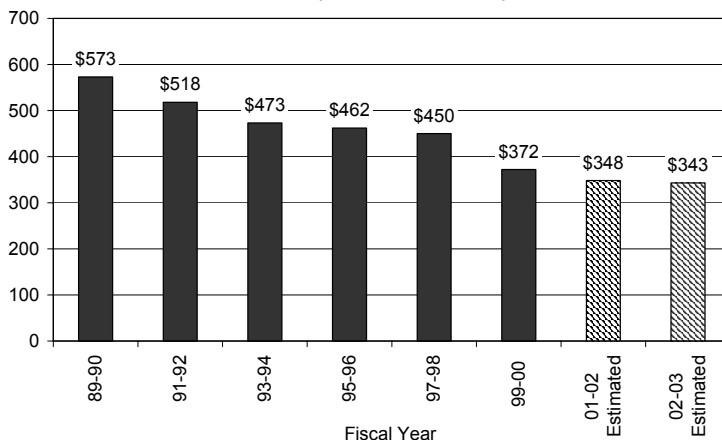


Figure HHS-5

**Cigarette and Tobacco Products Surtax Fund (Proposition 99)
Revenues and Expenditures - 2000-01 Actual
(Dollars in Thousands)**

Revenues:	Board of Equalization	Health Education Account	Hospital Services Account	Physicians' Services Account	Research Account	Public Resources Account	Unallocated Account	Total
Beginning Balance	-	\$59,487	\$5	\$673	\$75,120	\$544	\$13,497	\$149,326
Prior Year Adjustment	-	39,517	14	13	109	4,365	16,023	60,041
Revenues	\$1,337	69,964	122,437	34,982	17,491	17,491	87,455	351,157
Proposition 10 Backfill	-	14,900	-	-	3,700	-	-	18,600
Interest	-	7,350	607	137	4,905	193	3,163	16,355
Total Revenues	\$1,337	\$191,218	\$123,063	\$35,805	\$101,325	\$22,593	\$120,138	\$595,479
Transfers:								
Habitat Conservation Fund	-	-	-	-	-	-	-\$9,048	-\$9,048
Net Resources	\$1,337	\$191,218	\$123,063	\$35,805	\$101,325	\$22,593	\$111,090	\$586,431
Expenditures:								
Department of Health Services	-	\$93,403	\$73,309	\$7,597	\$5,050	-	\$59,103	\$238,462
Department of Education	-	27,661	-	-	-	-	-	27,661
University of California	-	-	-	-	39,823	-	-	39,823
California Conservation Corps	-	-	-	-	-	\$261	-	261
Forestry and Fire Protection	-	-	-	-	-	329	-	329
Fish and Game	-	-	-	-	-	1,363	-	1,363
State Coastal Conservancy	-	-	-	-	-	766	-	766
Parks and Recreation	-	-	-	-	-	13,220	-	13,220
Water Resources Control Board	-	-	-	-	-	1,897	-	1,897
Board of Equalization	\$1,337	-	-	-	-	-	-	1,337
Office of Statewide Health Planning	-	-	-	-	-	-	998	998
Access for Infants and Mothers	-	-	24,300	13,313	-	-	18,605	56,218
Major Risk Medical Insurance	-	-	24,393	14,607	-	-	6,000	45,000
Direct Pro Rata Charges	-	881	17	-	118	-	103	1,119
Total Expenditures	\$1,337	\$121,945	\$122,019	\$35,517	\$44,991	\$17,836	\$84,809	\$428,454
Reserve	\$0	\$69,273	\$1,044	\$288	\$56,334	\$4,757	\$26,281	\$157,977

- ❖ The Budget proposes the continuation of \$24.8 million, provided on a one-time basis in the 2001 Budget Act, to supplement payments to emergency room physicians and specialists who care for uninsured individuals.
- ❖ The Budget proposes continuation of the \$45.2 million anti-tobacco media campaign in 2002-03 as part of the total \$114.5 million Proposition 99-funded effort to reduce tobacco use. In addition, the

Budget provides an additional \$15 million Tobacco Settlement Fund, for a total of \$35 million, aimed specifically at reducing the incidence of smoking among California's teens.

Proposition 99 revenues and expenditures for 2000-01, 2001-02, and 2002-03 are reflected in Figures HHS-5 thru HHS-7.



Figure HHS-6

Cigarette and Tobacco Products Surtax Fund (Proposition 99)
Revenues and Expenditures - 2001-02 Estimated
(Dollars in Thousands)

Revenues:	Board of Equalization	Health Education Account	Hospital Services Account	Physicians' Services Account	Research Account	Public Resources Account	Unallocated Account	Total
Beginning Balance	-	\$69,273	\$1,044	\$288	\$56,334	\$4,757	\$26,281	\$157,977
Prior Year Adjustment	-	-	-	-	-	-	-	-
Revenues	\$1,892	69,264	121,212	34,632	17,316	17,316	86,580	348,212
Proposition 10 Backfill	-	15,920	-	-	3,980	-	-	19,900
Interest	-	2,211	247	59	531	204	866	4,118
Total Revenues	\$1,892	\$156,668	\$122,503	\$34,979	\$78,161	\$22,277	\$113,727	\$530,207
Transfers:								
Habitat Conservation Fund	-	-	-	-	-	-	-\$8,600	-\$8,600
Net Resources	\$1,892	\$156,668	\$122,503	\$34,979	\$78,161	\$22,277	\$105,127	\$521,607
Expenditures:								
Department of Health Services	-	\$88,635	\$71,300	\$6,372	\$4,930	-	\$58,679	\$229,916
Department of Education	-	28,059	-	-	-	-	-	28,059
University of California	-	-	-	-	68,211	-	-	68,211
California Conservation Corps	-	-	-	-	-	\$265	-	265
Forestry and Fire Protection	-	-	-	-	-	345	-	345
Fish and Game	-	-	-	-	-	1,574	-	1,574
State Coastal Conservancy	-	-	-	-	-	147	-	147
Parks and Recreation	-	-	-	-	-	13,391	-	13,391
Water Resources Control Board	-	-	-	-	-	2,037	-	2,037
Board of Equalization	\$1,892	-	-	-	-	-	-	1,892
Office of Statewide Health Planning	-	-	-	-	-	-	1,047	1,047
Access for Infants and Mothers	-	-	24,300	13,313	-	-	25,571	63,184
Major Risk Medical Insurance	-	-	24,393	14,607	-	-	1,000	40,000
Direct Pro Rata Charges	-	488	72	-	-	-	-	560
Total Expenditures	\$1,892	\$117,182	\$120,065	\$34,292	\$73,141	\$17,759	\$86,297	\$450,628
Reserve	\$0	\$39,486	\$2,438	\$687	\$5,020	\$4,518	\$18,830	\$70,979

Other Public Health Adjustments:

The Budget reflects other public health adjustments, as follows:

Child Health and Disability Prevention Program—The Budget proposes a reduction of \$69.5 million (\$6.2 million General Fund and \$63.3 million Tobacco Settlement Fund) by shifting Child Health and Disability Prevention (CHDP) program caseload to the Medi-Cal program and the Healthy Families Program (HFP). The CHDP

program provides health assessments for early detection and prevention of disease and disabilities to children with family incomes up to 200 percent of the federal poverty level (FPL). Under this Administration, the Medi-Cal and HFP programs have been expanded to provide comprehensive health care to an additional 1.1 million children. Most children who receive CHDP benefits are now eligible to receive comprehensive health care coverage from one of these two programs.



Figure HHS-7

**Cigarette and Tobacco Products Surtax Fund (Proposition 99)
Revenues and Expenditures - 2002-03 Estimated
(Dollars in Thousands)**

Revenues:	Board of Equalization	Health Education Account	Hospital Services Account	Physicians' Services Account	Research Account	Public Resources Account	Unallocated Account	Total
Beginning Balance	-	\$39,486	\$2,438	\$687	\$5,020	\$4,518	\$18,830	\$70,979
Prior Year Adjustment	-	-	-	-	-	-	-	-
Revenues	\$1,901	68,262	119,459	34,131	17,066	17,066	85,328	343,213
Proposition 10 Backfill	-	15,920	-	-	3,980	-	-	19,900
Interest	-	2,211	247	59	531	204	866	4,118
Total Revenues	\$1,901	\$125,879	\$122,144	\$34,877	\$26,597	\$21,788	\$105,024	\$438,210
Transfers:								
Habitat Conservation Fund	-	-	-	-	-	-	-\$8,619	-\$8,619
Net Resources	\$1,901	\$125,879	\$122,144	\$34,877	\$26,597	\$21,788	\$96,405	\$429,591
Expenditures:								
Department of Health Services	-	\$86,551	\$71,300	\$6,372	\$4,930	-	\$59,984	\$229,137
Department of Education	-	27,996	-	-	-	-	-	27,996
University of California	-	-	-	-	19,434	-	-	19,434
California Conservation Corps	-	-	-	-	-	\$269	-	269
Forestry and Fire Protection	-	-	-	-	-	385	-	385
Fish and Game	-	-	-	-	-	2,138	-	2,138
State Coastal Conservancy	-	-	-	-	-	-	-	-
Parks and Recreation	-	-	-	-	-	13,691	-	13,691
Water Resources Control Board	-	-	-	-	-	2,032	-	2,032
Board of Equalization	\$1,901	-	-	-	-	-	-	1,901
Office of Statewide Health Planning	-	-	-	-	-	-	1,047	1,047
Access for Infants and Mothers	-	-	24,996	13,768	-	-	32,861	71,625
Major Risk Medical Insurance	-	-	24,393	14,607	-	-	1,000	40,000
Direct Pro Rata Charges	-	184	148	17	149	-	225	723
Total Expenditures	\$1,901	\$114,731	\$120,837	\$34,764	\$24,513	\$18,515	\$95,117	\$410,378
Reserve	\$0	\$11,148	\$1,307	\$113	\$2,084	\$3,273	\$1,288	\$19,213

As stated earlier, the Budget also includes a \$17.5 million Tobacco Settlement Fund augmentation for the EAPC program to ensure continued health assessments for children with family incomes up to 200 percent of the FPL who are ineligible for either the Medi-Cal program or the HFP.

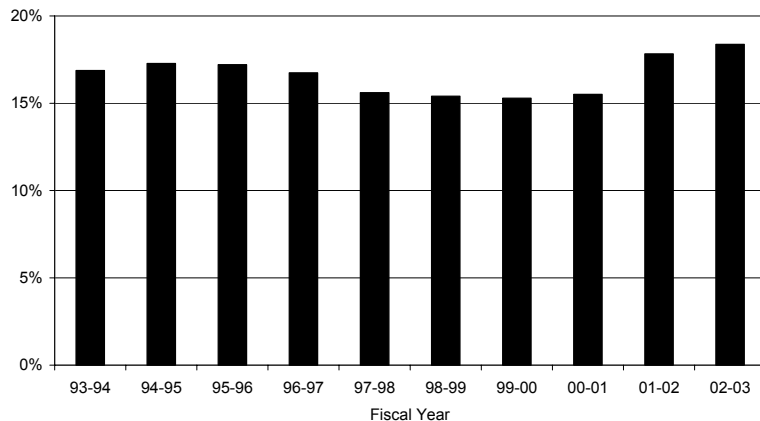
The Budget maintains \$500,000 General Fund provided to schools to verify that children meet State vaccination requirements.

In addition, six positions will be eliminated at a savings of \$436,000 (\$207,000 General Fund), and four other positions will be redirected to reduce eligibility determination backlogs in the California Children's Services program and the Genetically Handicapped Persons Program.

Cancer Research—The Budget proposes a reduction of \$25 million General Fund to reflect the elimination of this program. While this program has supported valuable research, it



Figure HHS-8
Average Monthly Medi-Cal Eligibles as a Percentage of California Population



provides funding for less than 15 percent of the total state cancer and tobacco disease related research. In addition, the National Cancer Institute (NCI), the largest component of the National Institutes of Health, coordinates a national research program on cancer cause and prevention, detection and diagnosis, and treatment. The University of California received over \$159 million from the NCI for cancer research in 2000-01.

Tobacco Settlement Securitization Payment—The Budget proposes to issue a \$2.4 billion bond backed by Tobacco Settlement Fund revenues. Issuance of this bond will prevent further reductions to valuable health care programs and help to maintain the health safety net for the state’s most vulnerable residents. The bond proceeds will be placed in the General Fund to support base funding and augmentations in many health care programs, such as restoration of the



\$10 million current year General Fund reduction to the EAPC program. The Tobacco Settlement Fund securitization will operate similar to a lease-revenue bond, in which a revenue stream, in this case a portion of Tobacco Settlement revenues, will be committed to service debt payments. These debt service payments will equal \$62 million for 2002-03 and \$190 million for 22 years thereafter.

MEDI-CAL

Medi-Cal, California’s Medicaid program, is a health care entitlement program for low-income individuals and families who receive public assistance or lack health care coverage. Federal law requires Medi-Cal to provide a set of basic services such as doctor visits, laboratory tests, X-rays, hospital inpatient and outpatient care, and skilled nursing care. In addition, California’s Medi-Cal program covers federal optional services such as pharmaceuticals, dental care, and emergency services. Medi-Cal’s benefit package is comparable to most employer-funded health plans and to other states’ benefit packages. These services are delivered by a wide range of public and private providers and facilities. Providers are reimbursed by the traditional fee-for-service method and by specific monthly payments under managed care. Medi-Cal is a key component of California’s health care delivery system, serving over 18.5 percent of Californians, the highest level of beneficiaries ever (see Figure HHS-8).

The Medi-Cal budget has increased from \$20.2 billion (\$7.5 billion General Fund) in 1998-99 to \$26.9 billion (\$10.1 billion General Fund) proposed for 2002-03, an increase of \$2.6 billion General Fund, or 34.7 percent. The net funding increase reflects expanded eligibility and access to health care for children and adults, as well as streamlined enrollment and eligibility.

2001-02 Expenditures—Medi-Cal expenditures are expected to be \$26.7 billion (\$9.7 billion General Fund), a 4.8 percent General Fund increase over the prior-year Budget Act appropriation. General Fund expenditures are \$78.4 million above the 2001 Budget Act, a 0.8 percent General Fund increase. Figure HHS-9 displays annual Medi-Cal General Fund cost per average monthly eligible.

2002-03 Expenditures—Medi-Cal spending is projected to be \$26.9 billion (\$10.1 billion General Fund), a General Fund increase of \$445.5 million, or 4.6 percent above the 2001 Budget Act. Average monthly caseload is expected to increase in 2002-03, by approximately 415,000, or 6.8 percent, to 6.5 million eligibles. Figure HHS-10 displays year-to-year comparisons of Medi-Cal caseload and costs.

Some programs, such as mental health services, in departments other than the DHS, are also eligible for federal Medicaid reimbursement. The federal funding for these programs is included in Medi-Cal expenditure totals, but State and local matching funds typically

Figure HHS-9
Annual Medi-Cal General Fund Cost per Average Monthly Eligible

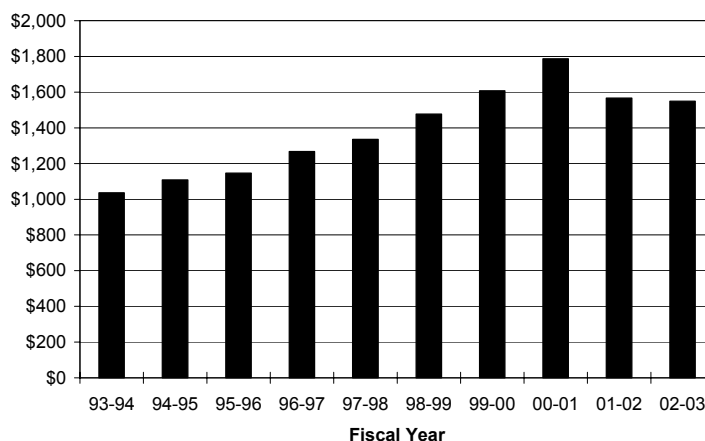
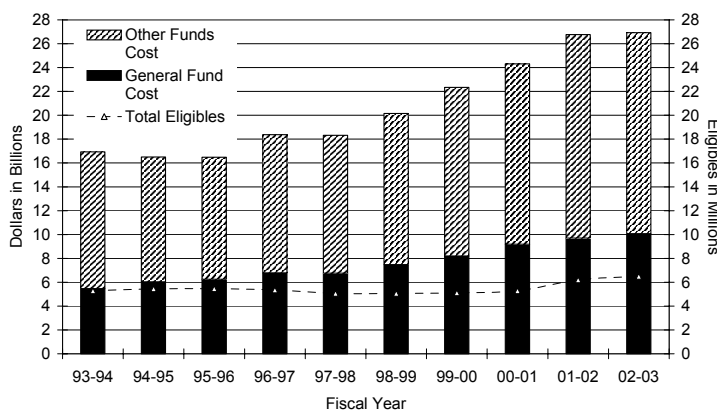


Figure HHS-10
Medi-Cal Caseload and Costs, 1993-94 through 2002-03 (Eligibles in Millions, Dollars in Billions)



Note: The large non-General Fund portion of total expenditures reflects disproportionate share and voluntary governmental transfers for hospitals, as well as federal Medicaid funds which flow through the DHS budget to other departments.

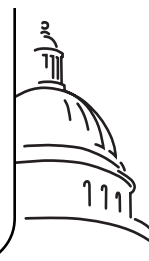
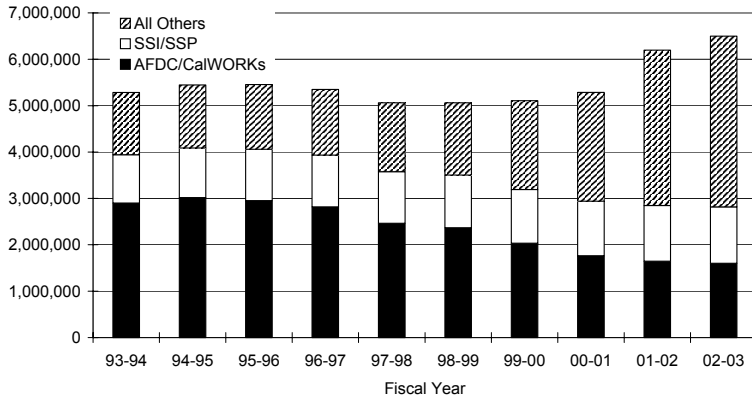


Figure HHS-11

Medi-Cal Caseload by Eligibility Category



Caseload—Currently, about 6.5 million people, nearly one in five Californians, qualify for Medi-Cal in any given month. The number of people eligible for Medi-Cal in 2001-02 is now estimated to be about 17.2 percent above the 2000 Budget Act. An increase of 6.8 percent above the 2001 Budget Act is expected to occur in 2002-03.

The number of people eligible for Medi-Cal through their eligibility for public assistance cash grants has been declining since 1995. These eligibles represent 43 percent of all Medi-Cal eligibles. Along with an overall slight increase in caseload, the portion comprised of aged, blind, and disabled beneficiaries is growing nominally each year, and is expected to increase to slightly more than 1.4 million beneficiaries by 2002-03. These beneficiaries represent 22.5 percent of all Medi-Cal eligibles. Figure HHS-11 illustrates Medi-Cal caseload by eligibility category.

appear in the budgets for the other State agencies or local governments. Consequently, nonfederal matching funds of over \$1.3 billion for those programs are not included in Medi-Cal program costs.

Figure HHS-12

**Federal Medicaid Program - Interstate Comparisons
Ten Most Populous States
Federal Fiscal Year 1998**

	Medicaid as a Percentage of State's Budget	Annual Eligibles as a Percentage of Total Population	Expenditures, Total Funds (Dollars in Millions)	Unduplicated Annual Eligibles	Expenditures Per Eligible	Federal Sharing Ratio (FMAP)
All States	19.5	15.3	\$161,097	41,361,532	\$3,895	
California	16.0	18.9	16,671	6,191,269	2,693	51.23
Texas	24.1	13.6	10,383	2,680,583	3,873	62.28
New York	33.0	19.3	23,659	3,500,292	6,759	50.00
Florida	15.2	13.7	6,560	2,040,541	3,215	55.65
Pennsylvania	26.4	14.3	8,995	1,720,000	5,230	53.39
Illinois	23.0	14.8	6,800	1,784,159	3,811	50.00
Ohio	20.9	12.5	7,201	1,402,364	5,135	58.14
Michigan	19.6	13.8	5,884	1,354,718	4,343	53.58
New Jersey	21.9	10.6	5,562	857,898	6,483	50.00
Georgia	16.9	16.0	3,736	1,223,439	3,054	60.84

Sources: National Association of State Budget Officers, the US Census Bureau, and the federal Department of Health and Human Services, Centers for Medicare and Medicaid Services.



Figure HHS-12 shows federal data from 1998 (the most recent information available from the Centers for Medicare and Medicaid Services) for the ten most populous states. By percentage of state population, California served about 18.9 percent of state residents, exceeded only by New York. California also provides more optional benefits than any of the other ten large states and at one of the lowest average cost-per-recipient rates in the nation—\$2,693 per beneficiary versus a national average of \$3,895 per beneficiary in federal fiscal year 1998.

Benefits—All states are federally required to provide specific, basic medical services to Medicaid beneficiaries, including: physician, nurse practitioner, nurse-midwife, hospital inpatient and outpatient services, specified nursing home care, laboratory and x-ray services, home health care, and early and periodic screening, diagnosis, and treatment services for children until age 21.

In addition, federal matching funds are available for 34 optional services. These services include outpatient drugs, adult dental, optometry, hospice, chiropractics, and occupational therapy. Despite the economic downturn, the Administration has maintained funding for all 34 optional benefits. California, along with many other states, provides these optional services both for the categorically needy (receiving public assistance) and medically needy beneficiaries (not receiving public assistance, but still qualifying for Medi-Cal based on

income and other eligibility factors). Medical costs vary considerably among the various categories of those eligible for Medi-Cal. For example, an individual receiving Medi-Cal as a result of California Work Opportunity and Responsibility to Kids (CalWORKs) eligibility will use services valued at about \$124 per month in 2002-03, whereas a disabled person in long-term care will use about \$4,726 in benefits per month.

Drugs—During the last several years, the cost of drugs has increased dramatically (see Figures HHS-13 and HHS-14), and pharmaceutical costs have become the fastest growing component of all health care costs. Technological advances in the development of new drugs, increased advertising of new and more expensive drugs, and expedited federal approval of new drugs have contributed to rising costs.

As cost-control strategies, the Medi-Cal program utilizes a Medi-Cal list (Formulary) of contract drugs and a State supplemental rebate program.

Managed Care—Currently, approximately 2.9 million Medi-Cal beneficiaries (almost half of the people receiving Medi-Cal benefits and services) are enrolled in managed care plans. The funding for managed care plans has increased from \$3 billion (\$1.5 billion General Fund) in 1998-99 to \$4.4 billion (\$2.2 billion General Fund) in 2002-03.

The Medi-Cal Managed Care program is a comprehensive, coordinated approach to health care delivery designed to:

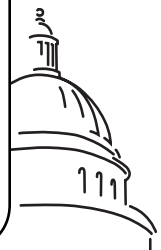
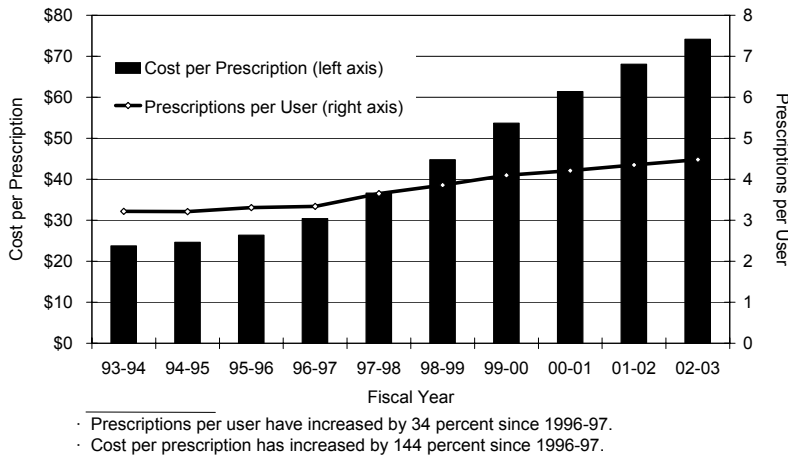


Figure HHS-13

**Prescriptions per User and Cost per Prescription
Fee-for-Service Drugs**

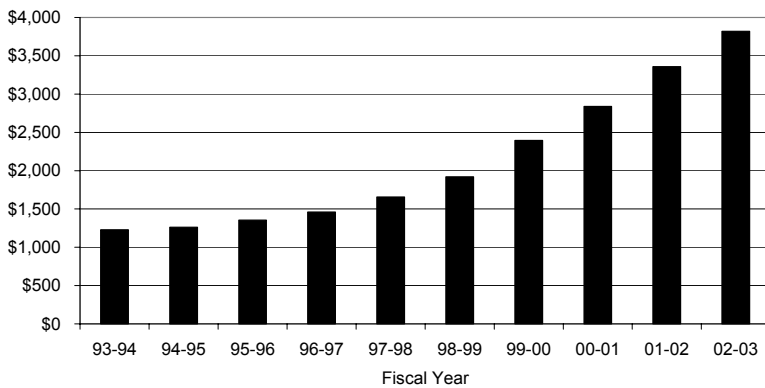


(1) improve access to preventive primary care, (2) improve health outcomes, and (3) control the cost of medical care. Managed care includes three major health care delivery systems: (1) the two-plan model, (2) Geographic Managed Care (GMC), and (3) County Organized Health Systems (COHS).

Approximately 76 percent of Medi-Cal managed care beneficiaries are enrolled in the two-plan model, first implemented in January 1996. Twelve counties were initially selected to offer beneficiaries a choice between two managed care plans. Each two-plan county offers the choice between a commercial plan selected through a competitive bidding process or the county-sponsored "local initiative." The commercial plan consists mainly of providers who have traditionally served the Medi-Cal population. The model assures continued participation by the "traditional" providers and maximizes the types of providers caring for beneficiaries. At full enrollment, approximately 2.2 million beneficiaries will be enrolled in a two-plan model county.

Figure HHS-14

**Total Fee-for-Service Drug Expenditures
(Dollars in Millions)**



The combined impact of increased prescription use and higher cost per prescription has resulted in a 161 percent increase in total cost since 1996-97.

The GMC model allows the State to contract with multiple managed care plans in a single county. The first GMC system was implemented in Sacramento County in 1994. A second GMC system began operation in San Diego County in 1998-99. Approximately 322,000 beneficiaries are enrolled in GMCs.



The third model, the COHS, administers a prepaid, comprehensive case-managed health care delivery system. This system provides utilization controls, claims administration, and health care services to all Medi-Cal beneficiaries residing in the county. Five COHS serving seven counties are currently in operation. Approximately 446,000 beneficiaries are enrolled in COHS.

EXPANDING ACCESS TO MEDICAL CARE

In this Budget, the Administration maintains its commitment to expand health care access to low-income working families, the disabled, seniors, and uninsured children. Moreover, the Administration is implementing new expansions to the Medi-Cal program that will facilitate the ability of uninsured Californians enrolled in other public programs to receive Medi-Cal coverage.

Despite the current economic downturn, the Administration has maintained recent programmatic expansions made to Medi-Cal as discussed below.

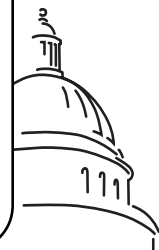
No-Cost Medi-Cal for the Working Poor—This expansion, which became effective in March 2000, allows two-parent working families with incomes at or below 100 percent of the Federal Poverty Level (FPL) to receive full-scope Medi-Cal without a share-of-cost. It permits working families to keep more of their income and still retain State-sponsored health insurance. As of April 2001, approximately 308,000 adults not previously eligible for Medi-Cal have become eligible. An anticipated

additional 92,000 low-income adults and children will enroll in Medi-Cal in 2002-03 through this eligibility expansion.

Medi-Cal for the Working Disabled—Effective in April 2000, this expansion extended Medi-Cal benefits to disabled working individuals with income below 250 percent FPL. These individuals pay a monthly premium for their coverage that varies depending on their income level. This program was initiated to increase self-reliance and to reduce the danger of losing publicly-funded benefits, which much of this population faced when they entered the workforce. By the end of 1999-00, 412 individuals were provided coverage through this expansion; by the end of 2002-03, it is expected that a total of 929 persons will be covered.

No-Cost Medi-Cal for Low-Income Seniors and Disabled Individuals—As part of the Governor's 2000-01 Aging with Dignity Initiative, this expansion became effective on January 1, 2001, extending no-cost Medi-Cal benefits to aged, blind, and disabled individuals with incomes below 133 percent FPL. It is expected that by June 30, 2002, 52,800 individuals will be provided Medi-Cal coverage with no share-of-cost under this expansion. By the end of June 30, 2003, it is estimated that an additional 13,790 people will be covered.

The Administration has provided health care coverage to an additional 468,000 previously uninsured Californians under the Medi-Cal program expansions



described above. In addition, the Administration has also maintained simplification of the complex Medi-Cal eligibility process.

Eliminating Quarterly Eligibility Status Reports—The 2000 Budget Act and Chapter 93, Statutes of 2000 (AB 287), eliminated the requirement that families receiving Medi-Cal submit quarterly eligibility status reports. Previously, many families receiving Medi-Cal lost their eligibility for failure to complete these reports. As a result of eliminating this requirement, an estimated 218,000 adults will retain Medi-Cal coverage. The total estimated cost of maintaining coverage for these adults that would otherwise lose their eligibility is \$142 million (\$72 million General Fund).

Providing Continuous Eligibility to Children—Chapter 945, Statutes of 2000 (AB 2900), provides 12-month continuing Medi-Cal eligibility to children 19 years of age and younger. Chapter 945 was intended to reduce the number of uninsured children in California by ensuring continuity of medical care. The 2002-03 Budget includes a total of \$312 million (\$156 million General Fund) to provide continuous Medi-Cal eligibility for an estimated 445,540 children. Since 2000-01, the Administration has provided a total of \$592.8 million (\$296.4 million General Fund) for this purpose.

Continuing Eligibility to Persons Leaving CalWORKs—Chapter 1088, Statutes of 2000 (SB 87), prohibits

county welfare departments from redetermining Medi-Cal eligibility when a beneficiary is terminated from CalWORKs, unless the reason for the termination clearly indicates a need for a Medi-Cal eligibility redetermination. Reasons for such termination include a significant increase in income or a change in family composition. This simplification of the eligibility process will allow an estimated 15,750 adults, previously discontinued from Medi-Cal for failure to provide eligibility information, to continue receiving benefits. The number of individuals served by this simplification and its cost remain unchanged from 2001-02. Since 2000-01, the Administration has provided a total of \$42.6 million (\$21.3 million General Fund) for this purpose.

Due to these programmatic simplifications, a total of 679,300 individuals will continue to receive Medi-Cal benefits.

The Administration continues to demonstrate its commitment to maximizing health care coverage for uninsured Californians by implementing two expansions that will greatly facilitate the enrollment of eligible families into Medi-Cal. This streamlining of enrollment, referred to as Express Lane eligibility, will link Medi-Cal eligibility with that of other public programs that serve low-income individuals.

Eligibility to Children Receiving Free School Lunches—Chapter 894, Statutes of 2001 (AB 59), will facilitate enrollment into Medi-Cal for uninsured



school children by linking Medi-Cal eligibility with free school lunch eligibility. This new expansion will automatically enroll children under age six who are receiving free school lunches into the Medi-Cal program. This expansion will also require counties to determine Medi-Cal eligibility for children older than six receiving free school lunches, and enroll them pending completion of a Medi-Cal application. It is estimated that this expansion will result in 21,200 additional children receiving Medi-Cal coverage in 2002-03. The Budget provides \$23.3 million (\$11.7 million General Fund) to support this expansion.

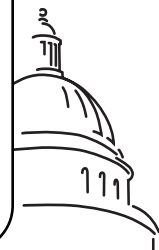
Eligibility for Persons Receiving Food Stamps—This expansion will facilitate the enrollment of low-income, uninsured families in the Medi-Cal program by requiring counties to send Medi-Cal and Healthy Families Program enrollment information to families receiving food stamps at their annual eligibility redetermination, pursuant to Chapter 897, Statutes of 2001 (SB 493). It is expected that this linkage of food stamp eligibility with the Medi-Cal program will result in an additional 14,900 parents and children receiving Medi-Cal coverage in 2002-03. The Budget provides \$18.8 million (\$9.4 million General Fund) to support this expansion.

OTHER MEDI-CAL PROGRAM CHANGES

Reimbursement Rates for Hospital Outpatient Services—Since 1990, the State has been involved in litigation with hospitals regarding Medi-Cal reimbursement rates for outpatient services. Under terms of a recent settlement agreement, the Budget provides funding for a one-time payment of \$350 million (\$175 million General Fund) to address prior years' reimbursement levels. In addition, the 2001 Budget Act included \$160.1 million (\$80.1 million General Fund) to increase reimbursement rates by 30 percent, effective July 1, 2001. The 2002-03 Budget includes \$183 million (\$91.5 million General Fund) for this purpose. For the next three years, starting with 2002-03, the rates will increase annually by an additional 3.33 percent.

At this time, the federal government has yet to approve federal financial participation for the retroactive payment of \$350 million (\$175 million General Fund). However, the federal government is likely to approve the prospective rate increases. Due to the uncertainty of the federal government's concurrence with a portion of the settlement, the Administration proposes to proceed with the prospective rate increases.

Co-Payments—The Budget proposes to require co-payments from Medi-Cal recipients to the extent permitted by federal law. These payments, ranging from \$1 to \$3 (or up to \$5 for emergency room services), will be deducted from provider reimbursements. Net



savings are expected to reach \$61.2 million (\$30.6 million General Fund). With these proposed changes, California's co-payment requirements will be closely comparable with those of the most populous states.

Provider Rate Reductions—The 2000 Budget Act included provider rate increases totaling approximately \$800 million. These rate increases included a 16.7 percent increase in physician services overall, and a 10 percent increase in long-term care. The \$800 million (\$403 million General Fund) also included a 39 percent increase for California Children's Services physician services, and a 30 percent increase for neonatal intensive care.

Given the State's current budget shortfall, it is necessary to partially rescind the 2000-01 provider rate increases, reflecting a savings of \$155.1 million (\$77.6 million General Fund). These temporary reductions will be allocated in such a manner as to limit the impact on access to services provided to children and the elderly enrolled in the Medi-Cal program.

The DHS will convene a work group to determine the appropriate mechanism to achieve these savings while assuring that provider rates are no lower than the 1999-00 reimbursement levels. Any necessary adjustments to the Budget will be submitted as part of the May Revision.



The Administration intends to restore funding for provider rates when the State's fiscal condition improves.

Pharmaceutical Savings—The Budget includes several proposals to achieve additional cost-control savings in the Medi-Cal drug program. Savings of \$201 million (\$100 million General Fund) are estimated to result from these activities, which include:

- ❖ **Rebate contracts on generic drugs**—Currently, the DHS negotiates rebate contracts with drug manufacturers on brand name drugs only. Additional savings will be generated through rebate contracts on generic drugs.
- ❖ **Addressing the existing backlog in drug rebate contract disputes**—State rebate revenue is sometimes held up in contract disputes with drug manufacturers. Increased staff time dedicated to the resolution of contract disputes will result in additional savings.
- ❖ **Therapeutic category reviews**—A therapeutic category review (TCR) is a process by which drugs with the same therapeutic classification are compared based on the same criteria in order to ensure that the Formulary includes the most cost-effective drugs without compromising patient health needs. TCRs on anti-psychotic and non-steroidal anti-inflammatory drugs are proposed because they constitute two of the more expensive drug categories in Medi-Cal.

- ❖ **Rebate contracts and lower pharmacy payments for nutritional products**—Because nutritional products are not generally considered drugs, rebate contracts have not historically been sought. However, the DHS will now negotiate rebate contracts with manufacturers of nutritional products, generating substantial revenue. In addition, reducing pharmacy reimbursement for nutritional products will result in additional savings.
- ❖ **Mandatory 10 percent supplemental rebate on AIDS and cancer drugs**—Currently, only federally mandated rebates are collected on these drugs. Additional savings will be realized through a mandatory State supplemental rebate.
- ❖ **Medical supply contracting of blood glucose strips**—Medical supply contracting is similar in process to drug rebates. The DHS will negotiate contracts with medical supply manufacturers to provide their products at a cost lower than what the State is currently paying. In return, those products will be available without prior authorization.
- ❖ **Duration of therapy and frequency of billing audits**—Under duration of therapy restrictions, use of a particular drug is limited to a specific timeframe, after which prior authorization is required. When claims for provider payments are

processed, frequency of billing audits can be conducted to ensure proper billing.

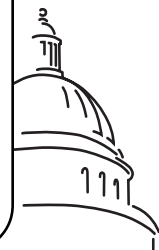
Enhanced Federal Funding

Opportunities—The Budget proposes \$50 million in General Fund savings by maximizing additional federal revenue opportunities. The proposals offer a variety of opportunities for capturing additional federal funds through activities such as optimizing use of federal Medicaid funding for juvenile probation costs, increasing recoveries for in-home supportive services, and child welfare maintenance and administrative costs, and maximizing Medicaid utilization within the Departments of Health Services, Social Services, Mental Health, Developmental Services, Corrections, and the Youth Authority.

Federal Medical Assistance

Percentage—The Federal Medical Assistance Percentage (FMAP) is the Percentage of Medi-Cal costs reimbursed by the federal government and is based on U.S. Bureau of Census estimates of State population. The Budget proposes a \$400 million General Fund reduction in various departments and a corresponding increase in federal funding in the current year in anticipation of federal legislation that will provide an additional \$400 million to offset the cost of Medi-Cal services.

The current FMAP is 51.4 percent. However, in 2002-03, the FMAP will decrease to 50 percent, effective October 2002, resulting in increased General



Fund costs of \$193.8 million in 2002-03 to absorb the loss in federal funds. The Budget also reflects General Fund increases of \$48.2 million in the budgets of other departments and local entities that provide services for which they receive federal Medicaid funding.

Disproportionate Share Hospital Program—A Disproportionate Share Hospital (DSH) serves at least 25 percent Medi-Cal or uncompensated care patients. This program strengthens the health care safety net by making additional federal funds available to compensate hospitals for the cost of serving low-income patients. Public DSH hospitals (those operated by counties, hospital districts, or the University of California) make contributions that are matched with federal funds. The total amount, less a State administrative fee, is then redistributed by formula to public and private DSH hospitals.

The State administrative fee was established in the early 1990s because of General Fund constraints. Under current law, the administrative fees are made available for general Medi-Cal program benefit costs. By 1995-96, these administrative fees reached \$239.8 million.

Over the last several years, this Administration has reduced the administrative fee to the current level of \$29.8 million. The Budget proposes to restore the administrative fee to the 1999-00 level of \$85 million. However, this Administration intends to reduce this fee as General Fund resources become available.



Health Insurance Portability and Accountability Act—In August 1996, the President signed the Health Insurance Portability and Accountability Act (HIPAA). The HIPAA is designed to improve the availability of health insurance to working families and their children. It also requires the compliance of states and other entities with federal rules relating to administrative simplification, revised security procedures, and fraud control.

Combined, the 2001 Budget Act and Chapter 635, Statutes of 2001 (SB 456), appropriated \$92.2 million (\$24.3 million General Fund) to various departments to fund HIPAA compliance efforts. Due to the recent economic downturn, this funding was reduced by \$74.1 million (\$19 million General Fund) in the November 2001 *Proposed Reduction in 2001-02 Spending* plan. Departments will continue compliance efforts to the extent feasible in 2001-02. The Budget proposes to restore this funding beginning in 2002-03 in order to meet federal compliance timelines.

The HIPAA is comprised of several rules, all with specific deadlines by which entities must be compliant. On December 27, 2001, the President signed House Bill 3323, which allows entities to seek a one-year delay in the compliance deadline for implementation of the transaction and code sets rule. To be approved for the delay, entities must submit to the federal Department of Health and Human Services a compliance plan that details the following:

- ❖ An analysis reflecting the extent to which the entity is not in compliance.
- ❖ An implementation strategy for achieving compliance.
- ❖ If a contractor or other vendor may be used to assist the entity in achieving compliance.
- ❖ A timeframe for testing that begins not later than April 16, 2003.

Given the current economic situation, California, along with the National Governors Association, is lobbying for additional deadline extensions.

LICENSING AND CERTIFICATION

The Department's Licensing and Certification (L&C) program is responsible for the certification and licensing of long-term care facilities and certain caregivers. These activities ensure high-quality medical care in community settings and facilities consistent with the Administration's commitment to help elderly people remain at home, increase community-based placement alternatives, and enhance the quality of care in nursing homes.

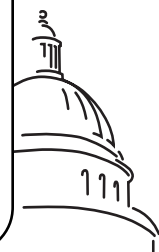
The 2002-03 Budget includes an augmentation of \$5.3 million (\$2.7 million General Fund) and 55.5 positions for L&C to implement the provisions of Chapter 684, Statutes of 2001 (AB 1075). This legislation requires a revised reimbursement methodology and staffing standards for nursing homes. These

activities are aimed at increasing the quality of nursing home care, as well as ensuring beneficiary access to the appropriate level of care.

Emergency Medical Services Authority

The Emergency Medical Services Authority (EMSA) provides statewide coordination of emergency medical services (EMS), regulates the education, training and certification of EMS personnel, develops guidelines for local emergency medical services, and coordinates the State's medical response to any disaster. The 2001 Budget Act included a one-time augmentation of \$30 million to enhance California's trauma care system.

Trauma Support—In the November 2001 *Proposed Reduction in 2001-02 Spending* plan, the Administration proposed to revert the entire \$30 million augmentation for trauma care. However, during the 2002-03 Budget development process, spending reductions were made to accommodate the restoration of a majority of these trauma care funds. As a result, the Administration will allocate \$25 million to trauma centers in 2001-02. The Administration continues to propose to revert the remaining \$5 million for local trauma system planning. This funding was provided for one-time planning activities, and Local Emergency Medical Service Agencies may apply to EMSA for federally-funded grants for trauma planning.



Managed Risk Medical Insurance Board

The Managed Risk Medical Insurance Board (MRMIB) administers programs, which provide health coverage through private health plans to certain groups having no health insurance. The Board develops policy and recommendations on providing health insurance to over 6 million Californians without health care coverage. The three programs administered by the MRMIB are the Healthy Families Program, the Major Risk Medical Insurance Program, and the Access for Infants and Mothers program.

Healthy Families Program (HFP)—The HFP is a subsidized health insurance program for children in families with low-to-moderate income who are ineligible for no-cost Medi-Cal. The HFP provides low-cost health, dental, and vision coverage to eligible children from birth to age 19.

Overall, HFP expenditures grew from \$131.5 million (\$44.3 million State funding) in 1998-99 to \$795.1 million (\$289.1 million State funding) in 2002-03, an increase of \$244.8 million in State funding, or 552 percent. Since year-end 1998-99, children's caseload has grown from about 132,000 to an expected 644,000 in 2002-03 for a total increase of 512,000 children, or 288 percent. Since the beginning of this Administration, about \$2.4 billion (\$839.8 million State funding) has been provided for this program. Figure HHS-15 displays program funding by department.



The Budget includes the following significant adjustments for 2001-02:

HFP Parent Expansion—Due to the recent economic downturn, the Administration proposes to postpone the Parent Expansion until July 2003. Funding was provided for this expansion in the 2001 Budget Act. The Administration will continue to pursue approval of the waiver with the federal government for this expansion.

The Budget includes the following significant adjustments for 2002-03:

Child Health and Disability Prevention (CHDP)—In an effort to provide more comprehensive health care services to children and maximize the use of available federal funds, the Budget proposes to shift the CHDP program caseload to the Medi-Cal program and the HFP. As a result of this shift, the HFP is augmented by \$15.4 million (\$5.9 million Tobacco Settlement Fund) to serve an expected 20,700 additional children.

Access for Infants and Mothers (AIM)—The AIM program provides low-cost, comprehensive health insurance coverage to uninsured pregnant women with family income between 200 and 300 percent of the FPL. This coverage extends from pregnancy to 60-days postpartum, and covers infants up to two years of age. The Budget includes a total of \$79.6 million (\$74.8 million Perinatal Insurance Fund) for this program, an increase of \$11.4 million (\$10.1 million Perinatal

Insurance Fund) over the 2001 Budget Act. This funding increase will be used to provide coverage to an additional 1,100 women and 8,900 children compared to the 2001 Budget Act.

The Budget for this program has increased from \$41.7 million (\$37.5 million Perinatal Insurance Fund) in 1998-99 to \$79.6 million (\$74.8 million Perinatal Insurance Fund) in 2002-03, for a total increase of \$37.9 million (\$37.3 million Perinatal Insurance Fund), or 91 percent. Since 1998-99, caseload has grown from 4,460 women and 74,100 infants to a total of 7,400 women and 115,300 infants in 2002-03, or an

increase of 66 percent in women's enrollment and 56 percent in infants' enrollment.

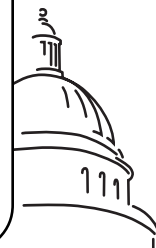
Major Risk Medical Insurance Program (MRMIP)—The MRMIP provides health care coverage to medically high-risk individuals and the medically uninsurable who are refused coverage through the individual health insurance market. Program enrollment is "capped" at the level of annual funding provided. The MRMIP currently provides benefits to a total of 16,000 persons with a total of 7,100 persons on a waiting list. The 2001 Budget Act contained a one-time \$5 million General Fund augmentation to provide coverage to an additional

Figure HHS-15

Healthy Families Program and Related Expenditures
(Dollars in Thousands)

	2001-02		2002-03	
	Total	General Fund	Total	General Fund
Managed Risk Medical Insurance Board (MRMIB)				
Support	\$6,587	\$2,398	\$5,473	\$1,777
Local Assistance	648,663	126,018	651,488	0 ^{2/}
Total MRMIB	\$655,250^{1/}	\$128,416	\$656,961	\$1,777
Department of Health Services (DHS)				
Support	\$4,586	\$1,532	\$1,629	\$569
Local Assistance:				
Eligibility Expansion	53,437	21,051	68,552	21,834
Outreach	69,630	20,258	28,961	11,146
Total Local Assistance	123,067	41,309	97,513	32,980
Total DHS	\$127,653	\$42,841	\$99,142	\$33,549
Total DHS and MRMIB	\$782,903	\$171,257	\$756,103	\$35,326
Other				
Department of Mental Health	\$12,980	\$765	\$7,870	\$663
Child Health and Disability Prevention	820	279	0	0
Access for Infants and Mothers	3,498	1,191	4,811	0 ^{3/}
California Children's Services	19,600	3,665	26,321	5,963
Total Other	\$36,898	\$5,900	\$39,002	\$6,626
TOTAL HEALTHY FAMILIES	\$819,801	\$177,157	\$795,105	\$41,952

1. Includes costs of both the Single Point-of-Entry and the Health-e-App. The DHS also budgeted these costs but they were not included in DHS' total on this chart.
2. All General Fund for Local Assistance in the Healthy Families Program was replaced by the Tobacco Settlement Fund (TSF). Total TSF budgeted for the HFP is \$247.1 million.
3. All General Fund for the AIM program was replaced by TSF. Total TSF budgeted for the AIM program is \$1.6 million.



1,964 clients previously on a waiting list. The MRMIB and the Department of Managed Health Care should continue their efforts to work with the Legislature and the insurance industry to devise market-based solutions to reduce barriers for this uninsurable population.

Department of Mental Health

The Budget includes \$2.2 billion (\$943.4 million General Fund), a net increase of \$111.5 million (a reduction of \$28.8 million General Fund) above the 2001 Budget Act, for state mental health hospitals and community mental health programs. This increase reflects higher caseload for the state hospitals and community mental health programs. The Budget also includes reductions of \$42.5 million General Fund in State operations and categorical community mental health programs as part of the statewide effort to address the State's current fiscal situation.

Under this Administration, funding for community mental health programs, has increased from \$938.4 million in 1998-99 to \$1.5 billion proposed for 2002-03, a 60 percent increase, and reflects expanded services for children, new programs for homeless adults, and increased caseloads.

State Hospitals—The Budget includes \$607.2 million (\$462.6 million General Fund) for support of the State Hospitals, a net increase of \$22.6 million (\$32.3 million General Fund) over the 2001 Budget Act. This funding level will support a total caseload of

4,900 state hospital commitments. The following significant adjustments are included in the 2002-03 Budget:

- ❖ \$20.2 million General Fund decrease to reflect the completion of several one-time facility projects, including the Americans with Disabilities Act project at Metropolitan State Hospital, the Psychiatric Technician program at West Hills Community College, security improvements to the state hospitals, and the purchase and set-up of modular buildings at Patton and Atascadero State Hospitals.
- ❖ \$20.3 million (\$14.7 million General Fund) increase to reflect higher retirement contributions for State employees.
- ❖ \$10.2 million (\$9.9 million General Fund) increase for the full-year cost of new staff provided in 2001-02.
- ❖ \$9.4 million (\$21.6 million General Fund) increase to reflect changes in the state hospital population (see Figure HHS-16). The 2002-03 year-end population of forensic patients is expected to increase by 215. The number of beds to be purchased by the counties is expected to decrease from 869 to 776.
- ❖ \$4.1 million General Fund increase for non-level-of-care positions for Atascadero, Patton, and Coalinga State Hospitals. Non-level-of-care staff is proposed in anticipation of expanded populations at Atascadero



and Patton State Hospitals, and to prepare for the opening of the Coalinga State Hospital in 2004.

- ❖ \$2.6 million one-time General Fund increase for security improvements at Patton State Hospital. This is a continuation of projects begun in 2001-02 to upgrade the personal alarm systems in state hospitals to protect patients, staff, and surrounding communities.

Reductions in State Operations— To address the State’s current fiscal situation, the Budget proposes a reduction of \$3.3 million General Fund and 18 positions in State operations to reflect lower administrative expenses.

Community Mental Health Services—The Budget includes \$1.5 billion (\$426.5 million General Fund), a net increase of \$87.8 million (a reduction of \$60.7 million General Fund) over the 2001 Budget Act. The following significant adjustments are included in the 2002-03 Budget:

- ❖ \$34.5 million General Fund reduction to reflect reduced state reimbursable mandates claims.
- ❖ \$133.7 million increase in reimbursements for Early and Periodic Screening, Diagnosis, and Treatment services. This reflects an increase of 31.6 percent in program costs (all fund sources) over the past year (see Figure HHS-17).

Figure HHS-16

**Department of Mental Health
State Hospital Year-End Population**

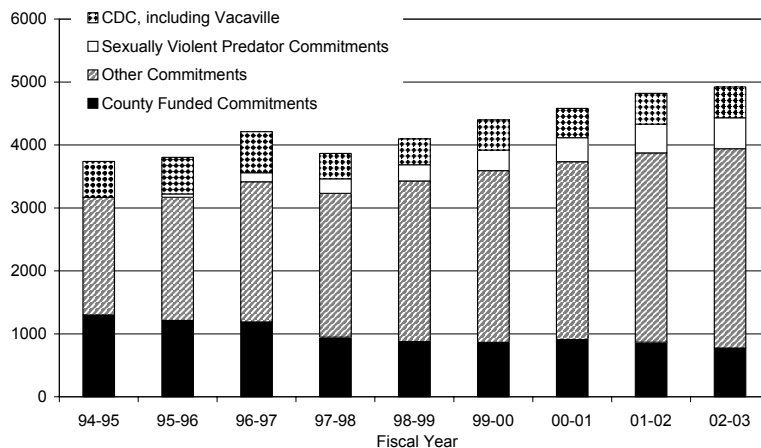
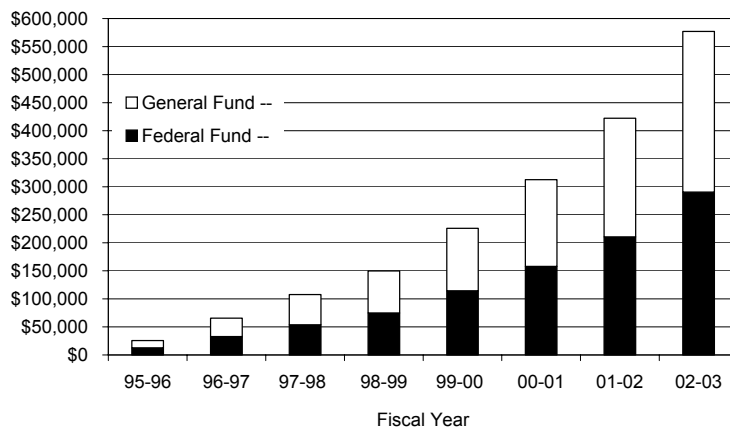
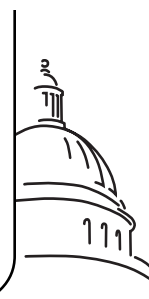


Figure HHS-17

**Early and Periodic Screening,
Diagnosis, and Treatment
Mental Health Services
(Dollars in Thousands)**



- ❖ \$16.7 million increase in reimbursements for Therapeutic Behavioral Services (TBS). This Medi-Cal benefit is an intensive one-on-one, short-term outpatient treatment intervention for children and youth who are seriously emotionally



disturbed. It is designed to prevent placement in group-home settings, or locked mental health treatment facilities. The TBS may also be provided to enable children to transition to lower levels of care.

- ❖ \$14.1 million General Fund increase for inpatient and outpatient psychiatric services to be provided by counties through the Medi-Cal Managed Care Program to reflect expected higher caseload.
- ❖ \$1.9 million in reimbursements to reflect increased costs for the San Mateo Pharmacy and Laboratory Services Field Test.
- ❖ \$1.2 million General Fund for the second year of a two-year program to provide a supplemental rate for Community Treatment Facilities.

Reductions in categorical programs in response to the State's current fiscal situation include:

- ❖ \$17.5 million for Supportive Housing Program.
- ❖ \$12.3 million to eliminate advance payments to counties for mental health services to special education pupils.
- ❖ \$4.2 million to reduce the Children's Systems of Care (CSOC) program, and eliminate the independent evaluation of the program that has continued since the CSOC began

as a pilot. The CSOC program is no longer a pilot and has been expanded statewide.

- ❖ \$2.7 million for the East Valley Pavilion Institute for Mental Disease that is no longer in operation.
- ❖ \$1.9 million to eliminate the third and final year of a dual diagnosis pilot project.
- ❖ \$0.6 million to reflect a reduction in the estimated caseload for the HFP.

Department of Developmental Services

The Budget includes \$2.9 billion (\$2 billion General Fund), an increase of \$159.4 million (\$142.9 million General Fund) above the 2001 Budget Act for programs for the developmentally disabled. This increase reflects an additional 9,675 consumers, for a total estimated caseload of 185,890 consumers. Under this Administration, the Department's budget has increased from \$1.9 billion in 1998-99 to \$2.9 billion in 2002-03 for a total increase of \$959.9 million, or 50 percent, primarily for caseload and service utilization increases.



DEVELOPMENTAL CENTERS

The Budget includes the following significant adjustments for 2001-02:

Developmental Center Certification—\$13.7 million General Fund and a commensurate decrease in federal funds due to the decertification of the Secure Treatment Program units at Porterville Developmental Center and a delay in certification of the Canyon Springs facility. These adjustments reflect the recent certification of the Sierra Vista facility on April 20, 2001.

Janitorial Contracts—\$8.5 million (\$4.9 million General Fund) increase to reflect increased health benefits for janitors and increased costs for contracted janitorial services.

The Budget includes the following significant adjustments for 2002-03:

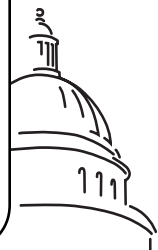
Population—A net decrease of \$800,000 (\$8,000 General Fund increase) to reflect the projected decrease of 50 consumers in the Developmental Centers. Total 2002-03 caseload is projected to be 3,660. Although the population overall is decreasing, a greater proportion of the population requires increased levels of medical care or requires higher levels of supervision due to behavioral challenges. Therefore, the savings for reduced caseload are partially offset by increased costs per consumer.

REGIONAL CENTERS

The Budget includes a net increase of \$148.3 million (\$134.9 million General Fund) for 2002-03 due to increased caseload, higher service utilization rates, and program modifications. The Regional Center population is projected to increase by 9,725 consumers, to a total of 182,230. Significant adjustments include:

Regional Center Purchase of Services—A net increase of \$108.7 million (\$95.3 million General Fund) for Purchase of Services, which reflects \$52 million General Fund savings to be achieved through the implementation of statewide standards across the 21 Regional Centers. The Administration will undertake a collaborative effort, whereby the Department, Regional Centers, and stakeholders will seek to identify opportunities to maximize the \$2.2 billion provided for the Community Services program, increase administrative efficiency, and improve consistency of the services provided to consumers throughout the state, while maintaining the entitlement guaranteed under the Lanterman Act.

Community Placement Plan—\$20.4 million General Fund increase to improve the method of estimating the cost of transferring consumers from Developmental Centers into community placements. This change in estimate methodology is consistent with the Department's statutory responsibility to ensure that individuals with developmental disabilities live in the least



restrictive setting appropriate to their needs. Previously, the estimate was based on historical service utilization data. Beginning in 2002-03, the estimate will be based on a detailed assessment of the services necessary to support individuals in community placements.

Autism—\$17.2 million General Fund increase to maintain services for consumers diagnosed with autism. Due to increased awareness of autism in the health care community and emphasis on early screening of children, the number of autism diagnoses is increasing steadily. The development of effective behavioral and educational programs demonstrates that early intervention leads to measurable improvement in many children with autism. With early, intensive, and comprehensive treatment, many children diagnosed with autism can go on to lead more normal lives.

Special Incident Reporting—\$2 million General Fund increase for additional Regional Center staff to fully implement the Special Incident Reporting system. These additional resources are expected to bring the system into compliance with federal requirements to ensure continued federal funding under the Home and Community-Based Services Waiver.



Department of Alcohol and Drug Programs

The Budget includes \$544.2 million (\$223.2 million General Fund), a decrease of \$99 million (\$20.1 million General Fund) below the 2001 Budget Act, for substance abuse treatment programs. The Department's community substance abuse prevention and treatment programs have increased from \$383.6 million in 1998-99 to \$506.3 million in the 2002-03 Budget (including \$120 million in Proposition 36 funds), for a total increase of \$122.7 million. These funding increases reflect the Administration's efforts to expand services and improve the availability of substance abuse treatment programs.

The 2001-02 Budget includes the following significant adjustments:

Drug Medi-Cal (DMC) Savings—Existing statute automatically reappropriates unspent DMC funds for up to two years to pay claims from prior years. The Department determined that not all of the funds reappropriated for 2000-01 claims are required, and a reduction of \$21.5 million (\$10.5 million General Fund) is proposed to capture these General Fund savings in the current year.

Drug Medi-Cal Caseload—A reduction of \$7.6 million (\$3.7 million General Fund) as a result of changes in cost and service utilization. This reduction is due to lower costs for specified services and a change in the types of services utilized.

The 2002-03 Budget includes the following major adjustments:

Drug Medi-Cal Caseload—A reduction of \$9.6 million (\$3.7 million General Fund) to reflect a change in the mix of DMC services expected to be provided to clients and lower costs for specified services.

Expiration of Limited-Term Programs—A reduction of \$4.2 million General Fund to reflect programs expiring June 30, 2002, including the first-round grants under the Drug Court Partnership program.

Reduction for Fiscal Uncertainties—\$14.8 million General Fund reduction in local assistance programs as part of the statewide effort to address the State's current fiscal situation. The substance abuse programs proposed for reduction include non-DMC Services, technical assistance contracts, and ending the second-round grants under the Drug Court Partnership program one year early.

MENTORING AT-RISK YOUTH

The Department of Alcohol and Drug Programs continues to be responsible for coordinating the State's mentoring effort. The Budget continues \$23.4 million (\$22.3 million General Fund, including \$10 million Proposition 98) for various state agencies involved in mentoring. These programs are designed to assist at-risk youth to become productive members of society while reducing juvenile crime, teenage pregnancy, gang association, and the school dropout rate. (Figure HHS-18 reflects mentoring funding by department.)

Employment Development Department

The Employment Development Department (EDD) administers the Unemployment Insurance and Disability Insurance programs and collects personal income tax from employers. In addition, it administers a variety of labor exchange and job training programs including the

Figure HHS-18 California Mentor Initiative 2002-03

Department	Program	Fund Sources	Amount
Alcohol and Drug Programs	County Grants	Safe and Drug-Free Schools Grant	\$1.1
Community Services and Development	Local Programs	General Fund	1.0
Youth Authority-Institutions	Young Men as Fathers	General Fund	1.0
Youth Authority-Counties	Volunteers in Parole	General Fund	0.3
Secretary for Education	Academic Mentoring	Proposition 98	10.0
Education	Academic Mentoring	General Fund	10.0
TOTAL			\$23.4



Job Services, Welfare-to-Work Grant, and Workforce Investment Act programs. The Budget includes \$8.7 billion (\$28.2 million General Fund) for EDD programs.

Faith-Based Initiative—The Budget continues, for an additional year, an initiative begun during this Administration to engage faith-based organizations more directly in the State's effort to deliver employment services. The Budget provides \$4 million for competitive grants to faith-based organizations that are uniquely suited to provide services to individuals facing multiple barriers and thus inhibiting their assimilation into the workforce. In 2001-02, the EDD received 684 proposals from faith-based organizations representing all regions of the state, requesting over \$184 million. Final award recommendations are currently under consideration by the Administration.

Job Agent Program—The Budget reflects a General Fund savings of \$2.7 million as the result of eliminating the Job Agent program in 2002-03. The program provides employment-related services to economically disadvantaged individuals who have multiple barriers to employment by providing individualized training and employment plan development. However, clients are currently directed by Job Agent staff to other labor exchange services to meet their job training and placement objectives. Clients affected by this reduction would continue to be directed to those other employment programs best able to meet their needs.

Intensive Services Program—The Budget includes savings of \$3.6 million EDD Contingent Fund to reflect a reduction in the Intensive Services program in 2002-03. This program provides case management assistance for individuals who face barriers to employment, such as long-term unemployment or lack of job skills. The employment training resources, labor market information, and referrals that are currently provided to Intensive Services clients will continue to be available for affected job seekers through core EDD employment services and the Workforce Investment Act program. In addition, this funding was used to provide services to CalWORKs recipients. Funding for CalWORKs services has been consolidated in a combined program grant, which will be provided to counties. Counties may use this grant funding to continue to provide these services to CalWORKs recipients.

Department of Rehabilitation

The Department of Rehabilitation is responsible for assisting people with disabilities, particularly those with the most significant disabilities, to obtain and retain employment and to maximize their ability to live independently in their communities. The Budget proposes \$483.9 million and 2,085 personnel years to carry out the Department's programs in 2002-03.

Vocational Rehabilitation Services Program—The Administration has demonstrated its strong support for



persons with disabilities by providing sufficient funding for continuous service to the Most Significantly Disabled and Significantly Disabled, commencing with the 1999-00 fiscal year. The 2002-03 Budget reflects an increase of \$3.3 million (\$367,000 General Fund). This will enable the Vocational Rehabilitation (VR) program to serve an additional 2,242 clients. Additionally, the Budget proposes to restructure various service delivery business processes to improve operational efficiency. This restructuring will result in savings of \$10.4 million (\$2.5 million General Fund). Through the Department's service priority system, the Order of Selection, the Administration proposes to continue to serve the Most Significantly Disabled category, regardless of application date, including those Significantly Disabled applicants who may apply through June 30, 2003, subject to the availability of funds.

Habilitation Services Work Activity and Supported Employment Programs—The Budget includes a net increase of \$3.5 million (\$4.6 million General Fund and a reduction of \$1.1 million reimbursements from the Home and Community-Based Services Waiver) for 2002-03 due to caseload increases in the Habilitation Services Work Activity and Supported Employment Programs. The Budget assumes that the Department will implement a variety of cost containment measures to achieve savings of \$7.3 million (\$5.9 million General Fund).

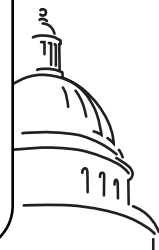
The Director of the Department of Rehabilitation will convene a group of Habilitation Service Program stakeholders to consult in the development of appropriate standards and revision of business practices to restructure the program to ensure attainment of these savings.

The Budget includes \$15 million in reimbursements from the federal Home and Community-Based Waiver for 2002-03. The Budget also contains an additional \$15 million (\$12.8 million General Fund) for 2001-02 to address current year entitlement caseload increases.

Office of Statewide Health Planning and Development

The Office of Statewide Health Planning and Development (OSHPD) is responsible for helping California health care systems meet the current and future health needs in the State. The Office ensures health care facilities are capable of continued operation in the event of a disaster, and improves delivery of and accessibility to health care in the State. The Budget proposes \$55.5 million and 408 personnel years to carry out the Office's mission in 2002-03.

Coronary Artery Bypass Graft Outcome Reporting—The Budget includes an increase of \$1 million California Health Data and Planning Fund, offset by \$138,000 in savings to the Hospital Building Fund, to implement the provisions of Chapter 898, Statutes of 2001. Chapter 898 requires the OSHPD to



develop and publish the new Coronary Artery Bypass Graft (CABG) outcome report annually, beginning July 1, 2002.

The CABG outcome report will present risk-adjusted mortality rates for hospitals that regularly perform coronary artery bypass graft surgery. The CABG will annually provide consumer groups and health care purchasers with information regarding a hospital's performance as compared to other hospitals on the CABG procedure. Furthermore, surgeon-level data will be reported every two years to assist consumers and health care purchasers in choosing health care providers by comparing outcomes for the CABG procedure.

Department of Child Support Services

To provide enhanced fiscal and programmatic direction and oversight of child support enforcement activities, Chapters 478 and 480, Statutes of 1999, established the Department of Child Support Services (DCSS). These measures authorized the implementation of a single statewide child support system comprised of local child support agencies under the supervision of the new Department. The DCSS assumed responsibility for child support enforcement activities in January 2000. All counties are scheduled to transfer from the district-attorney-managed system to DCSS by the end of 2002.

The DCSS is designated as the single State agency to administer the statewide program to secure child, spousal,

and medical support, and determine paternity. Its primary purpose is the collection of child support payments for custodial parents and their children. The Budget proposes approximately \$995 million (\$288.5 million General Fund) and 215.3 personnel years for these activities.

Child Support Collections—The child support program establishes and enforces court orders for child, spousal, and medical support from absent parents on behalf of dependent children and their caretakers. For display purposes only, the Budget reflects the total collections received, including payments to families and collections made in California on behalf of other states. The General Fund share of assistance collections is included in statewide revenue projections.

Between 1999-00 and 2000-01, child support collections grew from a level of \$1.8 billion to \$2 billion, resulting in General Fund revenues of \$267 million and \$295 million, respectively. Total collections of approximately \$2.3 billion (\$337 million General Fund) and \$2.4 billion (\$353.7 million General Fund) are estimated for 2001-02 and 2002-03, respectively. Child support collections continue to increase even as the DCSS continues to build its capacity to meet program goals and transition local child support agencies to the new child support system.

In addition to generating increased revenue to the State, the Child Support Program also provides additional benefit to the State through public assistance



cost avoidance. For 2000-01, over 66 percent of child support collections were disbursed to families who do not receive public assistance. However, many of these families have income below the poverty level and are considered working poor. These child support collections help these at-risk families avoid the need for public assistance.

State Administration—The Budget proposes total expenditures of \$30.7 million General Fund for State administration of the program. Departmental staff ensure a more effective program through expanded State-level direction and supervision of local child support agencies. Specific mandates require increased oversight of local program and fiscal operations.

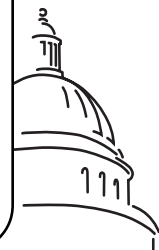
Federal Incentive Structure—Child Support Program funding is comprised of 66 percent federal financial participation and 34 percent federal and State incentives. Incentive funding is calculated as 13.6 percent of total distributed collections. The federal share of incentive funding is based on the performance of California relative to other states in five performance categories. The Budget includes \$39.9 million in federal incentive funding. State funding provides the difference between federal funding and the capped incentive rate, subject to Budget Act appropriation as discussed below.

County Administration—The Budget continues to reflect the Administration's commitment to adequately fund local child support agencies. The Budget

proposes expenditures of \$252.2 million General Fund for county administration in 2002-03. Although the Budget includes a reduction of \$35.3 million General Fund to reflect a realistic estimate of local administrative expenditures for 2002-03, the proposed level of funding reflects a 38 percent increase over actual 2000-01 expenditures.

Child Support Automation—Chapter 479, Statutes of 1999, designated the Franchise Tax Board (FTB) as the agent of the Department for the procurement, development, implementation, and maintenance and operation of the California Child Support Automation System (CCSAS). The State is responsible for all costs associated with developing, implementing, and transitioning all counties onto this new system. As a result of California's delay in implementing a single, statewide-automated system, the federal government has levied significant penalties against the State. In 2001-02, California will pay an estimated \$157.5 million General Fund in federal penalties, an increase of \$5.5 million over the 2001 Budget Act.

California, other states, and the National Governors Association have been active in lobbying the federal government for changes to the existing penalty structure. Proposed changes to the penalty structure would reduce the base used for calculating the federal penalty, allow states to reinvest penalties in program improvements, and allow the Secretary of the Department of Health and Human Services to waive penalties, provided that states make good faith efforts



to comply with the terms of their individual corrective action plans.

California continues to make good progress on its corrective action plan. Through the joint efforts of the FTB and the DCSS, the CCSAS is currently in the procurement phase, with contract awards targeted for late 2002. Additionally, the Department has successfully converted all but two counties to one of the six federally approved consortia, interim systems. The remaining two counties will convert by April 1, 2002. Consequently, the Administration anticipates that federal legislation will be enacted to provide relief from the penalty in 2002-03 for an estimated \$181.3 million in General Fund savings.

The 2000 Budget Act provided funding for the FTB to implement Chapters 478 and 480, Statutes of 1999, which expanded its responsibility for the collection of overdue child support payments until the statewide, automated system is in place. This interim system, known as the California Arrearage Management Process, was designed to provide centralized management of child support arrearages, and was expected to increase child support collections by \$70 million annually when fully implemented. However, due to the loss of federal funds for the project and concern that the interim system would delay CCSAS, the FTB ultimately recommended that the interim system be scaled back.

Consistent with that recommendation, Chapter 111, Statutes of 2001, reduced

the system requirements of the interim project, which is now called the Child Support Replacement Project, so that child support collections could continue without endangering the statewide project. The 2002-03 Budget proposes an additional 21.9 personnel years to augment the manual collection of child support arrearages, which is expected to generate an additional \$19 million in child support payments to families.

Department of Social Services

CALIFORNIA WORK OPPORTUNITY AND RESPONSIBILITY TO KIDS

The CalWORKs program implements California's version of the federal Temporary Assistance for Needy Families (TANF) program. The CalWORKs program replaced the Aid to Families with Dependent Children (AFDC) program on January 1, 1998.

The CalWORKs program is California's largest cash-aid program for children and families, and is designed to provide temporary assistance to meet basic needs (shelter, food, and clothing) in times of crisis. While providing time-limited assistance, the program also promotes self-sufficiency by establishing work requirements and encouraging personal accountability. The program recognizes the differences among counties and affords them maximum program design and funding flexibility to better ensure successful implementation at the local level.



Program Successes—California has experienced significant success with its CalWORKs program. The number of aid recipients who are employed has increased from 19 percent in 1996, to 50 percent in 2000. The average monthly wage for aided families has grown from \$592 prior to CalWORKs to \$735. Caseload reductions have occurred in every county. To date, the State has received over \$100 million in federal bonuses for its successful operation of the CalWORKs program as compared to other states.

Caseload Trends—After seven consecutive years of decline, caseload is projected to increase by 3.9 percent above the 2001 Budget Act, due to the economic downturn. The revised caseload projections are 520,000 cases and 1,477,000 persons in 2001-02, and 532,000 cases and 1,461,000 persons in 2002-03, reflecting a projected increase in child-only cases as families begin to reach the 60-month time limit. This represents a major improvement from the rapid growth of the early 1990s, when caseload peaked in 1994-95 at 921,000 cases (see Figures HHS-19 and HHS-20). Policy reforms that promote self sufficiency and encourage job skills training, along with increased child care services, financial incentives encouraging work, and until recently, an improved private sector economy, have assisted recipients and potential recipients in finding employment.

TANF Block Grant and Maintenance-of-Effort—Under federal TANF provisions, California is awarded a block grant of \$3.7 billion per year. Any unspent block grant funding may be carried forward by the State from year-to-year.

The State and counties have a federal maintenance-of-effort (MOE) requirement based on federal fiscal year 1994 baseline expenditures for the former

Figure HHS-19 CalWORKs Caseload Trend 1991-92 Through 2002-03

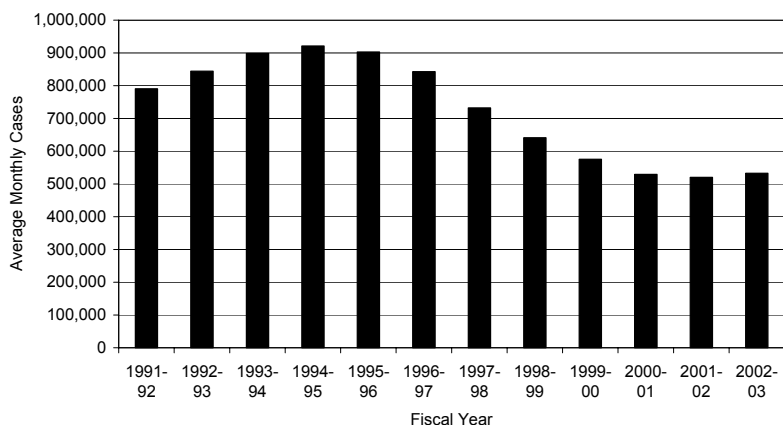


Figure HHS-20 Annual Percentage Change in CalWORKs Caseload and California Population 1991-92 through 2002-03

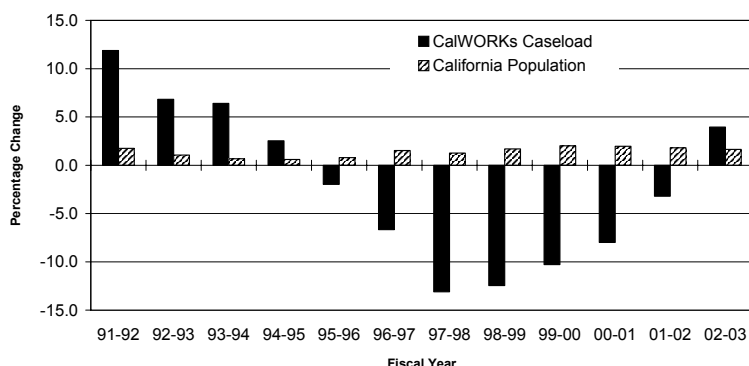


Figure HHS-21
2002-03 CalWORKs Program Expenditures¹
(Dollars in Millions)

Department of Social Services (DSS):	
Assistance Payments	\$3,308
County Program Grant	1,905
County Performance Incentives	431
Kin-GAP	84
DSS Administration	24
Other CalWORKs Costs in DSS ²	<u>438</u>
Total CalWORKs, DSS	\$6,190
Other Agencies:	
Child Care	607
California Department of Education (CDE)	(592)
California Community Colleges	(15)
CalWORKs Costs in Other State Agencies ³	208
County Share of CalWORKs Expenditures	<u>156</u>
Total CalWORKs, Other Agencies	\$970
CDE/DSS Child Care Reserve	165
General Temporary Assistance for Needy Families Reserve	<u>\$40</u>
Total CalWORKs Expenditures	\$7,365

¹ Detail may not add to totals due to rounding.

² Includes funding for the Statewide Automated Welfare System, Child Welfare Services, Indian Health Clinics, the Youth Development Services Project, Community Challenge Grants, and Trustline.

³ Includes funding for general child care in the CDE budget, child support disregard payments in the Department of Child Support Services budget, and the Teenage Pregnancy Prevention Program in the Department of Health Services budget.



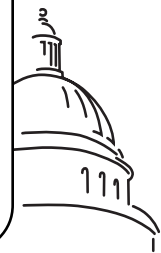
AFDC program and the proportion of CalWORKs recipients that are participating in work activities. The 2002-03 CalWORKs budget reflects California's success in having recipients meet the federally-mandated work participation requirements. With that goal being met, the federally-imposed MOE level for California was reduced from 80 percent of the federal fiscal year 1994

baseline expenditures for the former AFDC program (\$2.9 billion) to 75 percent (\$2.7 billion), saving \$181.7 million General Fund for use in other programs.

CalWORKs Expenditures—Total CalWORKs expenditures of \$7.4 billion are proposed for 2002-03, including TANF and MOE countable expenditures. This amount includes \$6.2 billion budgeted within the Department of Social Services (DSS), \$970 million budgeted within other agencies, and \$205 million for CalWORKs program reserves. The amount budgeted within DSS includes \$5.8 billion for direct CalWORKs program expenditures and \$377 million in other DSS programs, including the Statewide Automated Welfare System and Child Welfare Services. The amount budgeted in other agencies includes \$607 million in the California Department of Education (CDE) and California Community Colleges (CCC) for child care; \$208 million in other departments' budgets; and \$156 million in county budgets. Lastly, the \$205 million for CalWORKs reserves includes \$165 million for a child care reserve and \$40 million for a general CalWORKs reserve (see Figure HHS-21).

The following reductions are included in the Budget in order to maintain CalWORKs program expenditures within available resources, while protecting the critical welfare-to-work emphasis of the program and maintaining assistance payments at the current level:

- ❖ \$36 million General Fund in the CDE for adult education and Regional Occupational Collaborative program (ROC/P) services. CalWORKs recipients can continue to receive these specialized services through county programs or through base CDE instructional programs in adult education and ROC/P. These instructional programs will receive their full allotment of growth and cost-of-living adjustments in 2002-03.
 - ❖ \$58.4 million General Fund in the CCC for job placement services, work-study, and other educational-related work experience. These services can be provided from the CCC apportionments or pursuant to direct contracts between counties and the CCC using county CalWORKs funding. The CCC apportionments will receive additional growth funds in 2002-03 totaling \$41.7 million. In addition, \$15 million is included in the CCC budget to provide child care for CalWORKs recipients attending community college classes.
 - ❖ \$2.5 million General Fund in the California Department of Corrections to reflect a funding shift related to the Female Offender Treatment and Employment Program. This program will continue to provide services to female offenders by utilizing \$2.0 million in federal Workforce Investment Act funds for the portion of the program that relates to employment training.
 - ❖ \$3.6 million Contingent Fund in the EDD to reflect a reduction in the Intensive Services program in 2002-03. The employment training resources currently provided to intensive services clients will continue to be available for affected job seekers through core EDD employment services and the Workforce Investment Act program. In addition, counties may use their funding to provide these services to CalWORKs recipients.
 - ❖ \$5.1 million General Fund in the DSS from eliminating the General Fund portion of CalWORKs Fraud Incentive payments made to counties. A total of \$10.2 million (\$5.1 million General Fund and \$5.1 million TANF Block Grant funds) is estimated to be owed to counties in 2002-03 for their share of savings resulting from the detection of fraud. Eliminating the \$5.1 million General Fund share will not affect the TANF funding, which will provide counties with sufficient incentive to identify and collect overpayments.
 - ❖ \$2 million federal funds in the DSS to reflect a reduction in the State operations funding for the program.
- In addition, \$40 million is set aside as a general TANF reserve for unanticipated program needs. A program reserve allows the State to deal with unforeseen pressures that otherwise could drive program costs above the federally-required MOE.



Grant Levels—The Budget does not include funding to provide a cost-of-living adjustment (COLA) for cash grants. While grant levels will remain at the same level as in the 2001 Budget Act, funding for employment services is provided through county program grants so that recipients can continue to move toward employment. The monthly cash grant level for a family of three is \$679 in Region I and \$647 in Region II.

In addition, the CalWORKs assistance payment structure continues to reward working families by allowing them to retain earnings in excess of twice the grant amount and still remain enrolled in the program. As an example, a family of three living in Region I can earn up to \$1,583 per month before its grant would be reduced to zero. In addition to the grant, the family typically would be eligible for employment services, child care, food stamps, and Medi-Cal.

Performance Incentives—The CalWORKs statute provides for performance incentive payments to counties equaling 50 percent of savings resulting from exits from aid due to employment, grant reductions due to earnings, and diversion of applicants before they enter the program. Pursuant to Chapter 108, Statutes of 2000, incentive earnings are subject to Budget Act appropriation. Counties will have earned \$1.2 billion through the end of 2001-02, but have only spent \$160.7 million through September 2001. Because the DSS

has allocated \$1.1 billion to counties, the majority of this funding currently resides in county bank accounts.

Recently, the federal government formally notified the DSS that the State is in violation of the federal Cash Management Act in drawing down federal TANF dollars for fiscal incentive purposes that were not going to be immediately spent by the counties. Under the Cash Management Act, those funds are to remain at the federal level until such time as a state is going to actually expend those funds. The DSS proposes to recover the \$600 million that is expected to remain unexpended by the counties, and use \$169.2 million as a funding source in 2002-03 to maintain CalWORKs funding within available TANF and MOE funding levels. The remainder, \$430.8 million, will be appropriated to counties to be available in 2002-03.

County Program Grant—In an effort to allow more flexibility in providing employment services, administration, child care, and juvenile probation in accordance with local needs and priorities, the Administration proposes to provide a combined CalWORKs program grant to counties. The total amount budgeted for this county program grant may fluctuate each year as the State makes necessary adjustments to balance CalWORKs program needs within available resources.

CalWORKs Child Care—The Budget funds the projected child care need for CalWORKs recipients and reflects



savings attributable to the Administration's Child Care Reform proposal. This proposal includes eligibility changes for CalWORKs child care along with the remainder of the State's subsidized child care system. The budgets for the CDE and the CCC include \$592.1 million and \$15 million, respectively, to provide CalWORKs child care services. In addition, funding is included as part of the county program grant for Stage I Child Care, in which counties initially place CalWORKs families and continue to provide services until their financial condition stabilizes. The Budget includes a \$164.7 million reserve to be used for either DSS or CDE child care providers, as needed.

SUPPLEMENTAL SECURITY INCOME/STATE SUPPLEMENTARY PAYMENT

The federal Supplemental Security Income (SSI) program provides a monthly cash benefit to eligible aged, blind, and disabled persons who meet the program's income and resource requirements. In California, the SSI payment is augmented with a State Supplementary Payment (SSP) grant. These cash grants assist recipients with basic needs and living expenses. The federal Social Security Administration administers the SSI/SSP program, making eligibility determinations and grant computations and issuing combined monthly checks to recipients.

2002-03 Program—The Budget proposes \$3 billion General Fund for the SSI/SSP program in 2002-03. This represents a 7.3 percent increase

Figure HHS-22

Changes in the California SSI/SSP Maximum Payment

Implementation Date	Independent Living Arrangement Aged and Disabled	
	Individuals	Couples
January 1, 2001, 2.96 Percent COLA	\$712	\$1,265
January 1, 2002, 5.31 Percent COLA	750	1,332
January 1, 2003, 1.8 Percent SSI COLA	759	1,347

above the 2001 Budget Act. This increase is the result of caseload growth and the full-year effect of the January 1, 2002, COLA. In January 2003, a 1.8 percent federal COLA will be added to the SSI payment standards. Given the State's current fiscal constraints, it is proposed that the State COLA for the SSP payment standard be suspended. The overall payment standards will still increase to \$759 for an individual and \$1,347 for a couple (see Figure HHS-22). As reflected in Figure HHS-23, California continues to provide the highest level of support to SSI/SSP recipients among the ten most populous states.

During the tenure of this Administration, the SSI/SSP grant levels have generally increased. For example, the grant amount has increased from \$650 to \$759 for aged and disabled individuals, and from \$1,156 to \$1,347 for aged and disabled couples, a 17 percent increase over the period from January 1999 through January 2003. The State SSP portion of the grant has increased by 29 and 23 percent, respectively, for the two recipient categories.

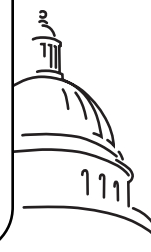


Figure HHS-23
Comparison of the 2001 SSI/SSP Maximum Payments¹
for the Ten Most Populous States

State	Independent Living Arrangement			
	Aged and Disabled		Blind	
	Individuals	Couples	Individuals	Couples
California	\$712	\$1,265	\$771	\$1,466
New York	618	900	618	900
New Jersey	562	821	562	821
Pennsylvania	558	840	558	840
Michigan	545	824	545	824
Florida ²	531	796	532	796
Georgia ²	531	796	531	796
Texas ²	531	796	531	796
Illinois ³	531	796	531	796
Ohio ²	531	796	531	796

¹ The January 2001 federal maximum payments are \$530 per individual (increased to \$531 effective August 1, 2001), and \$796 for a couple.

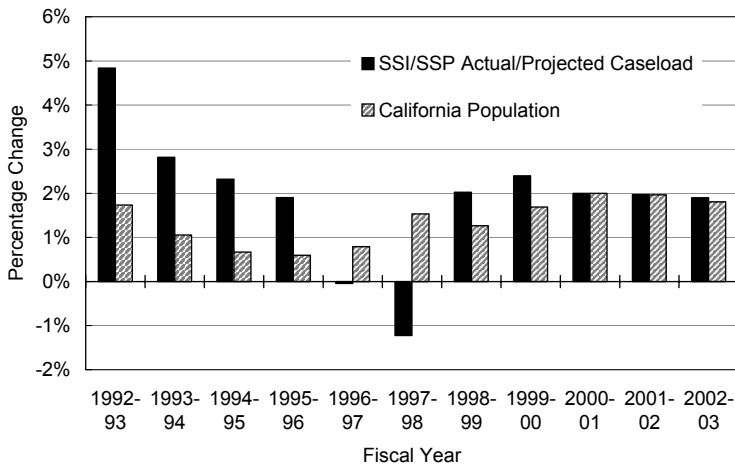
² Reflects the federal SSI maximum payment only, as these states do not provide supplemental payments for an independent living arrangement.

³ Illinois does not have a standard SSP allowance. Any supplements are based upon individual needs and circumstances.

ries above. Prior to 1999-00, the SSP grant level for those recipients had remained flat for five consecutive years.

Caseload Trends—The caseload in this program is estimated to be 1.1 million recipients in 2002-03, a 1.9 percent increase over the 2001 Budget Act. Figure HHS-24 compares the annual percentage change in California's SSI/SSP caseload and California's population. Except for caseload decreases associated with federal eligibility changes in the mid-1990s, the caseload has grown faster than the general population throughout the 1990s. In 2000-01 through 2002-03, SSI/SSP caseload has grown, or is anticipated to grow, at an equal or slightly higher rate, compared to growth in the general population. The SSI/SSP caseload consists of 30 percent aged, 2 percent blind, and 68 percent disabled persons.

Figure HHS-24
Annual Percentage Change in
SSI/SSP Caseload and California Population
1992-93 through 2002-03



Administrative Fees—The Social Security Administration administers the SSI/SSP benefit payments for a monthly check fee of \$8.50. The fee will increase on October 1, 2002, to \$8.66. The General Fund cost for SSP administration is estimated to be \$118.1 million in 2002-03.

**CASH ASSISTANCE
PROGRAM FOR IMMIGRANTS**

Chapter 329, Statutes of 1998, established the Cash Assistance Program for Immigrants (CAPI). The Budget includes \$113.4 million General Fund for CAPI in 2002-03. This State-only funded program previously provided

benefits only to documented persons in the country prior to August 22, 1996, who were not receiving SSI/SSP benefits on September 30, 1998. Beginning in 1999-00, on a year-by-year basis, the CAPI was expanded to also include documented persons arriving in the country after August 22, 1996, subject to the deeming of sponsor income. Through Chapter 111, Statutes of 2001, the expanded CAPI was made permanent. Because CAPI rates are tied to the SSI/SSP payment standard, the grant for immigrants will increase in 2002-03 proportionate to the increase in the SSI payment standard.

FOOD ASSISTANCE PROGRAMS

The Budget includes \$656.9 million (\$290.3 million General Fund) to support Food Assistance Programs. These programs provide monthly benefits that assist low-income households in purchasing the food they need to maintain adequate nutritional levels. Benefits are issued through the use of coupons, which may be exchanged for food products. In 2002-03, approximately 1.9 million persons are expected to receive food assistance benefits from these programs each month. The Food Assistance Programs also distribute food supplies valued at approximately \$70 million to over 2,300 local food banks and soup kitchens. Significant changes to the Food Assistance Programs are highlighted below.

California Food Assistance

Program—The 2001 Budget Act included \$72.5 million General Fund for the California Food Assistance Program (CFAP), which provides food stamp coupons to documented persons who are not eligible for federal food stamps solely because of their immigration status. Many of these persons were formerly eligible for federal food stamps prior to the enactment of the federal Personal Responsibility and Work Opportunity Reconciliation Act of 1996, which excluded them. In 2000, the CFAP was temporarily expanded to include documented persons who entered the country legally on or after August 22, 1996. In 2001, the Administration made this expansion permanent.

The Administration proposes that federal food stamp eligibility for CFAP recipients be restored when Congress reauthorizes the TANF program later this year. Restoring federal eligibility for these persons will result in General Fund savings of \$35.1 million, which are reflected in the proposed 2002-03 Budget. As a result, the Budget contains no funding for CFAP in 2002-03 because it is anticipated that the program's recipients will receive food coupons through the federal Food Stamp program.

Food Stamp Employment and Training

Program—The Budget includes \$46.9 million to support job search, workfare, education, and training activities for food stamp recipients not enrolled in CalWORKs. This is a



\$1.4 million, or 3 percent increase over the 2001 Budget Act. Federal funding for this program will increase by \$2.7 million in 2002-03, while the Budget proposes General Fund savings of \$1.3 million for the State's share-of-cost for the program. In addition, the Budget proposes comprehensive reform of the State's workforce development system, which includes this program. This reform proposal is discussed in greater detail in the Improving California's Workforce Development System section.

ADULT PROTECTIVE SERVICES

Adult Protective Services (APS) is a county-administered program that investigates abuse, neglect, or exploitation of elderly or dependent adults. Chapter 946, Statutes of 1998, established a State-mandated comprehensive system to address the increasing need for APS in California. Services include a 24-hour emergency response system, emergency shelter, food, transportation, and in-home protective care. The Administration continues to support the provision of these services to this vulnerable population. The Budget proposes \$78.9 million (\$55.3 million General Fund and \$23.6 million Title XIX reimbursements) for the APS, an increase of \$8.6 million over the 2001 Budget Act. The Budget also includes \$18.6 million (\$11.5 million General Fund and \$7.1 million Title XIX reimbursements) for the County Services Block Grant program that provides funding for the APS, as part of county social service programs.



IN-HOME SUPPORTIVE SERVICES

The In-Home Supportive Services (IHSS) program provides support services, such as house cleaning, transportation, personal care services, and respite care to eligible, low-income aged, blind, and disabled persons. These services are provided in an effort to allow individuals to remain safely in their homes and prevent premature institutionalization. The program consists of the State and county-funded Residual Program and the Personal Care Services Program for Medi-Cal eligible individuals.

The 2002-03 average monthly caseload is projected to be 283,600 cases, an increase of 6.5 percent over the 2001 Budget Act. Total IHSS expenditures are projected to be approximately \$2.6 billion (\$1 billion General Fund), an increase of 9.8 percent above the 2001 Budget Act level. This includes an increase of \$77 million (\$31 million General Fund), to fund the full-year cost of the January 2002 minimum wage increase of \$0.50 per hour.

IHSS Provider Rate Increases—As part of the Aging with Dignity Initiative in 2000-01, the Administration approved an IHSS provider rate increase to further improve the quality of services and strengthen recruitment and retention of IHSS providers, thereby allowing more seniors to live independently at home or with their families. IHSS provider wages were increased by \$0.50 in Public Authority (PA) counties in 1999-00. In 2000-01, Administra-

tion-sponsored legislation was enacted to provide for State participation in further hourly compensation increases of \$1 over each of the ensuing four years in PA and non-profit consortium counties. This increase is tied to General Fund revenue growth.

The 2001 Budget Act included \$106.6 million General Fund for the State share of provider rate increases above the State minimum wage in PA counties. Although the wage increase trigger was not activated, a discretionary augmentation of \$23.7 million General Fund was included to increase the maximum provider rate in which the State would share costs from \$8.10 per hour to \$9.10 per hour (\$8.50 for wages, \$0.60 for benefits). However, the revised General Fund expenditure level for 2001-02 has been reduced from \$106.6 million to \$92.5 million, due primarily to delays in county implementation of these provider rate increases. Given the State's current fiscal situation, and the fact that a discretionary increase was provided in 2001-02, it is proposed that no rate increase be provided in 2002-03.

The 2002-03 Budget, however, does include an increase of \$11.9 million General Fund to address growth in an estimated number of cases to be served through the PA mode of service delivery and further phase-in by counties of the PA provider rate increases.

The 2001 Budget Act also included \$6.4 million General Fund to provide a

2.31 percent rate increase for non-PA individual providers, and \$1.3 million General Fund for a 5.31 percent increase in the current Maximum Allowable Contract Rate for that mode of service delivery. However, the proposed Budget for 2002-03 includes a reduction of \$7.6 million General Fund for the non-PA individual provider rate, and assumes that 95 percent of the IHSS individual provider caseload will move to PA mode in 2002-03. The Budget also proposes a reduction of \$1.4 million General Fund for the contract mode to reflect anticipated expenditures, based on actual wage rates expected to be paid by the counties.

Overall, during its tenure, this Administration has augmented the IHSS program by over \$169 million General Fund, or 32 percent, to provide the State share-of-cost for IHSS provider wage and health benefit increases.

CHILDREN'S SERVICES PROGRAMS

The child welfare system in California provides a continuum of services, through various programs, to children who are abused or neglected. The Budget proposes \$3.1 billion (\$1.3 billion General Fund) to provide assistance payments and services to children under these programs (see Figure HHS-25).

Spending on children services programs has grown from \$2.5 billion (\$1.2 billion General Fund) to a proposed level of \$3.1 billion (\$1.3 billion General Fund) for 2002-03, an increase



Figure HHS-25

**2002-03 Children's Services Program Funding
(Dollars in Millions)**

Program	Total Funds	General Fund
Child Welfare Services	\$1,674	\$590
Foster Care	962	458
Adoptions	437	221
Child Abuse Prevention	20	13
State Administration	47	28
Total	\$3,140	\$1,310

of approximately 24 percent since 1998-99. Significant adjustments are proposed in the following children's services programs.

Child Welfare Services Augmentation—

The Budget continues to provide \$120.8 million (\$74.3 million General Fund) for additional county Child Welfare Services (CWS) workers, expressly targeted for emergency response, family reunification, family maintenance, and permanent placement. This funding will allow counties to reduce the workloads of caseworkers responding to approximately 174,000 cases of abused and neglected children each month. Through its CWS Stakeholders' Group, the Department is continuing a review of existing programs, components, and systems, which is expected to lead to recommendations for improvements over the next three years.



Since 1998-99, this CWS augmentation has increased from \$68.4 million (\$40 million General Fund) to a proposed level of \$120.8 million (\$74.3 million General Fund) for 2002-03, an increase of approximately 77 percent.

Child Welfare Services Base Funding Adjustment—

The Budget also provides \$132.7 million (\$62.3 million General Fund) above the level of funding supported by current caseload and caseload standards, to allow counties to maintain higher social worker staffing levels. This represents a \$30.4 million (\$13 million General Fund) increase over the 2001 Budget Act level.

Foster Youth Programs—

The Budget proposes expenditures of \$1.1 billion (\$494.1 million General Fund) for foster youth, including those exiting foster care into the Kinship-Guardianship Assistance Payment (Kin-GAP) Program. Since 1998-99, expenditures for these various programs have increased by \$51.1 million (\$18.8 million General Fund), or about 4.9 percent. This is significant in that, during this period, there has been increased emphasis on relative placements and adoption placements. As a result, the number of youth in foster care has declined from an average monthly caseload of 92,902 in 1998-99 to a projected caseload of 70,827 in 2002-03. During the same period, the average monthly caseload for adoption assistance payments has increased from 28,779 to 54,649, and

the average caseload for foster care placements into Kin-GAP has grown to a projected 15,309.

During the tenure of this Administration, a variety of augmentations have been provided that benefit foster youth. The Budget includes funding for the following:

- ❖ **Extended Independent Living Program**—\$15.2 million General Fund
- ❖ **Supportive Transitional Emancipation Program**—\$13.9 million General Fund
- ❖ **Supplemental Clothing Allowance**—\$6.5 million (\$3.2 million General Fund)
- ❖ **Health Services for Children in Foster Care**—\$5.3 million General Fund
- ❖ **Emancipated Foster Youth Stipends**—\$3.6 million General Fund
- ❖ **Kinship/Foster Care Emergency Funds**—\$1 million General Fund

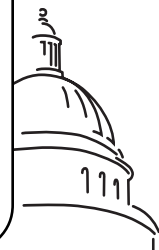
The Budget Act of 2001 included \$10 million to implement the Transitional Housing Placement Program for foster youth. In the November 2001 *Proposed Reduction in 2001-02 Spending* plan, \$4.8 million has been proposed for reversion to the General Fund because these funds would not be required in either 2001-02 or 2002-03, based on current caseload projections.

It is anticipated that, of the \$5.2 million available, \$867,000 would be expended in 2001-02 and \$4.3 million would be expended in 2002-03.

COMMUNITY CARE LICENSING

The Community Care Licensing program directly licenses and monitors approximately 72,000 community care facilities, and provides oversight, direction, and training to counties that license approximately 13,000 additional facilities. These non-medical facilities, which include child day care facilities, children's residential facilities, and elderly residential and day support facilities, serve approximately 1.3 million clients. The Budget proposes \$126.1 million (\$44.9 million General Fund) for licensing activities that promote the health, safety, and quality of life of each person in community care facilities. This is a \$6.2 million (\$4.5 million General Fund), or 5 percent, increase over the 2001 Budget Act.

Facility Growth—Program growth trends indicate an overall increase of 1,812 State-licensed community care facilities in 2002-03, an increase of 2.5 percent. The Budget includes an augmentation of \$3.2 million (\$2.9 million General Fund) to support 19 new positions and the conversion to permanent of 25 expiring limited-term positions for workload associated with facility growth. In addition, \$423,000 Technical Assistance Fund is included to continue six limited-term positions that provide training and consultation to newly-licensed community care facility



operators. The Budget also provides \$845,000 in reimbursements to continue the Child Care Development Grant/Loan Program in Los Angeles County, a State-county collaborative program that is expanding the availability and quality of child care in that county.

Licensing Reform—The Budget includes an augmentation of \$550,000 Technical Assistance Fund and 6.5 positions, starting January 1, 2002, to strengthen family child care home licensing activities and implement Chapter 679, Statutes of 2001. In this Budget, the Administration proposes to streamline licensing procedures for after-school child care facilities, which will result in General Fund savings of \$1.5 million and 25.3 positions. With this streamlining, the State will continue to focus on critical core safety functions, including provider fingerprint clearances and background checks.

California Health and Human Services Agency Data Center

The Health and Human Services Agency Data Center (HHSDC), one of the State's three consolidated data centers, provides the Agency's various departments electronic data processing (EDP) capacity by using shared, centralized resources to minimize equipment and staff duplication. The central processors and peripheral equipment operate 24 hours a day, 7 days a week. Telecommunications network and software support services also are furnished. The HHSDC assists the

Agency in identifying potential EDP-related applications and recommending policies on the appropriate use of EDP among client departments. Special project management activities are performed on behalf of the DSS. HHSDC costs are reimbursed by service users.

For the HHSDC's primary facility operations, the Budget includes a net reduction of \$6.6 million in HHSDC Revolving Fund authority. For the special projects managed by the HHSDC for the DSS, the Budget proposes a net increase in expenditure authority of \$19.9 million over the 2001 Budget Act and the continuation of six limited-term positions.

AUTOMATION PROJECTS

The HHSDC manages five major automation projects for the DSS. These systems assist in the administration of the CalWORKs, Food Stamps, CWS, and IHSS programs, and further the Administration's goal of providing quality services as efficiently as possible while preventing fraud and reducing long-term costs. The Budget includes \$374.3 million (\$136.7 million General Fund) to continue to develop, maintain, and operate these projects.

Statewide Automated Welfare System—The Statewide Automated Welfare System (SAWS) automates welfare eligibility processes and administrative functions for the CalWORKs, Food Stamp, Medi-Cal, Foster Care, Refugee,



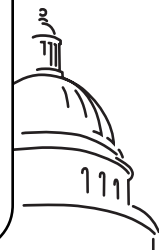
and County Medical Services programs through the development of the following four separate systems:

- ❖ **Interim SAWS**—This consortium is comprised of 35 counties. The Budget includes \$37.7 million (\$15.4 million General Fund) for maintenance and operations activities. This represents an increase of \$6.1 million (\$5.5 million General Fund) over the 2001 Budget Act, due to the acquisition and installation of a replacement mainframe system.
- ❖ **Welfare Client Data System**—The Budget maintains the 2001 Budget Act funding level of \$79.9 million (\$23.6 million General Fund) to continue the implementation of this system in 18 counties.
- ❖ **Los Angeles Eligibility, Automated Determination, Evaluation, and Reporting System**—The Budget includes \$15.2 million (\$5.2 million General Fund) for maintenance and operation of this single-county system. This represents a reduction of \$5.2 million (\$1.1 million General Fund) below the 2001 Budget Act, due to the completion of countywide implementation in 2001-02.
- ❖ **Consortium IV**—The Budget maintains the 2001 Budget Act funding level of \$75.5 million (\$16.9 million General Fund) to continue implementation of this system in the remaining four counties.

The Budget also includes \$5.7 million federal funds for the SAWS Welfare Data Tracking Implementation Project (WDTIP). This represents a reduction of \$838,000 due to the completion of county conversion and training activities. The WDTIP allows the four consortia to share CalWORKs time-limit tracking data. In addition, the Budget maintains the current year revised funding level of \$7.1 million (\$2.5 million General Fund) for the DSS and HHSDC consortium planning, State oversight, and overall statewide management of the SAWS system.

Child Welfare Services/Case Management System—This system automates tracking and reporting information for the CWS, Foster Care, and Adoptions programs. The CWS/Case Management System (CMS), which is fully operational in all 58 counties, assists in the effective administration of the CWS program by enabling social workers to make better decisions for neglected and abused children, allowing social workers to spend more time providing services to clients rather than doing paperwork, and improving statewide information sharing. It also provides the counties with better program management information, facilitates compliance with federal reporting requirements, and provides statewide statistical information.

The Budget includes \$82.5 million (\$41.2 million General Fund) for contract-related costs for system maintenance and operations to continue these services, and for procurement of a maintenance and



operations vendor. Overall, proposed CWS/CMS maintenance and operations funding for 2002-03 is \$14.5 million (\$7.2 million General Fund) less than the 2001 Budget Act funding level, due to adjustments for one-time costs related to workstation replacement, workstation software, and upgrades to workstation operating systems.

The Budget also provides one-time funding of \$276,000 (\$138,000 General Fund) to improve the CWS/CMS infrastructure by replacing application servers that exceed useful service life. Additionally, the Budget includes \$736,000 (\$368,000 General Fund) to proceed with planning activities necessary to incorporate the expanded adoptions subsystem into CWS/CMS to meet federal guidelines.

Statewide Fingerprint Imaging System—

The Statewide Fingerprint Imaging System is a database system that detects and reduces multiple-case fraud in the CalWORKs and Food Stamp programs. The Budget includes \$11.3 million General Fund for maintenance and operations activities. This represents a reduction of \$396,000, due to the completion of project implementation activities.

Electronic Benefit Transfer—The Electronic Benefit Transfer (EBT) system will deliver public assistance benefits to eligible recipients through electronic funds transfer, automated teller machines (ATM), and point-of-sale terminals in retail outlets. Counties are statutorily required to use the EBT

system to deliver Food Stamp benefits, and are also permitted to use the EBT system to deliver CalWORKs benefits. When operational, Food Stamp and CalWORKs recipients will be able to access their benefits via ATM-like cards, in lieu of monthly checks or Food Stamp coupons. The Budget includes \$56.8 million (\$19.1 million General Fund) to continue statewide implementation. This represents an increase of \$38.2 million (\$12.8 million General Fund) above the 2001 Budget Act. Federal welfare reform requires states to implement an EBT system to deliver Food Stamp benefits by October 1, 2002. California, however, has received a waiver of this federal requirement provided that the State adheres to current implementation schedules.

Case Management, Information, and Payrolling System—

The Case Management, Information, and Payrolling System (CMIPS) processes eligibility determinations of IHSS applicants; provides case management services for recipients; calculates IHSS authorized service hours and issues notices of action to recipients for any change in that service level; provides payroll services for individual providers including income tax and other payroll taxes; audits invoices for third-party contract providers; and produces reports for program management. The Budget proposes \$1.5 million (\$969,000 General Fund) for contract procurement activities, including an augmentation of \$175,000 (\$63,000 General Fund) for operating expenses. Additionally, the



HHSDC will receive expenditure authority of \$247,000 for CMIPS reprocurement project staffing.

California Children and Families Commission

The California Children and Families Commission (Commission), established by Proposition 10 approved by voters statewide in November 1998, is responsible for developing a statewide system of information and services to strengthen early childhood development from the prenatal stage to five years of age. Proposition 10 funds result in significant increases in baseline services because these continuously appropriated funds must supplement, not supplant, existing funds. In addition, the State Commission and county commissions working in collaboration may use Proposition 10 funds to leverage new federal funds.

The initiative, through its cigarette and other tobacco product taxes, is currently projected to generate \$643.5 million in 2001-02 and \$634.5 million in 2002-03. Proposition 10 includes provisions which replace the loss of Proposition 99 tobacco tax revenues for health education, research, and breast cancer programs due to the decreased consumption of tobacco products resulting from increased taxes pursuant to Proposition 10. The amounts replaced in 2001-02 and 2002-03 total \$25.9 million each year. Proposition 10 provides that 20 percent of funds remaining after the Proposition 99

Figure HHS-26

California Children and Families Commission Estimated Proposition 10 Tobacco Tax Allocations

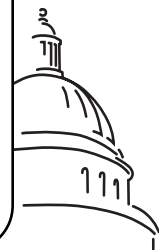
(Dollars in Millions)

	2001-02	2002-03
Total revenues	\$643.5	\$634.5
Less:		
Board of Equalization tax collection costs	1.7	1.7
Proposition 99 and Breast Cancer funding offset	25.9	25.9
Net revenues	\$616.0	\$606.9
County Allocation (80 percent)	492.8	485.5
State Commission Allocation (20 percent)	123.2	121.4
Mass Media Communications (6 percent)	37.0	36.4
Education (5 percent)	30.8	30.3
Child Care (3 percent)	18.5	18.2
Research and Development (3 percent)	18.5	18.2
Unallocated (2 percent)	12.3	12.1
Administration (1 percent)	6.2	6.1

replacement and tax collection cost are allocated to the State Commission for programs indicated in Figure HHS-26. The initiative also provides that the remaining 80 percent is allocated to county commissions for early childhood development programs including, but not limited to, health care, child care, education, domestic violence prevention, maternal nutrition, and child abuse prevention.

Child Development Policy Advisory Committee

The Child Development Policy Advisory Committee (CDPAC) is responsible for assisting the CDE in preparing the State plan for child development programs, and reviewing the effectiveness of child care and development programs and the need for children's services in California.



In developing the 2002-03 Budget, the Administration reviewed a variety of programs for potential restructuring or consolidation to improve the efficiency and effectiveness of State government. Consequently, the Administration will propose legislation to eliminate the Committee effective January 1, 2003, for ongoing savings of approximately \$935,000 (\$492,000 General Fund). The Budget proposes \$396,000 (\$227,000 General Fund) to provide half-year funding for the Committee, a savings of \$539,000 (\$265,000 General Fund).

State-Local Realignment

In 1991-92, State-Local Realignment restructured the state-county partnership by giving counties increased responsibilities and funding for a number of health, mental health, and social service programs. Realignment also provided an ongoing revenue source for counties by establishing a new 1/2-cent sales tax and an increase in the motor vehicle license fee (VLF). The 1/2-cent sales tax is a dedicated funding stream for realignment and is not affected by the calendar year 2001 statewide 1/4-cent reduction in sales tax. Similarly,

Figure HHS-27

State-Local Realignment 2000-01 Estimated Revenues and Expenditures (Dollars in Thousands)

Amount	Mental Health	Health	Social Services	Totals
Base Funding				
Sales Tax Account	\$826,693	\$376,811	\$921,507	\$2,125,011
Vehicle License Fee Account	158,233	918,024	25,656	1,101,913
Total Base	\$984,926	\$1,294,835	\$947,163	\$3,226,924
Growth Funding				
Sales Tax Growth Account:	\$29,155	\$44,258	\$88,874	\$162,287
Caseload Subaccount	—	—	(84,984)	(84,984)
Indigent Health Equity Subaccount	—	(3,803)	—	(3,803)
Community Health Equity Subaccount	—	(9,311)	—	(9,311)
Mental Health Equity Subaccount	(3,009)	—	—	(3,009)
State Hospital Mental Health Equity Subaccount	(5,342)	—	—	(5,342)
County Medical Services Subaccount	—	(6,535)	—	(6,535)
General Growth Subaccount	(20,804)	(24,609)	(3,891)	(49,304)
Vehicle License Fee Growth Account	50,327	76,398	6,716	\$133,441
Total Growth	\$79,482	\$120,656	\$95,590	\$295,728
Total Realignment ¹	\$1,064,408	\$1,415,491	\$1,042,753	\$3,522,652

¹ Excludes \$14 million in Vehicle License Collection Account moneys not derived from realignment revenue sources.



the amount of VLF revenue available for realignment is not affected by the 67.5 percent reduction in vehicle license fees that resulted from Chapter 5, Statutes of 2001, because General Fund is provided to backfill these lost VLF revenues. In 2001-02, a special fund backfill was also provided for this purpose. Therefore, local governments are not adversely affected by the lower sales tax and vehicle license fees paid by California citizens.

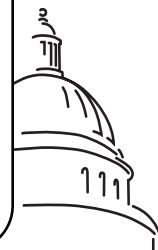
Realignment revenues for 2001-02 are estimated to total \$3.5 billion, which represents a decrease of \$35.8 million compared to the 2000 Budget Act. The \$3.5 billion is comprised of \$2.2 billion in sales tax revenues and \$1.3 billion in VLF. The VLF amount includes \$585.2 million General Fund and \$283.1 million special fund to backfill for lost VLF revenues, as discussed above. Because sales tax revenues are not projected to increase, there will be no growth funding available for distribution to the equity and general growth accounts.

Figure HHS-28

**State-Local Realignment
2001-02 Estimated Revenues and Expenditures
(Dollars in Thousands)**

Amount	Mental Health	Health	Social Services	Totals
Base Funding				
Sales Tax Account	\$820,948	\$405,162	\$971,479	\$2,197,589
Vehicle License Fee Account	208,560	994,422	32,372	1,235,354
Total Base	\$1,029,508	\$1,399,584	\$1,003,851	\$3,432,943
Growth Funding				
Sales Tax Growth Account:	—	—	—	—
Indigent Health Equity Subaccount	—	—	—	—
Community Health Equity Subaccount	—	—	—	—
Mental Health Equity Subaccount	—	—	—	—
State Hospital Mental Health Equity Subaccount	—	—	—	—
County Medical Services Subaccount	—	—	—	—
General Growth Subaccount	—	—	—	—
Vehicle License Fee Growth Account	20,073	31,150	2,679	\$53,902
Total Growth	\$20,073	\$31,150	\$2,679	\$53,902
Total Realignment¹	\$1,049,581	\$1,430,734	\$1,006,530	\$3,486,845

¹ Excludes \$14 million in Vehicle License Collection Account moneys not derived from realignment revenue sources. Includes \$585.2 million General Fund deemed to be vehicle license fee revenue per Chapter 322, Statutes of 1998 and \$283.1 million special funds deemed to be vehicle license fee revenue per Chapter 5, Statutes of 2001.



For 2002-03, realignment revenues are estimated to total \$3.6 billion, which represents an increase of \$157 million above the 2001 Budget Act. This is the sum of the \$2.7 billion in VLF and sales tax revenues included in the State-Local Realignment budget, and \$905.5 mil-

lion included in the Tax Relief budget. The \$3.6 billion total includes \$2.3 billion in sales tax revenues and \$1.3 billion in VLF. The VLF amount includes \$905.5 million General Fund to backfill for lost VLF revenues (see Figures HHS-27 through HHS-29).

Figure HHS-29

**State-Local Realignment
2002-03 Estimated Revenues and Expenditures
(Dollars in Thousands)**

Amount	Mental Health	Health	Social Services	Totals
Base Funding				
Sales Tax Account	\$820,948	\$405,162	\$971,479	\$2,197,589
Vehicle License Fee Account	228,633	1,025,572	35,051	1,289,256
Total Base	\$1,049,581	\$1,430,734	\$1,006,530	\$3,486,845
Growth Funding				
Sales Tax Growth Account:	40,290	56,234	5,377	101,901
Indigent Health Equity Subaccount	—	(5,255)	—	(5,255)
Community Health Equity Subaccount	—	(12,868)	—	(12,868)
Mental Health Equity Subaccount	(4,158)	—	—	(4,158)
State Hospital Mental Health Equity Subaccount	(7,382)	—	—	(7,382)
County Medical Services Subaccount	—	(4,104)	—	(4,104)
General Growth Subaccount	(28,750)	(34,008)	(5,377)	(68,135)
Vehicle License Fee Growth Account	21,796	30,422	2,909	\$55,127
Total Growth	\$62,086	\$86,656	\$8,286	\$157,028
Total Realignment¹	\$1,111,667	\$1,517,390	\$1,014,816	\$3,643,873

¹ Excludes \$14 million in Vehicle License Collection Account moneys not derived from realignment revenue sources. Includes \$905.5 million General Fund deemed to be vehicle license fee revenue, per Chapter 322, Statutes of 1998.

