LAO Recommended Legislation

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Introduction

The role of the Legislative Analyst's Office is to review state programs and make recommendations to the Legislature as to how the state can operate more effectively and efficiently. While most of our recommendations can be addressed in the annual budget bill, some involve recommended changes in law that require separate legislation. This report includes such recommended law changes that we have made in recent years. If you would like more information or assistance on any one of the proposed recommendations, please contact the person(s) listed at the bottom of each page. The deadline for bill requests to Legislative Counsel is January 26, 2007. The last day for bill introduction is February 23, 2007.

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K-12 Education

Streamline K-12 Funding Programs

Recommendation

Simplify K-12 funding by consolidating (1) most categorical programs into a small set of block grants and (2) most "add-on" programs into base general purpose grants.

Rationale

The budget currently funds more than 50 categorical programs plus another 9 programs that are "add-ons" to the base general purpose grants (known as revenue limits). While the state took steps in 2004 to reduce the number of separate funding streams in K-12 education, the finance system remains overly complicated and lacks transparency and accountability. The complexity of the system also hides large funding inequities that exist among districts.

Our proposal would consolidate most categorical programs into a few block grants and merge five of the nine add-on programs into base district grants. As a result, districts would have significantly more discretion over the best way to accomplish the state's educational goals. In addition, the consolidation would allow the California Department of Education to shift attention from monitoring district compliance with program requirements to assessing district success in serving students. It then could provide struggling districts with more targeted technical assistance.

LAO Reference

Please see our *2004-05 Analysis,* pages E-37 and E-88, and *2006-07 Analysis,* page E-73.

LAO Contact

Paul Warren: 319-8307 and Rachel Ehlers: 319-8330

K-12 Education

Create a New Mandate Block Grant

Recommendation

Create an Educational Mandate Block Grant that would (1) improve local incentives to reduce mandate costs and (2) allocate mandate funds more equitably.

Rationale

The state currently spends about $130 million a year to reimburse school districts and county offices of education for carrying out about 45 state-mandated programs. To receive reimbursement for these mandated activities, each district must submit a claim for the expenses incurred in the previous year. Using mandates to achieve state policy goals creates several problems, including loss of state control over local implementation costs, significant administrative/claiming costs, and little accountability for results.

Our proposal would consolidate existing funds into a single grant allocated on a per-pupil basis that would cover the cost of mandated programs. This would strengthen local incentives for efficient program implementation and create more certainty and equity in school district reimbursement levels. The block grant also would simplify the mandate claiming process by avoiding the need for individual mandate claims from each district each year.

LAO Reference

Please see our *2006-07 Analysis*, page E-80.

LAO Contact

Paul Warren: 319-8307

K-12 Education

Increase the Focus on Low-Performing Students by Aligning State/Federal Standards

Recommendation

Require the State Board of Education to align the performance standards of the state and federal accountability systems.

Rationale

Performance levels on the state's K-12 assessments are used to define what the state expects of students, schools, and districts. The state's minimum performance standard for high school students—passing the California High School Exit Examination (CAHSEE)—is significantly lower, however, than the performance standard used for federal accountability purposes—scoring at proficient or above on the exam. The difference in the standards used for CAHSEE and the federal school accountability programs create considerable local confusion. The standard used for federal purposes also can have the practical effect of reducing local incentives to meet the needs of low-performing students.

Our proposal would use the CAHSEE passing score as the standard for federal accountability purposes, thereby aligning performance targets and creating consistent student and school performance goals. The change also would increase the emphasis in the federal system on helping low-performing students.

LAO Reference

Please see *Improving High School: A Strategic Approach,* May 2005, page 27, and the *2004-05 Analysis*, page E-115.

LAO Contact

Paul Warren: 319-8307

Add Dropout Data to Academic Performance Index (API)

Recommendation

Direct the California Department of Education (CDE) to submit a plan to the Legislature for adding dropout data to the API.

Rationale

State law requires CDE to include data on school dropouts in the calculation of the API. To date, dropout data is not part of the API because of concerns about the accuracy of the data. Recently, however, CDE began collecting student-level data that will allow for much more accurate dropout and graduation statistics. With better data available in the near future, CDE should begin including dropout data in the API formula, as required by statute. This would strengthen the focus on the needs of students who are likely to drop out. In addition, it would reduce the likelihood that school API scores would rise when students drop out (which can happen currently because lower performing students are more likely to drop out of school).

LAO Reference

Please see *Improving High School: A Strategic Approach,* May 2005, page 29.

LAO Contact

Paul Warren: 319-8307

K-12 Education

Reform Child Care Reimbursement Rate Structure

Recommendation

Revise the child care reimbursement rate structure to (1) provide higher reimbursement rates for higher quality care and (2) recognize regional cost differences.

Rationale

Currently, the state reimburses child care providers using either the Regional Market Rate (RMR) system or the statewide Standard Reimbursement Rate (SRR) system. Under the first system, the state reimburses providers at 85 percent of the RMR, which varies widely across regions. Under the SRR system, the state reimburses providers at a statewide fixed rate per child. Neither the RMR nor the SRR system links reimbursement rates to the quality of child care. Moreover, some providers that are subject to lower quality standards currently are being reimbursed at higher rates than other providers that are subject to higher quality standards.

Our proposal would create one reimbursement structure with tiered rates based on regional cost differences and quality of care. This approach: (1) rewards higher quality providers, (2) provides stronger incentives for all providers to improve quality, and (3) links reimbursement rates to actual costs.

LAO Reference

Please see our *2006-07 Analysis,* page E-110, and *2005-06 Analysis,* page E-116.

LAO Contact

Stefanie Fricano: 319-8336

K-12 Education

Make Class Size Reduction (CSR) Programs Less Restrictive

Recommendation

Relax class size caps and allow school districts to use CSR monies to employ teachers in various ways that might better meet students' needs.

Rationale

The state's current K-3 CSR program has a strict class size cap of 20 students. The state's recent grade 4 though 12 CSR initiative for low-performing schools (the Quality Education Investment Act) also has relatively rigid class size caps of 25 students. Relying heavily on one educational strategy that offers little programmatic flexibility is unlikely to benefit all types of students at all types of schools. Indeed, evaluations of the state's K-3 CSR program found it contributed only to small achievement gains among certain student groups and drops in achievement among other groups.

We recommend allowing schools more flexibility in implementing CSR programs by easing class size caps, permitting more targeted CSR, and supporting alternative uses of certificated staff. For example, a school might use its CSR monies to hire the same number of teachers as otherwise but use them in more varied ways, for example, as intervention specialists, coaches, or team-teachers.

LAO Reference

Please see our *2003-04 Analysis*, page E-87.

LAO Contact

Jennifer Kuhn: 319-8332

K-12 Education

Create Performance-Based Teacher Accreditation System

Recommendation

Require teacher preparation programs annually to submit data on various outcomes, automatically accredit programs meeting minimum standards, and place remaining programs under review.

Rationale

An independent evaluation of the state's most recent accreditation cycle (1997-2002) found significant shortcomings. Specifically, it found the existing system was based on vague, subjective standards, which review teams sometimes interpreted and applied inconsistently. The current system also is almost entirely input-oriented—based on reviews of program documents and interviews of program participants. Despite this labor-intensive review process, almost no data are obtained on student/program outcomes. In addition, reviews currently occur only once every five to seven years and the state receives virtually no information about interim changes in program quality.

Our proposal would address each of these problems—creating a less labor-intensive process that relies on more objective performance criteria and results in more transparent program outcomes and more targeted program support.

LAO Reference

Please see *Modernizing the Functions of the Commission on Teacher Credentialing,* April 2006.

LAO Contact

Jennifer Kuhn: 319-8332

K-12 Education

Reform Teacher Credential and Fingerprint Processes

Recommendation

Streamline existing teacher credential and fingerprint processes—ensuring that most teachers undergo each process only once.

Rationale

The current teacher credential and fingerprint processes are riddled with redundancies. For the credential process, three agencies—universities, the Commission on Teacher Credentailing (CTC), and county offices of education (COEs)—have credential analysts who conduct virtually the same review of application material. Similarly, many teachers are fingerprinted three times (by CTC, a COE, and a school district) prior to serving in their first permanent teaching position. In short, both processes are inefficient, labor intensive, and time-consuming.

We recommend reforming these processes so that most teachers would undergo each process only once. This would be done by devolving certain responsibilities from CTC to universities and COEs. The state, however, would continue to record important credential information and investigate serious allegations of teacher misconduct.

LAO Reference

Please see *Modernizing the Functions of the Commission on Teacher Credentialing,* April 2006.

LAO Contact

Jennifer Kuhn: 319-8332

K-12 Education

Revise Migrant Education Funding and Service Model

Recommendation

Replace the current regionally based migrant education funding and service model with a district-centered model.

Rationale

The Migrant Education Program (MEP) is a federally funded program that provides supplemental education services to migrant children. The program currently provides these services primarily through regional centers—a model that has led to limited program accountability, poor coordination with other student services, and little statewide collaboration. Shifting the majority of MEP funding directly to school districts would streamline the system—providing districts with both the resources and the responsibility to serve migrant students and improve their academic achievement. Specifically, we recommend that 70 percent of annual MEP funding flow directly to school districts based on the number of migrant students they serve. We recommend 15 percent of MEP funds be maintained at county offices of education for certain regional activities such as technical assistance and providing services to students outside the traditional K-12 system. The remaining 15 percent would be provided to the California Department of Education for activities that benefit migrant students across the state.

LAO Reference

Please see our report *Improving Services for Migrant Students*, February 2006.

LAO Contact

Rachel Ehlers: 319-8330

K-12 Education

Enhance Charter School Oversight

Recommendation

Permit school districts, under certain conditions, to opt out of authorizing charter schools. Allow more types of agencies to be charter authorizers.

Rationale

In general, groups interested in opening a charter school must submit their petition to a school district. If the petition satisfies various statutory requirements, a school district must approve it. Upon approving it, the district then assumes specific oversight responsibilities. Two shortcomings are inherent in this system: (1) some districts—especially those that are small, remote, or experiencing fiscal difficulties—lack the capacity to conduct meaningful oversight and yet remain obligated to assume those responsibilities and (2) the absence of alternative authorizers can both increase what districts charge for oversight and reduce the quality of their oversight.

Our proposal would allow school districts, under certain conditions, to opt out of authorizing charter schools. It also would allow other types of agencies—such as neighboring school districts or county offices, the state, or colleges and universities—to become authorizers.

LAO Reference

Please see *Assessing California's Charter Schools,* January 2004.

LAO Contact

Jennifer Kuhn: 319-8332

Higher Education

Establish College Preparation Block Grant

Recommendation

Establish a College Preparation Block Grant targeted at K-12 schools with very low college participation rates.

Rationale

The state maintains over 30 different K-14 outreach programs (also known as academic preparation programs) that focus on preparing students from disadvantaged backgrounds for college. Most of these programs are administered by the University of California (UC) and the California State University (CSU). In reviewing these programs, we found that (1) some programs do not provide direct services to students, (2) some programs have overlapping goals and services, and (3) K-12 schools have very little control over the amount and type of outreach services provided to their students. Our proposal would leverage districts' knowledge of their students' needs to determine the best mix of outreach interventions. Schools could use their funds to implement their own programs, or contract with UC, CSU, an independent college, or whichever provider can best meet their local needs. Schools would be accountable for the use of their block grant funding, ensuring that limited resources are in fact used to serve students most in need of additional assistance.

LAO Reference

Please see our *2004-05 Analysis*, page E-160.

LAO Contact

Anthony Simbol: 319-8334

Higher Education

Align College Admissions With Standardized High School Tests

Recommendation

Require the University of California (UC) and California State University (CSU) to use Standardized Testing and Reporting (STAR) scores as a major factor for admission and placement decisions. Also require the Chancellor of the California Community Colleges to set statewide standards for using STAR results to place freshmen in appropriate community college classes.

Rationale

Placement tests given to entering freshmen at UC and CSU show that students frequently lack the skills required for study at the university level. The emphasis of university admissions policies on grades contributes to this problem, as grades often do not reflect achievement levels consistent with student success in college. The STAR tests provide a useful and more objective measure of student achievement. Using STAR results as a major admissions criterion also would provide a signal to parents and students about the level of achievement needed for success in higher education, and would help promote high achievement. Similarly, if used for placement purposes in the community colleges, the STAR results would provide objective feedback to students on their preparedness for college.

LAO Reference

Please see *Improving High School: A Strategic Approach*, May 2005, pages 61 through 63.

LAO Contact

Paul Warren: 319-8307 and Paul Steenhausen: 319-8324

Higher Education

Reexamine Existing Freshman Eligibility Standards

Recommendation

Clarify how the University of California (UC) and the California State University (CSU) should define freshman eligibility as called for in the *Master Plan for Higher Education*.

Rationale

The Master Plan calls for UC and CSU to admit freshmen from the top one-eighth and one-third of public high school graduates, respectively. In order to achieve these targets, the segments have adopted their own admissions criteria. Students meeting these criteria are considered "eligible" for admission. These definitions of eligibility therefore affect access to and the rigor of the state's higher education systems, yet they have been made with minimal legislative oversight. The Legislature has little information about how well existing admissions criteria are aligned to its K-12 education priorities. For instance, the segments now define the state's top high school graduates based on data that is not available for all high school students (such as the SAT). Instead, the Legislature could specify that UC and CSU determine eligibility solely based on measures available for all students, such as high school grade point average and scores on the California Standards Tests (taken in the 9th, 10th, and 11th grades).

LAO Reference

Please see *Maintaining the Master Plan's Commitment to College Access*, February 2004.

LAO Contact

Anthony Simbol: 319-8334

Enhance Incentives for Community Colleges to Provide Remedial Education

Recommendation

Fund all precollegiate courses at a uniform rate—the community college credit rate.

Rationale

Currently, the state funds precollegiate courses at the University of California (UC), California State University (CSU), and California Community Colleges at different rates. We are not aware of any policy basis for this disparity. We recommend, therefore, that the state fund these courses at a uniform level, using the community college credit rate (which is approximately $4,400 per full-time equivalent student). Using this uniform rate would help ensure that the systems appropriately use the community colleges to share the responsibility for providing precollegiate education. Several campuses—including UC Davis, UC San Diego, and CSU Northridge—already rely on community college instructors to teach many of their precollegiate courses. In these cases, the courses already are funded at the community college credit rate.

LAO Reference

Please see our *2003-04 Analysis*, page E-242, *Improving Academic Preparation for Higher Education,* February 2001, and *Are Entering Freshmen Prepared for College-Level Work?* March 2004.

LAO Contact

Anthony Simbol: 319-8334

Higher Education

Enact a Student Fee Policy for Postsecondary Education

Recommendation

Enact in statute an explicit student fee policy for all public colleges and universities which provides that students and the state each pay a fixed share of educational costs, thus ensuring gradual and moderate year-to-year changes in student fees.

Rationale

California lacks a consistent fee policy for postsecondary education. Typically, changes to student fee levels have been influenced more by the availability of state funds in any given year than through an established policy for sharing the cost of higher education between the state and students. The lack of an explicit fee policy can make it difficult for students, their families, and the state to plan effectively. By statutorily linking fees to a fixed share of educational costs, student fees would change much more gradually. Moreover, students would have a financial incentive to hold the segments accountable for cost increases. The Governor proposed a fee policy in his 2004-05 budget proposal, but the Legislature did not adopt it. Alternate proposals adopted by the Legislature were vetoed by the Governor.

LAO Reference

Please see our *2006-07 Analysis*, page E-219, and our *A Share-of-Cost Student Fee Policy* analysis presented to the Assembly Higher Education Committee on April 19, 2004.

LAO Contact

Anthony Simbol: 319-8334

Higher Education

Establish Consistent Statewide Financial Aid Policies

Recommendation

Expand competitive Cal Grant programs by consolidating them with institutional aid programs.

Rationale

Although the state guarantees financial aid for all recent high school graduates who meet financial and academic requirements, it limits the number of awards (22,500) for older students. In 2005-06, about 136,000 students competed for these awards—thus, the program served fewer than one in six eligible applicants. The competitive Cal Grant programs could be expanded without new costs by consolidating them with existing undergraduate institutional financial aid programs. The University of California, California State University, and California Community Colleges together spend more than $700 million on such programs. Each of these programs operates under different rules. Thus, students with similar financial need are treated differently based on the campus they attend. Consolidating these grants under a single program would result in consistent policies that treat similar students alike. Statewide consolidation also would improve accountability because institutional aid policies are currently developed outside of the Legislature's direct purview.

LAO Reference

Please see our *2002-03 Analysis*, page E-202 and *2003-04 Analysis*, page E-205.

LAO Contact

Steve Boilard: 319-8331

Higher Education

Link Private University Cal Grant to Public University Subsidy

Recommendation

Establish a statutory formula linking the value of private university Cal Grants with the subsidy the state provides for needy students at public universities.

Rationale

Private colleges and universities are an important part of the overall capacity of the state to ensure access to higher education. In 2006-07, the maximum Cal Grant awarded to needy students attending these private institutions was about 13 percent lower than the average subsidy the state provides to needy students attending public universities. We recommend that the amount of the private university Cal Grant be set by statute as a weighted average of the General Fund subsidy provided for each additional public university student plus the weighted average of the public university Cal Grant. This formula is a simple means by which the state can ensure that it provides about the same amount of support for all financially needy students, thus promoting fairness and permitting fuller access to both the public and private segments of higher education.

LAO Reference

Please see our *2006-07 Analysis*, page E-268.

LAO Contact:

Steve Boilard: 319-8331

Higher Education

Restructure How State Administers Student Grant and Loan Programs

Recommendation

Authorize a single agency, with one board and Executive Director, to administer both state grant and federal loan programs.

Rationale

Since 1996 the state has relied on a two-agency structure—using the California Student Aid Commission (CSAC) to administer state grant programs and EdFund (a nonprofit public benefit corporation) to administer federal loan programs. In 2005 and 2006, the Legislature and various stakeholders expressed concerns with the performance of this arrangement. We believe that one of the major shortcomings stems from the existence of two competing governing bodies (CSAC and the EdFund Board). By replacing the two-agency structure with a single agency governed by a single board, we believe these grant and loan programs would be more efficient, more accountable, and better able to serve students.

LAO Reference

2006-07 Analysis, page E-271, and *California's Options for Administering the Federal Family Education Loan Program*, January 2006.

LAO Contact

Steve Boilard: 319-8331

Higher Education

Streamline Course Requirements for Transfer Students

Recommendation

Require the California State University (CSU) and the University of California (UC) to implement policies that would streamline on a systemwide basis general education and pre-major course requirements across their respective campuses.

Rationale

In adopting the *Master Plan for Higher Education*, the Legislature envisioned an efficient process for students to transfer from community college to UC and CSU. In our review of the transfer process, however, we found that it lacks the systemwide standardization envisioned in the Master Plan. The primary obstacle to standardization is the variation in both general education course requirements and major preparation course requirements across campuses. This variation (1) limits students' campus options, (2) requires multiple campus-to-campus course "articulation" agreements to ensure that a particular course will be accepted by a university campus, and (3) increases difficulty in identifying comparable courses. We recommend, therefore, the Legislature require UC and CSU to streamline course requirements, so students can more easily identify transferable courses and have greater flexibility to apply to multiple campuses.

LAO Reference

Please see *Promoting Access to Higher Education: A Review of the State's Transfer Process,* January 2006.

LAO Contact

Anthony Simbol: 319-8334

Department of Health Services

Require Certain Aged and Disabled Medi-Cal Beneficiaries to Shift to Managed Care

Recommendation

Enact legislation directing the Department of Health Services to prepare and implement a plan to gradually shift certain aged and disabled Medi-Cal beneficiaries into Medi-Cal managed care from fee-for-service Medi-Cal.

Rationale

Today, most aged and disabled Medi-Cal beneficiaries receive their health care under a fee-for service arrangement and do not receive the benefit of coordinated care offered by managed care plans. In recent years the state has taken some steps to shift some of the aged and disabled population into managed care health plans. However, the state could take further steps to require that this population move into managed care in counties where Medi-Cal health plans already exist. Furthermore, as additional counties implement Medi-Cal managed care, the state should require these counties to enroll the aged and disabled into these new plans. We estimate that shifting additional aged or disabled persons from the fee-for-service system to managed care could result in a significant reduction in Medi-Cal expenditures.

LAO Reference

Please see *Better Care Reduces Health Care Costs for Aged and Disabled Persons,* March 2004.

LAO Contact

Elizabeth Cheung: 319-8338 and Kirk Feely: 319-8322

Department of Managed Health Care

Help Restore Managed Care to Rural California

Recommendation

Enact legislation to encourage HMOs to return to rural areas and to foster locally controlled health care systems in those counties where HMOs may be unwilling or unable to operate.

Rationale

Chapter 208, Statutes of 2001 (AB 532, Cogdill), directed our office to examine the reasons why a number of HMOs have discontinued operations in rural areas, and further directed us to offer recommendations to address this situation. Our report, *HMOs and Rural California*, provided the Legislature with a number of options to restore managed care to rural California. Our analysis indicates that HMOs are withdrawing coverage because of a combination of circumstances that makes it difficult for them to operate profitably, including shortages of health care providers, differences in rural medical practices, and the state's lack of support for managed care in rural areas. We propose specific steps to create a more attractive health care marketplace for HMOs in rural counties. We also identify ways the state can help communities that may not be able to attract HMOs to develop their own health care systems that may provide some of the potential benefits of managed care.

LAO Reference

Please see *HMOs and Rural California*, August 2002.

LAO Contact

Elizabeth Cheung: 319-8338

Department of Developmental Services

Clarify the Lanterman Act

Recommendation

Reinstate statutory language that clarifies that parents of children with developmental disabilities, and not state taxpayers, should be financially responsible for the purchase of goods and services that would normally be purchased by the parents of a child without developmental disabilities.

Rationale

The Lanterman Act states the intent of the Legislature to ensure the provision of services to developmentally disabled individuals and their families. Services and supports may include, but are not limited to, more than 20 specific services that are listed in the Lanterman Act. However, the Lanterman Act is not as specific regarding which services, if any, the state is not responsible for providing to developmentally disabled individuals. At one time, state law was clear that the state is not obligated to pay for services for a client that parents would typically be responsible for purchasing for any children. This statutory language was allowed to sunset in 2002.

LAO Reference

Please see our *2004-05 Analysis*, pages C-184 and C-185.

LAO Contact

Shawn Martin: 319-8362

Department of Alcohol and Drug Programs

"Remodel" the Drug Medi-Cal Program

Recommendation

Enact legislation that would shift various state funding allocations for drug or alcohol treatment services to counties and contain methadone costs.

Rationale

Our office was directed by the *Supplemental Report of the 2002-03 Budget Act* to conduct a review of the Drug Medi-Cal Program, which provides substance abuse treatment services for an estimated 45,000 persons annually. Among other concerns, we found significant inconsistencies in the resources being provided to support different modes of treatment, and that a disproportionately small share of the program budget was spent on services for children and female beneficiaries.

We recommended a series of actions to remodel the program to provide counties with broad, new authority under a new financial structure to decide the modes of treatment provided within their jurisdiction and to determine exactly how such services would be provided. We further recommended that the state take over direct responsibility statewide for the provision of narcotic treatment services as part of a strategy to help contain the fast-rising costs of methadone maintenance treatment.

LAO Reference

Please see *Remodeling the Drug Medi-Cal Program*, February 2004.

LAO Contact

Shawn Martin: 319-8362

Department of Health Services

Encourage More Efficient Use of Health Care Services in Medi-Cal Through a Combination of Incentives

Recommendation

Enact legislation to encourage more efficient use of health care services in Medi-Cal by (1) establishing a grant program to promote better access to primary care services in outpatient settings, and (2) implementing a collectible copayment for the nonemergency use of emergency rooms (ERs).

Rationale

A substantial amount of health care provided by hospital ERs is for nonemergency conditions. Such care results in potentially worse care for the patient and unnecessary increased spending by Medi-Cal, which typically pays more for ER services than for the same services provided in other settings. Our analysis indicates that a program of grants targeted at areas with low access to primary care could encourage Medi-Cal providers to remain open later on weekdays and on weekends, providing more nonemergency alternatives for patients. Federal grant funds could possibly be obtained to support such a program. An incentive for patients to seek care in those nonemergency settings could be established by implementing a copayment in ERs for nonurgent care, which can be collected under recent changes in federal law. The ERs should be permitted to retain these copayments in addition to their regular Medi-Cal reimbursement. The combination of greater access to primary care providers and incentives to seek care from those providers could eventually reduce Medi-Cal costs by tens of millions of dollars annually.

LAO Reference

Please see our *2006-07 Analysis*, page C-103.

LAO Contact

Kirk Feely: 319-8322

Department of Health Services

Reform Proposition 99 to Enable More Flexible and Effective Spending

Recommendation

Enact legislation that would seek voter approval to consolidate several of the Proposition 99 accounts into fewer and more flexible accounts supporting a narrower range of programs.

Rationale

In November 1988, the voters approved Proposition 99, the Tobacco Tax and Health Protection Act, which established a surtax of 25 cents per pack on cigarette products. The revenues generated by the measure are deposited (by formula) into distinct accounts to support various tobacco education and prevention efforts, tobacco-related disease research, environmental and recreational resource programs, and health care services for uninsured Californians. The revenues generated under Proposition 99 have steadily declined since the measure's inception. Yet, the breadth of programs and services supported by Proposition 99 has not changed over time. Consequently, these programs can no longer be sustained from this funding source.

LAO Reference

Please see our *2005-06 Analysis*, page C-129.

LAO Contact

Michelle Baass: 319-8321

Department of Developmental Services

Evaluate the Accuracy and Consistency of Purchase of Services Data

Recommendation

Enact legislation requiring the Department of Finance's Office of State Audits and Evaluations to conduct an audit to evaluate the accuracy and the consistency of the purchase of services data now being reported by the regional centers (RCs).

Rationale

About 150 expenditure codes are currently authorized by the Department of Developmental Services and used by the RCs to classify purchase of service expenditures for entry into the department's purchase of services database. Given the wide variation in expenditures being reported by the 21 RCs under some expenditure codes, it is not clear that there are sufficient fiscal controls in this area. Because the accuracy and the consistency of these data are now uncertain, the state lacks the tools that are needed to exercise strong fiscal oversight over RC spending and to identify those RCs and those specific categories of expenditures that warrant increased scrutiny.

LAO Reference

Please see our *2006-07 Analysis*, pages C-156 through C-164

LAO Contact

Shawn Martin: 319-8362

CalWORKs

Expand CalWORKs Community Service

Recommendation

In order to better use community service as a bridge to non-subsidized employment, allow counties to use private for-profit organizations as community service employers.

Rationale

California Work Opportunity and Responsibility to Kids (CalWORKs) recipients must begin community service after two years on aid if they have not found a job. Under current law, such community service must be performed in the public and private nonprofit sectors. Excluding the for-profit private sector from participating in community service employment, however, (1) significantly reduces the number of potential employers and (2) increases the difficulty of finding high-quality work slots, particularly in jobs that might closely resemble those in the private sector.

LAO Reference

Please see *CalWORKs Community Service, What Does It Mean for California?* February 1999, page 18.

LAO Contact

Todd Bland: 319-8353

Adoptions Assistance Program

Reform Grant Levels and Eligibility

Recommendation

Set payment levels at amounts that recognize the adoptive parents' financial responsibility for their adoptive children and better tie benefit levels to the needs of adoptive children.

Rationale

The current Adoptions Assistance Program (AAP) provides the *maximum* foster care grant for virtually every child who is adopted from the foster care program, including children who could be placed in an adoptive home without financial incentives. This policy has turned AAP into one of the fastest growing social services programs in terms of caseload and cost. To remedy this situation, the AAP benefits could be limited to those children who would truly be hard to place without ongoing financial assistance. Following placement, the level of AAP benefits would be tied to the needs of the child. This approach to adoptions assistance payments would recognize that adoptive parents take on the same responsibilities as parents who give birth to their own children (including financial responsibility). Many people become foster parents as a route to adoption. Therefore, the "incentive" provided by AAP may be unnecessary for many families.

LAO Reference

Please see *Reforming the Adoptions Assistance Program* in our *2004-05 Analysis*, page C-255.

LAO Contact

Lauren Nackman: 319-8358

California Children and Families Commission

Establish Matching Grant Program for Proposition 10 Funds

Recommendation

Establish a state-funded voluntary matching grant program for (1) early childhood programs that have been shown to be cost-effective and/or (2) demonstration programs that are potentially cost-effective, based on existing research.

Rationale

Proposition 10 has provided county commissions with a significant increase in funding for programs related to early childhood development. The Legislature has no direct control over the expenditure of Proposition 10 funds, but does have an opportunity to influence decisions taken by the state and, more importantly, the county commissions. A variety of early childhood programs, typically small-scale demonstration programs, have been evaluated as being effective according to outcome measures such as school achievement and health status. Enacting a matching grant program would create a fiscal incentive to encourage the county commissions to use their funds in a cost-effective manner.

LAO Reference

Please see *Proposition 10: How Does It Work? What Role Should the Legislature Play in Its Implementation?* January 1999.

LAO Contact

Lauren Nackman: 319-8358

Department of Social Services

Improve Licensing Enforcement and Compliance

Recommendation

Require Department of Social Services (DSS) to assess civil penalties on Family Child Care Homes (FCCH) for repeated violations, and institute a license renewal requirement for community care facilities.

Rationale

Current law requires DSS to levy civil penalties for all facilities other than FCCHs, which fail to correct a violation in a timely manner or violate a standard repeatedly in a year. The law states that DSS "may" levy civil penalties for FCCHs, thereby delegating authority to the administration, which as a practice does not impose such penalties. Assessing a civil penalty would provide a key enforcement tool that is currently used by the state for other facility types.

California is one of 12 states which grant licenses (to child care facilities) with no expiration. By instituting a renewal requirement, the state would have the ability to prevent license renewals for providers with serious compliance problems or unpaid fines or fees.

LAO Reference

Please see our *Analysis of the 2006-07 Budget Bill*, page C-47.

LAO Contact

Lauren Nackman: 319-8358

Department Of Child Support Services

Improve Child Support Performance

Recommendation

Create a performance-based county run program that (1) allows county flexibility in program design, (2) establishes a county share of cost, (3) rewards counties for good performance on federal measures, and (4) provides a funding mechanism to assist those counties which may need additional resources.

Rationale

Despite reform attempts, California continues to lag the nation in the collection of child support and in its performance on federal outcome measures. The program is too tightly controlled at the state level, leading to a lack of investment and ownership by the counties. Counties have limited fiscal incentives to improve child support collections and performance. Giving local child support agencies the ownership and flexibility necessary to tailor their programs to fit the needs of their communities would improve performance and child support collections.

LAO Reference

Please see *Strategies for Improving Child Support Collections in California*, May 2006.

LAO Contact

Ginni Bella: 319-8352

County Health and Social Services Programs

Strengthen and Expand the State-Local Realignment Enacted in 1991

Recommendation

Enact legislation to improve the existing realignment arrangements and consider expanding realignment to *additional* state programs.

Rationale

In 1991, the state enacted a major change in the state and local government relationship, known as realignment. Mental health, social services, and health program were transferred from the state to county control, and counties were provided with dedicated tax revenues to pay for these and other changes. Our analysis found that realignment has been a largely successful experiment, but that some aspects could be improved. Our analysis has also identified additional state programs that merit consideration for realignment. Under the California Constitution, as recently amended by Proposition 1A, the transfer of additional program responsibility to local government would have to be accompanied by commensurate offsetting revenues or program savings.

LAO Reference

Please see *Realignment Revisited: An Evaluation of the 1991 Experiment in State-County Relations,* February 2001 and *The 2003-04 Budget: Perspectives and Issues, Realignment and the 2003-04 Budget,* page 123.

LAO Contact

Todd Bland: 319-8353, Shawn Martin: 319-8362, and Marianne O'Malley: 319-8315

Department of Justice

Enact Changes in Responsibilities and Relationships With Local Governments

Recommendation

Designate Department of Justice (DOJ) as the lead agency for all interactions with foreign governments related to the prosecution of persons committing crimes in California who have fled to their home countries.

Require local law enforcement agencies to pay for the costs of services provided by the DOJ's crime laboratories.

Require counties to reimburse the state for legal work performed by DOJ on behalf of district attorneys who are disqualified from handling local cases due to conflicts of interest.

Rationale

Designating DOJ as lead agency for all foreign prosecutions would enhance law enforcement coordination efforts between foreign governments and California. Requiring local governments to pay for crime lab services and prosecution in conflict of interest cases would properly align local government's funding and programmatic responsibilities for investigation and prosecution of criminal cases.

LAO Reference

Foreign prosecution—see our *1997-98 Analysis*, page D-179.
Crime lab services—see our *1999-00 Analysis*, page D-133.
Legal work in conflict of interest cases—see our *1988-89 Analysis*, page 53.

LAO Contact

Edgar Cabral: 319-8343

California Department of Corrections and Rehabilitation

Enact Reforms in Prison Industry Authority

Recommendation

Privatize the Prison Industry Authority (PIA) as an independent, nonprofit, tax-exempt organization. Focus PIA on providing job training and other services aimed at preventing second-strike offenders from coming back to state prison with 25-years-to-life third-strike sentences. Also, enact other changes to restructure PIA management, improve fiscal accountability, do away with protected markets, establish clear rules for competition, allow for new private partnerships, and measure mission performance.

Rationale

The PIA has improved, but the state continues to receive a poor return on its significant past investment in buildings and equipment for the program. The PIA's progress has been hampered by an ever-shifting and muddled mission, constraints on inmate productivity, governmental constraints such as the state's personnel system, and a weak internal governance structure.

LAO Reference

Please see *Reforming the Prison Industry Authority*, April 1996.

LAO Contact

Brian Brown: 319-8351

California Department of Corrections and Rehabilitation

Realign Juvenile Parole Function to County Probation

Recommendation

Give counties the responsibility and funding to supervise juveniles released from facilities operated by the Department of Corrections and Rehabilitation's Division of Juvenile Justice (DJJ). Under this proposal, individuals leaving DJJ's institutions would transition directly into the local probation system. State funding that would otherwise be used for juvenile parole services would be redirected to county probation departments in the form of a subvention grant.

Under the California Constitution, as recently amended by Proposition 1A, the transfer of additional program responsibility to local government would have to be accompanied by commensurate offsetting revenues or program savings.

Rationale

There is a high level of duplication within the state and local juvenile justice systems. Both the state and local governments operate programs to supervise youthful offenders in the community. However, the local probation system is much larger and has a broader array of existing services to address the diverse needs of the youthful offender population.

LAO Reference

Please see our *2004-05 Budget Perspectives and Issues*, page 93.

LAO Contact

Dan Carson: 319-8350

Resources and Environmental Protection Departments

Apply "Beneficiary Pays" Funding Principle by Enacting Fees and Modifying Cost-Sharing Arrangements

Recommendation

Enact fees to (1) fully cover costs of environmental regulatory programs and (2) cover costs for services to parties proportionate to their direct benefit. Revise the state-local cost share for federally authorized flood projects to better reflect local benefits.

Rationale

Parties that benefit directly from the provision of a service (such as wildland fire protection, flood protection, and ensuring water supply reliability) or from programs regulating the use or degradation of natural resources (such as timber harvest plan reviews) should be responsible for paying the costs imposed on the state to provide the service or to regulate such activities.

LAO Reference

Please see our *1992-93 Analysis*, page IV-19 (financing of resources and environmental programs).

Also see our *2005-06 Budget: Perspectives and Issues*, page 230 (Central Valley flood control); *2004-05 Analysis*, pages B-28, B-31, and B-33 (CALFED Bay-Delta Program) and page B-93 (state-local cost share for flood control); and *2003-04 Analysis*, page B-60 (timber harvest plans) and page B-88 (wildland fire protection).

LAO Contact

Mark C. Newton, 319-8323

Air Resources Board

Improve State Oversight of Local Air Districts

Recommendation

Direct the Air Resources Board (ARB) to adopt a statewide policy to guide local enforcement and data management. Require ARB to develop a work plan for timely reviews of local district programs.

Rationale

The state has an interest in ensuring that locally administered air quality programs are implemented effectively and consistently in order to achieve the state's air quality goals. However, state-level policies to guide local enforcement practices, including data reporting to the state, are lacking. In addition, ARB's review of local programs—a statutory mandate—has been minimal. As a result, problems such as inconsistent and not fully effective local enforcement have developed without ARB taking timely corrective action.

LAO Reference

Please see *Improving State Oversight and Direction of Local Air Districts*, January 25, 2001.

LAO Contact

Jay Dickenson: 319-8354

CALFED Bay-Delta Program

Set Expenditure Priorities and Establish Performance Measures

Recommendation

Set expenditure priorities for CALFED Bay-Delta Program to guide funding allocations and align the program's expenditures with available resources. Establish performance measures for program.

Rationale

The lack of clear, specific goals and priorities to guide CALFED is stalling the program's ability to make decisions and move forward. Given significant uncertainty surrounding potential new funding for the program, it is particularly timely for the Legislature to set expenditure priorities for the program to guide actions to align the program's expenditures with available resources. It is also difficult to hold CALFED program agencies accountable for outcomes if the expected outcomes have themselves not been articulated. We think that the state benefits if statute specifies a small, select group of performance measures for CALFED. For example, we would include a measure of the extent to which CALFED expenditures have improved water quality and the level of flood protection on this list.

LAO Reference

Please see our *2006-07 Analysis*, page B-27. Also see our *2005-06 Budget: Perspectives and Issues*, page 231.

LAO Contact

Mark C. Newton, 319-8323

California Coastal Commission

Improve Coastal Access and Development Mitigation

Recommendation

Specify timeframes for accepting and developing offers to dedicate (OTD) property for public uses. Require state to accept expiring nonaccess OTDs. Require permitees to fund the development and operation of accepted OTDs through fees.

Rationale

The California Coastal Commission requires property owners to offset adverse effects of proposed coastal development as a permit condition. These offsets may include an offer to dedicate property for public uses, such as for a walkway to the beach. Public use or benefit from OTDs may be significantly delayed or never happen under the commission's current program. Specifically, OTDs for purposes other than public access (such as habitat preservation) expire if the offer is not accepted within a certain timeframe. Even when an OTD is accepted, it can be several decades after the coastal development is permitted before the public benefits from the OTD. Currently, the permitee is not required to fund the costs to develop and operate OTDs accepted and made available for public use. Consistent with the "beneficiary pays" principle, we recommend that these costs be covered by new impact and increased permit fees.

LAO Reference

Please see *Improving Coastal Access and Development Mitigation*, January 2005.

LAO Contact

Jay Dickenson: 319-8354

California Coastal Commission

Increase Likelihood That Locals Adopt Coastal Commission's Recommendations

Recommendation

Increase incentives for local governments to incorporate into their Local Coastal Programs (LCPs) recommendations of the Coastal Commission.

Rationale

All local governments within the state's coastal zone are required to adopt LCPs to ensure that development within the zone complies with the Coastal Act. The Coastal Commission is required to review these LCPs periodically, and to make recommendations on how they can better promote the goals of the Coastal Act. However, there is no requirement that local governments adopt these recommendations.

Statute could strengthen the commission's recommendations by giving the commission the authority to decertify LCPs that do not meet certain standards. In this way, local governments would be more inclined to respond to the commission's recommendations, and therefore to maintain LCPs that more effectively promote the goals of the Coastal Act.

LAO Reference

Please see our *2000-01 Analysis*, page B-93.

LAO Contact

Jay Dickenson: 319-8354

Conservancies

Clarify Land Acquisition Objectives and Review Goals' Attainment

Recommendation

Provide clearer statutory direction to each state conservancy regarding the objectives of their land acquisition programs. Amend conservancies' authorizing statutes to require periodic assessments of conservancies' progress in attaining their goals and of the continued appropriateness of these objectives.

Rationale

The statute establishing a conservancy often identifies goals that are broad and divergent, including goals that are difficult to reconcile—such as promoting recreation and protecting wildlife. Accordingly, legislation clarifying and refining the conservancies' statutory missions is warranted to better ensure that the conservancies are addressing the Legislature's objectives and priorities.

Since the establishment of most conservancies, many changes have occurred in the state's development patterns and understanding of environmental and wildlife issues. These changes warrant periodic review of conservancies to evaluate how well they are meeting their missions.

LAO Reference

Please see *California's Land Conservation Efforts: The Role of State Conservancies*, January 5, 2001.

LAO Contact

Jay Dickenson: 319-8354

Department of Forestry and Fire Protection

Utilize a Uniform Local Agency Agreement

Recommendation

Require the Department of Forestry and Fire Protection (CDFFP) to utilize a uniform agreement for hiring of local fire protection agencies to assist CDFFP with wildland firefighting.

Rationale

The CDFFP contracts with local fire protection agencies to assist with wildland firefighting. Generally, these agreements are negotiated between the local agency and the local CDFFP unit rather than CDFFP headquarters. This system of negotiating agreements has lead to hundreds of agreements, with varying levels of reimbursement rates and other contract provisions. Utilizing a uniform agreement would simplify the contracting process, reduce administrative costs for the state and local governments, and provide increased certainty to both the state and local governments about what services local governments are required to provide and the reimbursements they will receive for doing so.

LAO Reference

Please see our *California's Wildland Fire Protection System: A Primer*, April 12, 2005.

LAO Contact

Brendan McCarthy: 319-8309

Energy Agencies

Reorganize Activities to Improve Accountability and Create Efficiencies

Recommendation

Consolidate most energy-related functions of multiple state entities into a new department, placing regulatory activity for power plant permitting and energy efficiency standard-setting in a narrowly focused commission. Designate the new department as the lead state agency before the Federal Energy Regulatory Commission (FERC).

Rationale

The current energy organizational structure—in which multiple state entities have responsibility for policy making and program implementation—reduces accountability by spreading responsibility for the success or failure of these activities across multiple organizations. Some of these entities are headed by policy makers in quasi-autonomous commissions that are not directly accountable to the Governor. These entities may also represent the state separately before FERC on California energy market issues. The existence of similar or overlapping duties among these entities results in an inefficient duplication of effort and coordination problems, impeding program effectiveness.

LAO Reference

Please see our *2006-07 Budget: Perspectives and Issues*, page 199.

LAO Contact

Catherine Freeman: 319-8325

Flood Management

Improve Connection Between Land Use Planning and Flood Risk

Recommendation

Improve the connection between land use planning and the fiscal consequences of flood risk, by (1) tying flood control subvention funding to flood risk and (2) enacting a floodplain development fee to fund the state's additional flood-related costs resulting from new floodplain development.

Rationale

One of the key issues identified in flood management is the connection between development and flood risk and the costs imposed on the state when local governments approve risky developments in floodplains. By making local agencies ineligible for state flood subvention funding when their land use decisions result in substantial flood risks, local land use decision makers would likely give greater consideration to the potential costs and benefits of their decisions. Consistent with the "beneficiary pays" principle, a new floodplain development fee would provide for "growth funding growth" and would pay for the additional costs imposed on the state flood control system because of new development.

LAO Reference

Please see our *2005-06 Budget: Perspectives and Issues*, page 217, and our *2006-07 Analysis*, page B-82.

LAO Contact

Catherine Freeman: 319-8325

Recycling

Reorganize Programs to Improve Effectiveness And Create Savings

Recommendation

Consolidate the state's multiple recycling programs into a new department within the California Environmental Protection Agency. Transfer nonrecycling functions of the California Integrated Waste Management Board and the Department of Conservation to other state entities. Eliminate the board and the department.

Rationale

The department's and board's efforts at public outreach and education, recycled material market development, and sharing of recycling expertise are fragmented, thereby weakening delivery of the state's recycling message and attainment of recycling objectives. Consolidating all recycling programs under one organization would promote a comprehensive and strengthened approach to recycling and improve accountability. In addition, by transferring the remaining (nonrecycling) functions of the board and the department to other state entities, the state could realize at least $2 million in special fund savings.

LAO Reference

Please see our *2005-06 Analysis*, page B-17.

LAO Contact

Jay Dickenson: 319-8354

State Lands Commission

Transfer Balance of School Land Bank Fund to the Teacher's Retirement Fund

Recommendation

Transfer the balance of the School Land Bank Fund (SLBF) to the Teachers' Retirement Fund (TRF) and require that all future revenues from the sale of school lands be deposited in TRF for investment by the State Teachers' Retirement System (CalSTRS).

Rationale

The State Lands Commission (SLC) manages state lands, including "school lands" which are lands that were given to the state by the federal government to support public education. Most of these lands are not appropriate for use as school sites, but are leased by SLC for development or resource extraction, with the lease revenues deposited in TRF. Over time, SLC has sold much of the original school lands, but has failed to use these sales proceeds to purchase new revenue-generating lands, yielding a significant and growing fund balance in SLBF. The CalSTRS has the staff expertise and economies of scale to better invest these funds on behalf of the state's teachers—the intended beneficiaries of SLBF investments.

LAO Reference

Please see our *2006-07 Analysis*, page B-62.

LAO Contact

Brendan McCarthy: 319-8309

Waste Facilities and Mines

Reduce State's Financial Exposure at Closed Waste Facilities and Mines

Recommendation

Strengthen requirements for waste facility and mine owners to provide "financial assurances" to cover the costs of cleaning up and restoring the facility's site after its closure. Establish new fee on operating waste facilities and mines to cover gaps in funding restoration costs not paid for from financial assurances.

Rationale

Prior to operating solid or hazardous waste facilities and mines, owners must provide evidence of financial capacity to restore public resources after a facility's closure. However, existing financial assurance requirements for hazardous waste facilities and mines do not account for all costs associated with ensuring a closed site poses no public or environmental threat, thereby exposing the state to financial risk. In addition, some financial assurance instruments, such as the corporate guarantee, are risky for the state. Finally, there is not a dedicated funding source to cover unanticipated restoration costs or instances when the financial instrument provided as the assurance fails.

LAO Reference

Please see *Strengthening Public Safety of Waste Facilities and Surface Mines: Financial Assurances*, April 2006.

LAO Contact

Jay Dickenson: 319-8354

Establish Policy on Funding Eligibility of Private Water Companies

Recommendation

Establish overall policy on the eligibility of private water companies to apply for water bond funds.

Rationale

Some recent water-related bonds, including Proposition 50, have been silent on the public versus private eligibility for the bond funds. There is a benefit from having a consistent state policy, guided by legislative direction, regarding the allocation of bond funds to private water companies. As a general policy, we think that the Legislature should permit private water companies to be eligible to apply for water bond funds where this furthers the intended public purpose of the bond measure. For example, the public purpose of providing a safe and clean water supply to meet the needs of all of the state's residents and businesses would be furthered by including private entities as eligible recipients of bond funds for this purpose.

LAO Reference

Please see our *2006-07 Analysis*, page B-34. Also see *Proposition 50 Resources Bond: Funding Eligibility of Private Water Companies*, May 2004.

LAO Contact

Mark C. Newton, 319-8323

Water Transfers

Facilitate Transfers While Better Protecting Those Parties Affected by Transfers

Recommendation

Consolidate water transfer law into a single act, with clearly stated goals and more consistent and comprehensive third-party protection. Establish a water transfer information office to facilitate water transfers on a statewide basis.

Rationale

Water transfers—from one party with extra water to another party with temporary or ongoing needs—have significant potential as a management tool to address the state's water needs. However, current water transfer law is unclear and inconsistent. Making water transfer law clear and consistent should reduce uncertainty that impedes such transfers. In addition, the creation of a statewide water transfer information office could (1) reduce transaction costs associated with transfers by streamlining regulatory review and (2) improve the evaluation of third-party impacts of transfers.

LAO Reference

Please see *The Role of Water Transfers in Meeting California's Water Needs*, September 8, 1999.

LAO Contact

Catherine Freeman: 319-8325

Require Fees to Cover the Costs of Issuing Encroachment Permits

Recommendation

Require that the fees charged to private companies by Caltrans for issuing encroachment permits cover, but do not exceed, the total cost of providing this service.

Rationale

Caltrans issues encroachment permits to government agencies and private companies for construction and nontransportation activities within the state highway system's right-of-way. State law allows the department to charge private companies for these permits, provided the total fees collected do not exceed the cost of reviewing permit applications from private companies. However, the encroachment permitting fees Caltrans collects cover only about one-half of the costs of reviewing private-company permit applications. This has resulted in the state annually providing $4 million to $7 million worth of this service to private companies free of charge.

Because the fees charged do not equal the cost of issuing the permits, the State Highway Account must cover the difference. If the fees more closely matched the costs, this money could instead be used for other transportation purposes.

LAO Reference

Please see our *2002-03 Analysis*, page A-49.

LAO Contact

Dana Curry: 319-8320

Transportation

Repeal Proposition 42

Recommendation

Ask the voters to increase transportation funding stability by repealing the State Constitution's requirement that revenue from the sales tax on gasoline be used for transportation purposes.

Rationale

Proposition 42, passed by voters in March 2002, directs revenue from the sales tax on gasoline to transportation purposes. The intent of the measure was to increase transportation funding by over $1 billion annually. However, this revenue has proven to be unpredictable. Since 2003, the transfer of Proposition 42 revenues to transportation has been partially or fully suspended twice to help address shortfalls in the General Fund. While Proposition 1A limits the ability to suspend the transfer, future transfers are still uncertain. This uncertainty makes long-term transportation planning difficult and could result in the state wasting time and money due to stopping and restarting projects. Repealing Proposition 42 could return some stability to transportation funding—although at a lower level—while partially addressing the General Fund's structural deficit. Our recommendation on the following page would increase transportation funding to compensate for repealing Proposition 42.

LAO Reference

Please see our *2004-05 Analysis,* pages A-29 through A-36.

LAO Contact

Kendra Breiland 319-8342

Transportation

Increase and Index the State Gas Tax

Recommendation

Increase the state excise tax ("gas tax") on gasoline and diesel fuel to provide a stable source of funding for highway maintenance and rehabilitation and index the tax to prevent erosion of the tax's value over time.

Rationale

Gas tax revenues have traditionally paid for capacity expansions on highways and roads. In recent years, however, growing maintenance and rehabilitation costs have consumed these revenues leaving little for new transportation projects. The California Transportation Commission projects that in the near future gas tax and weight fee revenues will not meet even highway maintenance and rehabilitation needs. These revenues are the only source of funding available for highway maintenance. Though some rehabilitation costs can be funded with Proposition 1B bond funds and federal dollars, the long-term issue remains that maintenance and rehabilitation needs are growing faster than the revenues which pay for these activities. For these reasons, it is appropriate to raise the gas tax to ensure an adequate funding source for transportation. Furthermore, we recommend that the gas tax be indexed to the California Consumer Price Index to prevent future erosion of transportation funding over time.

LAO Reference

Please see our *2006-07 Analysis,* page A-38.

LAO Contact

Kendra Breiland: 319-8342

Transportation

Conduct Ongoing Transportation Needs Assessment

Recommendation

Require the California Transportation Commission, working with Caltrans and the regions, to provide a statewide transportation needs assessment every five years.

Rationale

The first step in identifying a solution to a problem is identifying the scope of the problem. Yet, when it comes to transportation, there is currently no requirement that the commission or any other state entity assess and report on the state's overall transportation needs on a regular basis.

While Caltrans and regional transportation planning agencies (RTPAs) must regularly update funding and scheduling documents, such as the State Transportation Improvement Program and the State Highway Operation and Protection Program, these documents provide no information on unfunded needs. Similarly, RTPAs are required to adopt 20-year long-range planning documents under both state and federal law, but these documents are not compiled to provide a view of the state's needs as a whole. Given that California's transportation system is supported by multiple funding programs—at the state, federal, and local level—having a central document that would regularly update the state's transportation needs would facilitate the state's decisions related to transportation funding and priority setting.

LAO Reference

Please see our *2006-07 Analysis,* page A-37.

LAO Contact

Kendra Breiland: 319-8342

Fund Transit Rolling Stock

Recommendation

Amend the State Constitution to permit the use of gas tax revenues for rolling stock.

Rationale

The Constitution (Article XIX) restricts the use of fuel tax revenues (gas and diesel taxes) to (1) construction, maintenance, and operation of roads and highways and (2) construction and maintenance of mass transit guideways and facilities (mainly rail tracks). Transit rolling stock (mainly railcars and buses) is the only type of transportation capital outlay that currently cannot use fuel tax revenues under Article XIX.

Modifying Article XIX to allow fuel tax revenues to be used for transit rolling stock would allow greater flexibility in the use of fuel tax revenues for the most cost-effective transportation projects.

LAO Reference

Please see *After the Blueprint: Developing and Funding an Efficient Transportation System,* March 5, 1998, page 3.

LAO Contact

Stephanie Hockman: 319-8363

Transportation

Authorize Design-Build Contracting on a Pilot Basis

Recommendation

Authorize Caltrans to use design-build to deliver capital projects on a pilot basis subject to periodic review and oversight.

Rationale

Design-build provides an alternative to the traditional design-bid-build method to procure capital projects. Specifically, the design-build method awards both the design and construction of a capital project to a single entity, with the objective of reducing project delivery times by integrating the design and construction processes.

State law currently does not provide Caltrans with broad authority to use design-build. Thus, Caltrans has limited experience using this method to deliver projects. While design-build could shorten project delivery time, there are potential pitfalls to avoid. Given the department's lack of experience, we recommend that Caltrans be authorized to use design-build on a pilot basis subject to periodic review and oversight. Accordingly, we recommend that Caltrans report periodically to the California Transportation Commission and the Legislature on timeliness of delivery, its process and methodology of contractor selection, as well as the results of peer review of contracts and projects delivered.

LAO Reference

Please see *Funding for Transportation: What the New Federal Act Means for California*, January 19, 2006, page 17.

LAO Contact

Kendra Breiland: 319-8342

Retiree Health Programs

Addressing the Costs of Retiree Health Benefits

Recommendation

Establish working group to report to the Legislature on options for funding and reducing the long-term costs of retiree health benefits. Develop statewide inventory of public agency retiree health liabilities for use by policy makers, citizens, and researchers.

Rationale

Health care premiums continue to rise rapidly, increasing the costs for the state, school districts, and other public agencies to provide benefits to retired employees and their dependents. New governmental accounting guidelines also will lead to most public agencies reporting significant unfunded liabilities for retiree health benefits. Convening a state working group to study these issues and provide recommendations to the Legislature on options to fund and reduce long-term retiree health benefit costs would be helpful. Comprehensive information on public agency retiree health liabilities is not available. It would be valuable for the State Controller to produce a report annually on such liabilities similar to the one produced on the finances of public pension systems and to post newly released retiree health actuarial valuations on the Internet (if governments choose to submit them electronically).

LAO Reference

Please see *Retiree Health Care: A Growing Cost for Government,* February 17, 2006.

LAO Contact

Jason Dickerson: 319-8361.

Offices of Emergency Services (OES) and Homeland Security (OHS)

Improving the State's Emergency Preparedness

Recommendation

Establish OHS as a division within OES and delineate OHS's duties and powers within the department.

Rationale

The OES is the state's lead agency for disaster preparedness and response. The OHS administers homeland security grants to local governments and develops the state's homeland security strategic plan. Since its creation in 2003, OHS primarily has been operating based on executive orders without specific statutory authorization. Although OHS is currently budgeted within OES, the two entities largely have been operating independently of one another. The existing structure has caused confusion over roles and responsibilities. For instance, although OHS administers federal homeland security grants, many grant activities are related to overall emergency planning and response (overseen by OES). We recommend establishing OHS as a division within OES, with specific statutory authorization for OHS and its duties and powers. Such an approach would make it clear that OES is in charge of state disaster preparedness and response.

LAO Reference

Please see *A Perspective on Emergencies and Disasters in California* in *The 2006-07 Budget: Perspectives and Issues*, pages 145 through 173.

LAO Contact

Michael Cohen: 319-8310

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Juvenile justice/health care .... Vacant
Courts .... Edgar Cabral
Criminal justice capital outlay .... Vacant

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Director .... **Brad Williams**
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K-12 finance/compensatory education .... Rachel Ehlers
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Medi-Cal—elderly/disabled .... Elizabeth Cheung
Public health/Healthy Families .... Michelle Baass
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CalWORKs/food stamps .... Todd Bland
IHSS, SSI/SSP, child support .... Ginni Bella
Child welfare/welfare development .... Lauren Nackman

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