FINAL SUMMARY OF MAJOR FINANCIAL LEGISLATION ENACTED DURING 1985

NOVEMBER 1985

85-22

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INTRODUCTION

This report summarizes the fiscal effect of legislation enacted during the 1985 Regular Session of the California Legislature. It is intended to supplement and update our July 1985 report entitled: Summary of Legislative Action on the Budget Bill, 1985-86 Fiscal Year. That report shows the amounts appropriated in the Budget Act (SB 150) for each state department and major program in 1985-86.

This report is divided into two parts. Part I discusses the condition of the General Fund, taking into account:

1. The effects of legislation enacted during the 1985 session (including those bills enacted subsequent to our July report).

2. Other changes to the estimates of revenues and expenditures for 1985-86.

Part II of the report describes the provisions and fiscal effects of some 29 major bills enacted since January 1, 1985. Each of these bills is significant from both a fiscal and policy standpoint. Many of the other 1,731 bills approved by the Legislature and the Governor during the 1985 session also will have important consequences for the people of California. Thus, the discussion of individual bills in Part II of this report is intended merely to be illustrative of the major actions taken by the Legislature in 1985.

PART I

CONDITION OF THE GENERAL FUND

Overview

During fiscal year 1984-85, the uncommitted balance in the state's General Fund grew by approximately $850 million. On June 30, 1984, the General Fund had a balance of $518 million. By June 30, 1985, we estimate that the balance had grown to $1,376 million, of which $1,310 million had not been committed to specific programs or activities. The factors accounting for the change in the condition of the General Fund during the previous fiscal year are detailed in Table 1.

Table 1 also shows what the condition of the General Fund would be on June 30, 1986, given the revenue and expenditure programs approved by the Legislature to date. We estimate that, absent any further changes to the budget, the General Fund balance on June 30, 1986 would be $757 million, of which $754 million (2.6 percent of estimated General Fund expenditures) would be uncommitted and therefore available for appropriation by the Legislature. Thus, the current fiscal year is likely to see the state's General Fund balance drop by more than $0.5 billion. The $754 million uncommitted balance projected for June 30, 1986, is approximately $286 million less than what the Governor originally proposed. His budget plan called for the balance in the Reserve for Economic Uncertainties to be $1,040 million at year-end (or 3.6 percent of General Fund expenditures).

Table 1

Condition of the General Fund
1984-85 and 1985-86
(dollars in millions)

	1984-85	1985-86[a]
STARTING BALANCE (July 1):		
Department of Finance's August estimate[a]	$491	$1,376
Impact of Controller's accrual adjustments[b]	27	--
TOTALS, Starting Balance	$518	$1,376
REVENUES AND TRANSFERS:		
Department of Finance's August estimate:[a]	$26,612	$28,079
Impact of Controller's accrual adjustments[b]	2	--
Net impact of legislation enacted after the summer recess	--	-5
Expected PECRF transfer	--	10
Eliminate transfers proposed but not approved (OHV & 911)	--	69
TOTALS, Revenues & Transfers	$26,614	$28,153
EXPENDITURES:		
Department of Finance's August estimate:[c]	$25,768	$28,096
Impact of Controller's accrual adjustments[b]	-13	--
Legislation proposed by the Governor	--	221
Additional legislation approved by the Legislature and the Governor	--	329
Other expenditure adjustments	--	126
TOTALS, Expenditures (LAO estimate)	$25,755	$28,772
ENDING BALANCE[d] (June 30):	$1,376	$757
Funds already committed	66	3
Reserve for Economic Uncertainties	1,310	754

a. Source: Department of Finance, August Revenue and Expenditure Update.
b. Source: State Controller, November 1, 1985.
c. Excludes "set-asides" for anticipated or proposed legislation and an anticipated deficiency later funded through legislation.
d. Details may not add to totals due to rounding.

Following action by the Governor on the 1985 Budget Act, we estimated that the uncommitted balance in the reserve would be $1,319 million on June 30, 1986, if no further changes were made in the budget program for 1985-86. The Governor proposed that $221 million of this amount be "set-aside" for five specific purposes: to reimburse local governments for the state-mandated costs of providing unemployment compensation for their employees ($42 million), to increase funding for local streets and roads ($125 million), to provide equalization aid for school districts ($21 million), to increase child care funding ($5 million), and to reimburse local school districts for costs associated with the State Teacher's Retirement System (STRS) sick leave benefit ($18 million). The Legislature appropriated funds for each of these purposes, although in three cases the amount appropriated was more or less than what the Governor proposed. The Governor had also proposed that in 1985-86 $69 million be transferred to two special funds, so as to reimburse these funds for monies borrowed by the General Fund in 1983-84. This would have reduced General Fund revenues by $69 million, but the transfer was not approved by the Legislature.

Based on the estimates shown in Table 1, General Fund expenditures will exceed General Fund revenues by approximately $619 million, causing the level of uncommitted funds to decline from $1,310 million on June 30, 1985, to $754 million on June 30, 1986. Obviously, the state cannot continue to run a deficit in its current account of this magnitude.

The revenue and expenditure figures shown for 1984-85 reflect the impact of the final accrual reports for 1984-85 submitted by state agencies and published by the State Controller. These figures differ from the Department of Finance's budget estimates in one significant respect--the amount of funds committed but as yet unspent is larger. This reduces the ending balance of the Reserve for Economic Uncertainties by approximately $51 million, relative to the department's estimate.

The revenue and expenditure estimates for 1985-86 are likely to change in the months ahead, in response to changing economic conditions, action on the federal budget, actions taken by the executive branch in implementing the budget, and court decisions.

The major changes in the General Fund revenue and expenditure estimates that have occurred since July are summarized below.

Changes to Revenues

The estimates of General Fund revenues have changed little during the past three months. Revenue collections are tracking closely with the estimates released in May (the so-called May revision), and no modifications to these estimates appear warranted at this time. Legislation enacted since the Legislature's summer recess, however, will reduce 1985-86 revenues by $5 million.

Currently, we expect General Fund revenues to exceed $28 billion in 1985-86.

In 1985, the Legislature passed and the Governor approved some 31 measures which will have an effect on General Fund revenues during the 1985-86 fiscal year. These consist of 20 measures which will have a negative impact on General Fund revenues (-$11,599,000) and 11 measures which will have a positive impact on General Fund revenues ($6,795,000). The revenue loss measures primarily represent the enactment of legislation establishing new tax expenditure programs, and extending the sunset date or expanding the operation of existing tax expenditure programs. Table 2 provides a listing of the 20 tax expenditure measures enacted during 1985.

Of the measures with a positive impact on General Fund revenues, one measure accounts for nearly all of the total revenue gain. That measure (SB 1225, Keene) is anticipated to increase the amount of sales tax revenues collected by the state on transactions involving out-of-state mail-order retail operations.

Table 2

New State Tax Expenditure Programs
Enacted in 1985
(dollars in thousands)

Bill Number	Tax Affected	Description	General Fund Revenue Loss 1985-86	General Fund Revenue Loss 1986-87
AB 54	Sales Tax	Waterborne Vessels	--[a]	--[a]
AB 151	Parimutuel License	Horse Racing	-$50	-$850
AB 313	Sales Tax	Vending Machines	-61	-147
AB 398	Sales Tax	Gold Bullion	-4	-10
AB 430	B&C Tax	Contributions--Computers	-1,000	-1,000
AB 1187	Sales Tax	Packing Ice	-66	-158
AB 1443	Sales Tax	Hay Producers	-200	-400
AB 1629	Sales Tax	Youth Organizations	-200	-400
SB 29	PIT	Mobilehome Parks	--[b]	-5,000[b]
SB 54	Sales Tax	Nonmonetized Bullion	--	--
SB 71	PIT/B&C	Jobs Tax Credits	-1,250	--
SB 961	Sales Tax	Drugs and Medicine	-200	-400
SB 1070	PIT	Spousal IRAs	-250	-250
AB 47	PIT	Checkoff Deduction	-145	-130
AB 78	PIT	Incentive Stock Option	-1,000	-1,000
AB 920	Sales	Food	-200	-400
AB 1306	B&C	Contributions--Computers	-1,000[b]	-1,000[b]
AB 1843	PIT/B&C	Enterprise Zones	--	--
AB 2091	PIT	Contributions--Art	-1,000	-1,000
AB 2274	B&C	Contributions--Computers	-5,000	-2,500
Totals			-$11,576	-$13,795

a. Local revenue loss only.
b. Unknown revenue loss.

Changes to Expenditures

Our current estimate of General Fund expenditures in 1985-86 is $608 million higher than the estimate included in our July report on the 1985 Budget Act. The factors responsible for the increase can be divided into two categories: chaptered legislation and unavoidable cost changes.

Chaptered Legislation Will Increase Expenditures by $550 Million

Legislation chaptered during the 1985 session of the Legislature, other than the Budget Act itself, will increase expenditures in 1985-86 by $550 million. Five bills account for most of the increase:

- Streets and Highways. Senate Bill 300 (Ch 1600/85) appropriates $125 million from the General Fund to cities and counties for the maintenance and reconstruction of local streets and highways in 1985-86.
- Prisons. Senate Bills 253 (Ch 933/85) and 677 (Ch 1181/85) and AB 2251 (Ch 93/85) appropriate funds for the expansion of existing facilities and for the planning of a new prison near Corcoran in Kings County. These measures will increase 1985-86 General Fund expenditures by $81 million.
- Unemployment Insurance Coverage for Local Public Agencies. Assembly Bill 1575 (Ch 1217/85) appropriates $44 million to reimburse local public agencies for the cost of unemployment compensation provided to their employees during 1984-85 and 1985-86. This legislation was enacted in response to an Appeals Court decision which held that these costs result from a state-mandated local program.

- Equalization. Assembly Bill 177 (Ch 1237/85) prescribes a revenue limit equalization adjustment for school districts. The cost to the General Fund of this adjustment is $21 million in 1985-86.
- Disaster Response--Emergency Operations Account. Senate Bill 1473 (Ch 1562/85) appropriates $20 million from the General Fund for disaster relief.

Unavoidable Budget Changes Will Increase Expenditures by $126 Million

The estimate of General Fund expenditures shown in Table 1 recognizes certain unavoidable cost increases which were not recognized by the Department of Finance in its most-recent update (August). These increases are shown as "other expenditure adjustments" in Table 1, and include the following:

- AFDC Fiscal Year 1981 Errors. The U.S. Department of Health and Human Services (HHS) will require California to pay the federal government $35 million because the state's Aid to Families with Dependent Children (AFDC) error rate during FFY 1981 (6.8 percent) exceeded the limit imposed by HHS (4.0 percent). The Department of Social Services (DSS) advises that it has exhausted all opportunities to appeal the decision and expects to pay the money during 1985-86.
- Special District Loan Repayments. The administration's estimate anticipates that $22 million advanced as loans to special districts to offset supplemental roll property tax revenue shortfalls will be recovered in 1985-86. Our analysis indicates

that, under existing law, these payments will not be recovered in 1985-86.

- Abortions Court Case. The State Appeals Court has ordered the Department of Health Services (DHS) to pay for abortions under the Medi-Cal program, notwithstanding the limitations contained in the 1985 Budget Act. This decision will increase General Fund expenditures by $13 million.
- Federal Audit Disallowance--Medi-Cal. The DHS must pay the federal government $2.6 million from the interest earned on money collected from providers who had been overpaid.
- 1984-85 Continuing Appropriations Balance. The State Controller's final accruals for 1984-85 show $51 million more in funds appropriated but not yet spent than was anticipated in our previous estimate. We expect that this $51 million will be expended in fiscal year 1985-86, though it is possible that some portion of these funds could revert to the General Fund at the end of the year.

Contingencies

The estimates of General Fund revenues and expenditures shown in Table 1 do not make allowance for various contingencies that could significantly increase or decrease the General Fund's end-of-year balance. Our analysis identifies seven contingencies which the Legislature must keep in mind in doing its fiscal planning:

- Reimbursement of Unemployment Compensation Costs Incurred by Local Public Agencies. Although AB 1575 appropriated $44 million to reimburse local public agencies for unemployment compensation costs incurred in fiscal years 1984-85 and 1985-86, the state still is potentially liable for such costs incurred between July 1, 1980 and June 30, 1984. These costs could total $115 million. Negotiations over these costs currently are taking place between the state and local public entities.

- School Apportionment. The court's decision in the Fullerton-Rowland school apportionment case could open the door for other school districts to claim reimbursement for average daily attendance (ADA) that were double- counted but have been paid for only once. The Department of Education estimates that the potential cost of honoring these claims could total $70 million.
- In Home Supportive Services (IHSS). There is a potential funding shortfall in the IHSS program of $20 million. The shortfall is due to an increase in the hours of service per case awarded by the counties.
- Child Welfare Services. The DSS may be required to reimburse the counties for an additional $15 million in administrative costs under the Child Welfare Services program. The additional funds may be needed because of an error in the methodology used by the department in determining the amount of reimbursement to be provided for county administrative costs.
- Loss of Federal Funds to Medi-Cal. The federal government may withhold $12 million in funds for Medi-Cal because of errors made by counties in determining eligibility for program benefits.

These errors date back to 1981. The DHS is arguing that this sanction should be waived in recognition of the state's "good faith" effort to reduce the eligibility error rate.

- Compensation for Economic Losses Resulting from the Confiscation and Destruction of Watermelons. Assembly Bill 1511 (Ch 1265/85) states the Legislature's intent to compensate farmers, brokers, shippers, wholesalers, and retailers for the economic losses they incurred as a result of the confiscation and destruction of watermelons. The California Department of Food and Agriculture (CDFA) estimates that the cost of these claims could reach $8 million. An appropriation is needed before these claims can be paid.
- Child Nutrition. The costs of the state-mandated Child Nutrition Program in 1984-85 are estimated at $1.4 million more than the amount budgeted.
- Employee Health Coverage Costs. A portion of any additional costs resulting from these contingencies may be offset by two likely or potential changes that may have a favorable impact on the General Fund. These changes, which involve potential savings in the amount expended by the state for employee health coverage, could improve the General Fund condition by $10 million.

Comparison of the Department of Finance's and Legislative Analyst's Estimates of the General Fund Condition

Table 3 highlights the differences between our current estimate of the General Fund condition and the most recent estimate (August) released by the Department of Finance.

As the Table shows, our estimate of revenues and transfers is $74 million higher than the department's. This primarily reflects the fact that the Legislature chose not to transfer $69 million from the General Fund to the Off-Highway Vehicles (OHV) account and the Emergency 911 account, as the Governor had proposed. It also reflects the enactment of legislation since the department prepared its latest estimate (-$5 million), and a transfer to the General Fund ($10 million) from the Public Employees Contingency Reserve Fund that our analysis indicates is likely to occur in 1985-86.

Table 3

Comparison of DOF and LAO
Estimates of the General Fund Condition
1985-86
(dollars in millions)

	Department of Finance (August)	Legislative Analyst's Office (October)	Difference
Starting Balance (July 1, 1985)	$1,335	$1,376	$41
Revenues and Transfers	28,079	28,153	74
Expenditures	28,412	28,772	360
Ending Balance (June 30, 1986):	1,002	757	-245
Funds Already Committed	3	3	--
Reserve for Economic Uncertainties	999	754	-245

Most of the difference between our expenditure estimate and the department's reflects developments that have taken place since the department prepared its latest estimate. Our estimate of General Fund expenditures, for example, reflects $550 million in expenditures attributable to legislation enacted since the July-August recess. The Department of Finance anticipated only a little more than one-half of this amount--$296 million in preparing its August estimate. In some cases, the amount actually appropriated by the Legislature differs from the amount "set-aside" by the department. Other differences--those labeled "other expenditure adjustments" in Table 1--are separately identified in Table 4.

Table 4

LAO Versus DOF Expenditure Estimates:
"Other Differences"
1985-86
(dollars in millions)

Program	LAO Compared With DOF
Funds committed from 1984-85	$51
AFDC fiscal year 1981 errors	35
Special District Loan Repayments	22
Funding for abortions	13
Medi-Cal Federal Audit Disallowance	3
All other	2
Total	$126

The Evolution of the 1985-86 Budget

Table 5 depicts, in summary fashion, the changes in estimated General Fund revenues and expenditures that have occurred since the budget for 1985-86 was first submitted to the Legislature in January 1985. This table shows that:

- Our current estimate of expenditures--$28,772 million--is $908 million more than the level initially proposed by the Governor.
- Our estimate of revenues--$28,153 million--is $231 million above the level initially forecast by the Department of Finance.
- During 1985, the Governor has vetoed $100 million in legislatively approved spending, as well as bills that would have reduced revenues by $162 million (net).

Trends in General Fund Expenditures

Table 6 shows General Fund spending from 1974-75 through 1985-86 in both current and real (that is, inflation-adjusted) dollars. It shows that General Fund expenditures in 1985-86 will exceed 1984-85 expenditures by 11.7 percent. When expenditures are adjusted for inflation, however, the increase is smaller--about 5.5 percent (using 1974-75 as the base year). This is a rough measure of the extent to which state-funded programs and activities will grow in 1985-86.

Per capita spending. Another method that can be used to compare trends in General Fund expenditures is to examine spending on a per capita basis. In 1974-75, the state spent from the General Fund approximately $394 per Californian. In current dollars, the approved 1985-86 budget provides for expenditures totaling approximately $1,103 per citizen, 180 percent more than the 1974-75 level. When per capita General Fund expenditures are adjusted for inflation, however, the increase since 1974-75 is reduced to 27 percent.

Table 5

Evolution of the 1985-86 Budget
(dollars in millions)

	Revenues	Expenditures
Governor's Budget, as submitted to the Legislature (January)	$27,922	$27,864
Changes initiated by the administration	107	158
Governor's Budget, as Revised (May)	$28,029	$28,022
Action on the Budget Bill		
Legislative changes to the Budget Bill	229	548
Desegregation Funding Bill (AB 38)	--	95
Budget, as Approved by the Legislature	$28,258	$28,665
Gubernatorial changes:		
Amounts vetoed	-37	-501
Other adjustments	--	--
Budget, as Chaptered (June)	$28,221	$28,164
Subsequent Changes		
Changes proposed by the administration	-142	248
Revenues and Expenditures Proposed by the Governor (August)	$28,079	$28,412
Legislative changes, net of administration proposals	-166	333
Revenues and Expenditures Approved by the Legislature	$27,913	$28,745
Amounts vetoed	162	-99
Revenues and Expenditures Approved by the Governor	$28,075	$28,646
Legislative Analyst's reestimates	79	126
Revenues and Expenditures as Estimated by Legislative Analyst (November)	$28,154	$28,772

Table 6

Trends in General Fund Expenditures
1974-75 through 1985-86

	Total Expenditures (dollars in millions)				Per Capita Expenditures			
	Current Dollars[a]		1974 Dollars[b]		Current Dollars[a]		1974 Dollars[b]	
	Amount	Change	Amount	Change	Amount	Change	Amount	Change
1974-75	$8,349	--	$8,349	--	$394	--	$394	--
1975-76	9,517	14.0%	8,805	5.5%	442	12.2%	409	3.8%
1976-77	10,488	10.2	9,103	3.4	478	8.1	415	1.5
1977-78	11,708	11.6	9,459	3.9	524	9.6	423	1.9
1978-79	16,272	39.0	12,138	28.3	712	35.9	531	25.5
1979-80	18,568	14.1	12,624	4.0	798	12.1	543	2.3
1980-81	21,066	13.4	13,075	3.6	886	11.0	550	1.3
1981-82	21,695	3.0	12,491	-4.5	896	1.1	516	-6.2
1982-83	21,755	0.3	11,745	-6.0	883	-1.5	477	-7.6
1983-84	22,872	5.1	11,626	-1.0	909	2.9	462	-3.1
1984-85	25,755	12.6	12,356	6.3	1,005	10.6	482	4.3
1985-86[c] (est.)	28,772	11.7	13,034	5.5	1,103	9.8	500	3.7

a. Source: State Controller.
b. "1974 Dollars" equal current dollars deflated by the change in the Gross National Product implicit price deflator for state and local purchases of goods and services since 1974-75, as estimated by the Department of Finance in the 1985 May Revise.
c. Legislative Analyst's estimate as of November 1985.

Appropriations of Federal Outer Continental Shelf Oil Revenue

During 1985, the Legislature approved six bills, other than the Budget Act, which appropriate a total of $206,779,500 in federal offshore oil revenues (to the extent the state receives them). The 1985 Budget Act itself appropriated $125 million of these revenues. Table 7 summarizes the purposes for which these appropriations were made.

Table 7

Legislation Chaptered in 1985
Appropriating Federal Offshore Oil Revenue

Bill	Chapter	Amount	Purpose
AB 1024	1440	$117,279,500	School lease-purchase, school energy conservation, hazardous waste planning, county health facilities, and 21 other programs
AB 1140	1449	15,000,000 *(10,000,000)	Financial assistance for county health facilities
AB 1461	1468	*(2,000,000)	City of Palos Verdes, Portuguese Bend landslide repairs
SB 51	1470	*(7,500,000)	K-12 instructional materials
SB 303	1026	36,500,000	Extended day care capital outlay
SB 959	1390	38,000,000	Local coastal resource management
Total (non-Budget Act)		$206,779,500	
1985 Budget Act		125,000,000	Local streets and roads
Total appropriations		$331,779,500	

*These appropriations are superseded by appropriations for the same purposes in AB 1024.

The appropriations listed in Table 7 can be looked upon as General Fund appropriations. This is because these offshore revenues normally would be deposited in the General Fund.

Background. Section 8(g) of the federal Outer Continental Shelf Lands Act provides that the federal government shall share with the affected states revenue that it receives from oil and gas development on federal submerged lands between three and six miles from a state's shore. Revenue from these "8(g)" lands remain in an escrow account until the federal Department of Interior (DOI) and the Governor of each affected coastal state reach agreement on a sharing arrangement. The escrow account contains approximately $1.4 billion from federal oil and gas leases on 8(g) lands off California.

The Governor's office and the DOI have not reached a sharing agreement.

The Congress currently is considering three amendments to the budget reconciliation bills that would specify a methodology for sharing the 8(g) funds with the states. As currently drafted, these amendments would allocate from $360 million to $375 million to California. Alternatively, the federal administration has indicated that it might seek to use all of the funds in the 8(g) escrow account to reduce the federal budget deficit. Negotiations between the Governor's office and the DOI have slowed, pending Congressional action on the 8(g) issue.

PART II

MAJOR BILLS ENACTED IN 1985

A. Mental Health Programs

Senate Bill 1296 (Chapter 1419) and Senate Bill 1054 (Chapter 1418)

These measures create a commitment mechanism for (1) mentally ill prison inmates whose determinate sentences have expired and who are parole eligible and (2) former prisoners who currently are on parole. Specifically, this legislation:

1. Requires the state Department of Mental Health (DMH) to provide mental health treatment to specified potentially dangerous individuals as a condition of parole. The DMH must provide inpatient treatment in a state hospital or prison unless it certifies that the parolee can be safely and effectively treated in an outpatient program.

2. Authorizes continued involuntary treatment for periods of one year if (a) the individual remains mentally ill at the end of the parole period, (b) the court approves the extended commitment, and (c) other conditions are met.

3. Establishes procedural safeguards, including mandatory psychiatric examination, fair hearing, jury trial, and legal representation for individuals who are at risk of being involuntarily committed to a mental health program.

The cost of these measures will depend on the size of the caseload. Caseload will be determined by the number of Department of Corrections referrals, the percentage of the cases approved by the courts for involuntary treatment, and the average length of stay.

Inpatient Treatment Cost. The annual cost of caring for an individual in an inpatient psychiatric unit is approximately $52,000. The annual cost for caring for the projected caseload of 1,000 to 1,200 individuals, therefore, would range from $52 million to $62.4 million. First-year costs for an inpatient caseload of 250 to 500 patients would range from $13 million to $26 million.

Outpatient Treatment Cost. The annual cost of caring for an individual in an outpatient community care facility is approximately $12,000. The annual cost of caring for the projected caseload of 1,000 to 1,300 outpatients, therefore, would range from $12 million to $15.6 million. First-year costs for an outpatient caseload of 125 to 350 patients would range from $1.5 million to $4.2 million.

Capital Outlay Cost. Neither the DMH nor the Department of Corrections has enough secure psychiatric inpatient beds to serve an additional 1,000 to 1,200 mentally disordered offenders. It is not clear, however, how many additional psychiatric beds would be required or where they would be located. Capital outlay cost per bed is approximately $125,000. We estimate that one-time capital outlay costs would be up to $150 million (the cost if 1,200 additional beds are needed).

There will be savings to the Department of Corrections to the extent there is (1) a decrease in the number of individuals recommitting crimes and (2) a decrease in the number of individuals who have their parole revoked. We estimate first-year savings to the department of approximately $1.4 million and annual savings of approximately $16 million once the program is fully established.

The act will result in unknown, potentially major, additional court costs by increasing the number of jury trials.

Senate Bill 155 (Chapter 1352)

This act, an urgency measure, requires the DMH to implement a program of rate supplements for private residential care facilities that serve mentally disabled clients. Currently, residential care facilities receive $503 per month per client from the Supplemental Security Income/State Supplementary Payment (SSI/SSP) program. This amount is not supplemented by the department.

Background. Chapter 1194, Statutes of 1979 (SB 951), required the DMH to establish rate supplements in order to meet the special needs of mentally disabled persons residing in private residential care facilities. The rate supplements were to be implemented only if sufficient funds were appropriated in the Budget Act. Since the needed funds were not appropriated, the program was not implemented prior to the current year. The 1985 Budget Act contains $11.3 million to begin implementation of the rate supplement program in 1985-86.

Senate Bill 155 makes the following specific changes in the statutes governing the rate supplement program:

1. It deletes a section of law that makes payment of rate supplements contingent on an annual Budget Act appropriation.

2. It requires the department to adopt regulations establishing (a) participation criteria for facilities and (b) training and educational requirements for facility operators by October 1, 1985.

3. It requires the rates paid for mentally disabled persons to be equal to the rates paid for equivalent categories of developmentally disabled persons until the department has established a mechanism for assessing clients' abilities and needs, and provides that in no case shall rate supplements be less than rate supplements for the developmentally disabled that became effective July 1, 1985. This requirement increases by 23 percent the rates proposed by the department in May 1985 and results in annual General Fund costs of approximately $2.4 million.

4. It requires the department to establish by July 1, 1987, a standardized assessment tool for counties to use in determining the functional abilities and need for program services of clients in residential care facilities and a client monitoring system. These requirements will result in one-time General Fund costs ranging from $25,000 to $100,000.

5. It waives, for 1985-86 and 1986-87, the requirement that counties fund 10 percent of the cost attributable to rate supplements and related administrative activities. The waiver results in county cost avoidance of approximately $1.2 million annually.

6. It makes various other changes that affect the rate supplement program.

Senate Bill 53 (Chapter 11) and Assembly Bill 180 (Chapter 10)

These acts are identical urgency measures that institute various changes affecting long-term care facilities. Specifically, the legislation:

1. Augments wages for nonadministrative personnel who work in skilled nursing homes and intermediate care facilities by increasing Medi-Cal reimbursement rates. We estimate that the wage increase will increase Medi-Cal costs in 1985-86 by $54.7 million ($27.5 million General Fund).

2. Increases the required minimum number of nursing hours per patient per day. The legislation increases Medi-Cal reimbursement rates to pay for added nursing staffing. We estimate that Medi-Cal costs will increase by $35.5 million ($17.8 million General Fund) in 1985-86 as a result of the additional nursing staffing.

3. Requires long-term care facilities to certify that the rate increases were used for wage increases and staffing augmentations. The legislation provides for additional auditor positions in the Department of Health Services to insure that the funds are used for the intended purposes.

4. Makes various changes related to citations and penalties assessed against facilities that violate regulations. Changes include the creation of a new class "AA" violation in cases where the department determines that a violation has resulted in the death of a patient. The act specifies the penalties for this new class of violation.

5. Establishes a Health Care Advisory Committee to advise the Director of Health Services on issues affecting long-term care facilities and requires facilities to establish patient councils to develop recommendations for the facilities' management.

6. Requires the department to develop and implement orientation and in-service training programs for state personnel who enforce state laws relating to long-term care facilities.

7. Requires the department to implement an automated information system to provide information to consumers and the public regarding individual long-term care facilities.

8. Makes various other changes that affect the operation of long-term care facilities.

Assembly Bill 2541 (Chapter 1286)

This act, an urgency measure, authorizes county mental health programs to initiate services to various target populations and requires various studies and planning activities. This act will result in annual General Fund costs of over $22 million, beginning in 1986-87. These costs are primarily attributable to a new program for homeless mentally ill persons. The act also will result in one-time General Fund costs of over $2.1 million, and ongoing county costs of $2,220,000 annually (beginning in 1986-87) if counties choose to accept state funds for services to the homeless mentally ill.

The primary features of the act are as follows:

1. Community Support System for the Homeless Mentally Ill. The act establishes a community support system for homeless, mentally disabled persons to be administered by county mental health departments. Counties will receive funds based upon approval of a service delivery plan. Local service delivery systems will offer assistance in obtaining income, health care, food, shelter, clothing, psychiatric treatment, money management services, and other services.

2. Targeted Supplement Fund. The act creates a Targeted Supplement Fund to provide services to specified targeted populations. Counties will determine the services to be provided and may initiate services after the department had approved the individual county's service plan.

In 1986-87, any appropriated Targeted Supplement Fund monies will be used to (a) reduce the number of seriously mentally disordered persons inappropriately placed in the criminal justice system, (b) increase availability of service in local jails for seriously mentally disordered inmates who require secure treatment settings, (c) reduce the incidence of sex offenses among children and adolescents, and (d) increase services for the elderly and veterans.

3. Evaluations for Seriously Disturbed Children and Adolescents. The act requires courts to refer children who may be seriously emotionally disturbed and may need special treatment away from their homes. The county mental health department must assess whether a child is seriously emotionally disturbed and determine appropriate mental health program involvement within 30 days.

4. County Planning for Children and Adolescents. The act requires various county departments to develop detailed interdepartmental plans for provision of services to children and adolescents by January 1, 1987.

5. Study of Jail Populations. The act requests county mental health and law enforcement agencies in five counties containing a majority of the state's population to (a) jointly review the adequacy of currently available psychiatric beds intended for persons detained by law enforcement personnel and (b) make recommendations regarding additional beds.

6. Additional Services for Jail Populations. The act reappropriates the unexpended balance of the 1985-86 local mental health appropriation to the Director of Mental Health so that he may arrange for services for mentally disordered persons inappropriately held in jails.

7. Youth Suicide Prevention Program. The act requires the DMH to develop a five-year youth suicide prevention program with the following components: research and data collection; distribution of public education materials; training of students, parents, teachers, and others; and an evaluation report by July 1, 1991.

8. Medi-Cal Rate Supplements for Children's Services. The act requires a study of the costs incurred by mental health providers in serving Medi-Cal eligible children and adolescents. Effective July 1, 1987, Short-Doyle/Medi-Cal rates for children and adolescent services will change to reflect the actual cost of providing the services.

9. Evaluation for Detained Persons. The act provides that mental health personnel shall not (a) instruct law enforcement personnel to take individuals detained for mental health evaluations to jail solely due to the unavailability of a mental health facility bed, (b) prevent entry of the person to be evaluated, or (c) require removal of a person until an evaluation has been completed.

10. Community Vocational Treatment Programs. The act defines community vocational systems, requires the DMH and the Department of Rehabilitation to convene an interdepartmental task force, and requires the DMH to provide technical assistance to counties wishing to develop vocational programs.

11. <u>Research Programs</u>. The act mandates the Director of the DMH to appoint a Mental Health Research Advisory Committee, requires any research funded by the state to be conducted in, or in collaboration with, state hospitals or local mental health facilities, allows research programs to be funded for up to five years, and provides that an unspecified portion of available research funds be used for advice, consultation, and education related to diagnosis and treatment of mental disorders if requested by counties.

Table 8 presents an overview of Chapter 1286's provisions and shows the fiscal effect of each.

Table 8

Fiscal Effect of the Provisions Contained in AB 2541

		General Fund Costs	
		Annual	One-Time
1.	Community support system for the homeless mentally ill	$20,000,000+ beginning in 1986-87	--
2.	Targeted supplement fund	Subject to future Budget Act appropriation	--
3.	Evaluations for seriously disturbed children and adolescents	Over $1 million	--
4.	County planning for children and adolescents	--	Over $1 million
5.	Study of jail populations	--	Over $100,000
6.	Reappropriation of funds for services to jail populations	Over $1 million	--
7.	Youth suicide prevention program	--	Over $1 million
8.	Medi-Cal		
	a. Rate supplements for children's services	(Unknown revenues to counties)	--
9.	Evaluation for detained persons	--	--
10.	Community vocational treatment programs	Subject to future Budget Act appropriation	--
11.	Research programs	Subject to future Budget Act appropriations	--
	Totals	Over $22 million	Over $2,100,000

B. Welfare Programs

Assembly Bill 2580 (Chapter 1025)

This act, an urgency measure, establishes the Greater Avenues for Independence (GAIN) program. The act requires applicants for Aid to Families with Dependent Children (AFDC) as well as AFDC recipients who have no children under six years of age or are not otherwise exempt to participate in the GAIN program. Under the program, county welfare departments will provide a range of Job Search, Training, and Work program services to GAIN participants.

The act establishes a process for withholding all or part of a recipient's AFDC grant when he/she is required to participate in GAIN, but fails to do so.

Counties are required to submit their plans for implementing the GAIN program to the DSS within two years of the act's effective date, and then have an additional two years to phase-in the program. At the end of this four-year period, counties will be required to serve every GAIN participant, including those who volunteer to participate. The DSS estimates that the GAIN program will serve approximately 190,000 AFDC recipients each year once it is fully implemented.

The measure also requires the Superintendent of Public Instruction, the Board of Governors of the California Community Colleges, and the State Job Training and Coordinating Council to cooperate with the DSS in specified ways, in order to ensure that GAIN participants have appropriate access to existing training and educational services.

The measure will increase costs for employment training and supportive services funded by the state, federal, and county governments. These costs could reach up to $15.8 million in 1985-86. At the end of the four-year phase-in period provided for in the bill, the costs probably will exceed $100 million annually.

Chapter 1025 appropriates $15,800,000 ($7,900,000 from the General Fund and $7,900,000 from federal funds) to cover the costs of administering the GAIN program in 1985-86.

The measure will also result in major savings to the state, federal, and county governments, to the extent that AFDC recipients either go off aid or receive smaller grants as a result of participating in GAIN. These savings could exceed $100 million per year once the phase-in is complete.

Additional savings may be realized to the extent AFDC-eligible individuals choose <u>not</u> to apply for grants in order to avoid mandatory participation in the GAIN program.

It is not possible to determine at this time what the <u>net</u> fiscal effect of AB 2580 will be. While it is clear that the GAIN program will increase the administrative costs associated with providing various services to AFDC recipients, the data to determine whether the savings in AFDC grants is likely to fully offset these costs does not exist.

<u>Assembly Bill 454 (Chapter 1426)</u>

This act, an urgency measure, extends until July 1, 1988, the current state/county cost-sharing ratio under the AFDC-Foster Care program. Under current law, the state pays 95 percent of program costs not funded by the federal government and the counties pay the remaining 5 percent. The current sharing ratio was scheduled to sunset on January 1, 1987, when the ratio would have reverted 11 percent General Fund and 89 percent local funds. By postponing the sunset date of the current cost-sharing ratio, AB 454 will result in the General Fund incurring additional costs of $91.1 million in 1986-87 and $182.2 million in 1987-88. The counties will realize savings of a like amount. When the current cost-sharing ratio sunsets on July 1, 1988, the state's share will decline to 67.5 percent and the counties' share will rise to 32.5 percent of the foster care costs.

The act also appropriates $5 million from the General Fund for the Child Welfare Services program in 1985-86. As passed by the Legislature, AB 454 contained a $15 million augmentation for the program, which was intended to fund the actual costs incurred by the counties. The Governor reduced this amount to $5 million before allowing the bill to become law.

<u>Assembly Bill 1575 (Chapter 1217)</u>

This bill, an urgency measure, makes two major changes to the Unemployment Insurance (UI) program. These changes involve (1) pension offsets to UI benefits and (2) UI costs of local public agencies.

<u>Pension Offsets</u>. Current law requires that social security and other pension benefits be deducted from an individual's UI benefits if both benefits are earned by working for the same employer. This measure provides that, retroactive to November 1, 1980, <u>no</u> offset is required for the employee share of social security and other specified pension benefits.

The Employment Development Department (EDD) estimates that it will pay 161,900 retroactive claims, amounting to $124.4 million from the UI

Trust Fund during the current and budget years. According to EDD, the federal government will not cover any of the administrative costs associated with making the retroactive payments (345 personnel-years). Therefore, the state General Fund will have to pay these costs, which are estimated at $14 million during 1985-86 and 1986-87. The EDD estimates that the UI Trust Fund will lose approximately $21 million annually in future years as a result of eliminating the pension offset. The act appropriates $1.5 million from the Benefit Audit Fund to refund overpayment penalties related to pension offsets which have been assessed on UI claimants since March 1, 1984.

Local Public Agency UI Costs. A recent Appeals Court decision (City of Sacramento v. State of California) ruled that the unemployment compensation costs incurred by local public agencies constitute a state-mandated local program. This act recognizes the state's liability for such costs retroactive to July 1, 1980. It appropriates $44 million from the General Fund to reimburse local public agencies for costs incurred during 1984-85 and 1985-86. In addition, the state General Fund is potentially liable for up to $115 million in UI costs incurred by local agencies between July 1, 1980, and June 30, 1984. The EDD estimates the ongoing costs of this state-mandated local program at approximately $25 million annually.

C. Department of Corrections--Capital Outlay

In 1985, the Legislature passed five bills that provide for the construction of new prisons or the remodeling of existing prisons.

Senate Bill 95 (Chapter 237)

This act authorizes the Department of Corrections (CDC) to establish a prison in Del Norte County, in the vicinity of Crescent City. The act appropriated $359,000 for site studies in connection with the new prison. It also modified the previously enacted authorization for a new prison in Amador County by changing the security level of the prison from minimum to medium.

Assembly Bill 2251 (Chapter 931)

This act authorizes a 3,000-bed medium and maximum security institution in the vicinity of Corcoran, in Kings County. The act appropriated $5 million for planning the new prison. Other provisions of the act exempt this project from the requirements imposed by the California Environmental Quality Act (CEQA), and establish an alternative procedure for assessing environmental impact. In addition, the measure specifies the specific parcels of land on which the new minimum/medium security prison near Avenal is to be constructed. The act also appropriates $750,000 to offset part of the increased costs incurred by any county in which two new prisons are planned (Kings County).

Assembly Bill 487 (Chapter 932)

The act modifies prior lease-purchase authorizations for new prisons, and appropriates $114.5 million from various sources for prison construction related purposes.

Prior law authorized lease-purchase financing of two projects (Avenal and either Los Angeles, Riverside or San Bernardino). This measure changes the projects which may be financed through lease-purchase to include only the Maximum Security Complex at Tehachapi and the new medium security prison in Amador County.

The new Tehachapi prison has already been funded using the proceeds from the sale of bonds authorized by the New Prison Construction Bond Act of 1984. The administration plans to "sell" this prison and use the proceeds from the sale to fund expenditures consistent with the bond act program.

The act appropriates:

- $117 million for the Avenal project ($84 million from the 1984 bond act and $33 million from the 1981 bond act)
- $21 million for the Corcoran project (1984 bond act)
- $2.5 million for the Riverside County project (1981 bond act)
- $6 million for the first year of debt service on the Tehachapi prison (General Fund)
- $200,000 to study the feasibility of locating a prison in the vicinity of Marysville and Yuba City (General Fund)
- $450,000 for mitigating the impact of new prisons on local governments (General Fund)

Finally, this measure reverts $50 million previously appropriated from bond funds, for the Amador County project in recognition of the planned lease purchase financing of this project.

Senate Bill 253 (Chapter 933)

This act authorizes the department to increase the design capacity of existing prisons at Tehachapi, Jamestown and Susanville by 500 level III beds each. The act appropriates $70.9 million from the General Fund for these projects and exempts them from both CEQA and legislative review. This measure also exempts the Riverside and Del Norte projects from CEQA, but specifies an alternative procedure for assessing environmental impact. In addition, the act appropriates $8.0 million from the General Fund for various purposes, including $2.5 million to fund contracts with county sheriffs for the placement of inmates, $3.5 million for altering existing prisons to accommodate overcrowding, $1.9 million to expand sewer treatment plant capacity for the California Rehabilitation Center, Norco, and $125,000 to pay attorney fees related to a lawsuit over the environmental impact report for the Avenal project. These funds may be used only if the plaintiffs waive any further claim against the state.

Senate Bill 677 (Chapter 1181)

This act appropriates $1,072,000 for the preparation of architectural and engineering plans to alter Folsom State Prison and San Quentin State Prison to meet court-ordered requirements. These requirements stem from the court's decisions in the Toussaint v. McCarthy and Wilson v. Deukmejian cases.

In addition, the bill allows the CDC to spend $2,861,000 previously appropriated by Ch 1121/84 for purposes not authorized in the original legislation. Chapter 1121 appropriated $21.9 million for altering San Quentin to comply with court orders. Based on preliminary plans prepared by the Office of State Architect, the estimated cost of renovating San Quentin to meet the court's requirements is $55.4 million. Senate Bill 677 reallocates a portion of the previously appropriated funds to (1) reassess options available for renovating San Quentin ($300,000), (2) continue immediate corrective work ($1,600,000), and (3) prepare plans for the selected option ($961,000). The new appropriation of $1,072,000 provides funds to plan work at these prisons not funded by prior legislation.

D. California State University--Capital Outlay

During 1985, the Legislature enacted three urgency measures providing for the establishment of off-campus centers connected with three California State University campuses.

Senate Bill 1103 (Chapter 561)

This act appropriates $250,000 for site studies and an educational needs survey related to the establishment of a permanent off-campus center in Ventura County. Currently, California State University, Northridge, and the University of California, Santa Barbara, operate a joint center in Ventura. The studies called for in the bill would be conducted in consultation with the University of California.

Senate Bill 1060 (Chapter 575)

This act appropriates $250,000 for site studies and an educational needs survey aimed at establishing a permanent off-campus center in northern San Diego County.

Senate Bill 785 (Chapter 744)

This act appropriates $150,000 for master planning of an off-campus center to be located on state-owned property in Contra Costa County and for a survey of educational needs in the county.

These measures require the Trustees of the California State University to develop and report to the Legislature its criteria for approval of off-campus centers. The California Postsecondary Education Commission is required to review the State University's criteria and report its recommendations to the Legislature.

E. Trial Court Funding Act

Assembly Bill 19 (Chapter 1607)

This act, entitled the Trial Court Funding Act of 1985, authorizes the state to assume the costs and revenues associated with county trial courts, at each county's option. In addition, it authorizes up to 38 superior court judgeships.

Specifically, the act:

1. Authorizes block grants to counties ranging from $469,435 to $495,895 annually per judicial position. These block grants are intended to reimburse counties for the costs they incur in operating the superior and municipal courts. The bill does not authorize funding for justice courts.

2. Requires a county wishing to receive these payments to (a) waive all claims for reimbursement of costs attributable to state-mandated local programs involving the trial courts, (b) waive any claims for reimbursement of state-mandated local program costs not approved by the State Board of Control, the Commission on State Mandates, or the courts prior to the decision of a county to participate in the new funding system, and (c) forego each $60,000 block grant currently received from the state.

3. Requires the state to reimburse cities for any revenue losses that result from a county's decision to receive block grants in lieu of the fine, forfeiture, and penalty revenues they now collect. Under current law, cities receive a portion of these revenues.

4. Requires the state to reimburse those counties receiving block grants for most of the costs they incur for municipal court judges' salaries. This amount would be in addition to the block grants.

5. Requires a county receiving block grants to spend at least as much as the amount it receives from the state on court operations.

6. Requires the Controller to audit county expenditure and revenue reports, adopt appropriate regulations, and report certain information to the Legislature.

<u>These provisions of AB 19 would become operative on the effective date of a statute appropriating funds for their implementation</u>.

In addition, the measure establishes up to 38 superior court judgeships in various counties. The provisions relating to the new judgeships will become operative on July 1, 1986.

<u>Fiscal Effect</u>. <u>If</u> legislation is enacted appropriating funds to implement this act, we estimate that the <u>net</u> cost to the state's General Fund will be up to $378 million in 1986-87. The various factors accounting for these net costs are shown in Table 9. These costs would be reduced by an unknown amount to the extent various claims for reimbursement of state-mandated local program costs are waived by participating counties. In subsequent years state General Fund costs would increase by an unknown amount since the act provides that the block grants and the state's share of the judges' salaries are to grow by the percentage increase in salaries provided to state employees.

Table 9

Impact of AB 19 (Chapter 1607) on the State General Fund, Assuming Funds Are Appropriated to Implement the Measure 1986-87 (dollars in millions)

Provision	Costs	Savings	Revenues	Net Impact
Block grants	$728	--	--	$728
Reimbursement of cities for lost revenues	237	--	--	237
Share of judges' salaries[a]	37	--	--	37
Waiver of $60,000 block grants	--	-$13	--	-13
Elimination of reimbursement for existing state-mandated local programs[b]	--	-13	--	-13
Court fee revenues	--	--	$119	-119
County fine revenues	--	--	242	-242
City fine revenues	--	--	237	-237
Totals	$1,002	-$26	$598	$378

a. Includes salary and benefit costs for existing judges as well as 38 new superior court judges.
b. The state will incur unknown, but probably major, additional savings due to provisions requiring participating counties to waive various unfunded claims for reimbursement of costs under state-mandated local programs.

Until such time as an appropriation is made to implement the Trial Court Funding Act, the 38 new judgeships will be funded according to the provisions of existing law. Based on the population of these counties, we estimate that the state General Fund cost of the additional judgeships will total about $6 million annually.

F. Hazardous Waste

Senate Bill 1063 (Chapter 1423)

This act appropriates $21,400,000 from the General Fund to clean up hazardous waste sites and contaminated drinking water systems. Specifically, the act appropriates:

1. $16 million from the General Fund to the Department of Health Services (DHS) for remedial action, health effect studies, and development of alternative drinking water supplies in areas affected by the Stringfellow Acid Pits hazardous waste site. Of these funds, $13.6 million would be set aside as a reserve to fund specified studies or remedial actions if the department determines that other federal or state resources are not available. The bill also specifies that, as of June 30, 1987, any unobligated balance in this reserve exceeding $5 million shall revert to the General Fund.

2. $1.4 million from the General Fund to design, purchase, install and maintain water treatment systems in specified areas. The bill also requires that before these funds can be spent, DHS must secure an agreement committing the federal government to reimbursing the state for a portion of the design, purchase, and installation costs.

3. $4 million from the General Fund to a new Clean Water Grant Fund within the General Fund to support future action to ensure that public drinking water is not contaminated by hazardous waste releases. In order to spend these funds, the DHS first must determine that existing federal, state or local programs would not adequately address the problem.

Assembly Bill 129 (Chapter 1439)

This act, an urgency measure, (1) appropriates funds from the sale of bonds intended for the cleanup of hazardous waste disposal sites, (2) establishes guidelines for the expenditure of these funds, and (3) requires specified legislative notification before changes can be made to cleanup plans. Specifically, this act:

1. Appropriates $87.8 million to the DHS from the Hazardous Substance Cleanup Fund. The bill schedules the appropriation in four categories: (a) $34.3 million for the cleanup of hazardous waste sites, (b) $14.2 million to provide the state's 10 percent share in connection with the cleanup of sites on the federal Superfund list, (c) $32.8 million as a reserve with the funds to be made available only when approved by the Legislature, and (d) $6.5 million to fund the state's share of cleanup costs at Stringfellow Acid Pits.

2. Appropriates up to $5 million annually from the Hazardous Substance Account, beginning in 1987-88, to pay off bonds issued pursuant to the 1984 bond act. This appropriation would be reduced by the amount of any reimbursements received during the prior year from "responsible parties"--entities that are liable for the cleanup of specified waste releases.

3. Requires the department to attempt to identify responsible parties that are liable for cleanup costs before spending public funds. The bill permits the expenditure of state funds for site cleanup only if (a) the department cannot identify a responsible party, (b) immediate corrective action is necessary, or (c) the Director determines there is

imminent and substantial danger to the public health, welfare or environment. The department may spend state funds, however, in cases where a responsible party is not adequately discharging its responsibility to assess the nature and extent of a hazardous waste release.

4. Directs the department to maintain a plan for correcting hazardous waste releases. The bill also directs the department to periodically update its plan in order to reflect changing site priority, and to notify the Legislature 30 days in advance of these changes. If both legislative houses disapprove the proposed change, the department would be barred from implementing the revision. If, however, only one house disapproved the change, the amendment would be considered approved.

G. Miscellaneous

Local Streets and Highways

Senate Bill 300 (Chapter 1600)

This act, an urgency measure, appropriates $215 million from the General Fund ($125 million for 1985-86 and $90 million for 1986-87) for allocation to cities and counties for their use in maintaining and reconstructing local streets and highways.

Fifty-five percent of the appropriated funds will be allocated to the cities, with the remaining 45 percent going to the counties, pursuant to a formula established in the act. Cities and counties will be required to meet certain minimum road maintenance and reconstruction expenditure levels in order to be eligible for these funds. The allocation formula and requirements also will apply to the $125 million from federal funds [Section 8(g) of the Outer Continental Shelf Lands Act] appropriated pursuant to Item 9675-101-890 of the Budget Act of 1985.

In addition, SB 300 requires that at least $110 million be transferred to the Transportation Planning and Development (TP and D) Account each year beginning in 1986-87. Consequently, if the estimated transfer to the account from the Retail Sales Tax Fund required by current law is less than $110 million, the balance will have to come from the General Fund, either directly or indirectly.

The act also removes a limitation on the amount of retail sales tax revenue which may be transferred to the TP and D Account and repeals statutory provisions which would result in the transfer of such revenues to the State Highway Account under specified circumstances.

We estimate that the loss of revenues to the General Fund will be approximately $35 million in 1986-87. The loss probably will grow in subsequent years.

Assembly Bill 457 (Chapter 797)

The act declares the intent of the Legislature to continue the support of 670 additional uniformed California Highway Patrol officers authorized by Ch 933/81 (AB 202). It also extends the additional $1 vehicle registration fee for five more years. The $1 fee is now scheduled to sunset on January 1, 1991.

The cost of the 670 officers will be approximately $34 million to $40 million in 1986-87. The $1 fee will generate $10 million in 1985-86 (one-half year) and $20 million per year thereafter.

Child Care

Assembly Bill 55 (Chapter 1364)

The act, an urgency measure, appropriates $2.4 million from the General Fund for expansion of child care "alternative payment" programs in 1985-86. Under alternative payment programs, the State Department of Education (SDE) contracts with local agencies to make vendor payments to child care providers in such a way that the state subsidy can "follow" the recipient family from one provider to another.

Senate Bill 303 (Chapter 1026)

The act, an urgency measure, appropriates funds for extended day care services (child care for school-age children before and after school) and enacts provisions governing the distribution of these funds. The act requires the Superintendent of Public Instruction to contract with public or private agencies for extended day care services, and specifies a maximum reimbursement rate for these services. The act also requires the State Allocation Board to lease relocatable facilities to contracting agencies, at a nominal charge, and to provide capital outlay grants for extended day care for the purpose of minor renovations and repairs necessary to meet state and local licensing requirements.

Chapter 1026 appropriates $8 million from the General Fund for the half-year costs of providing extended day care in 1985-86. The ongoing costs will be $16 million annually thereafter. The act also appropriates $175,000 from the General Fund for an independent study of the program, to be completed by December 1, 1987.

Finally, Chapter 1026 appropriates $36.5 million from federal Outer Continental Shelf Lands Act [Section 8(g)] funds to a newly created State Child Care Facilities Fund. This money will be used to finance capital outlay for extended day care. Of this amount, $22.5 million is to be allocated to agencies that have developed a program plan in conjunction with the Greater Avenues for Independence program, as enacted by Chapter 1025 (AB 2580).

Chapter 1026 also creates a mandated local program by requiring school districts to complete an assessment of local needs for extended day care services, if there is an agency applying to provide those services within the district. The mandated local costs, which are reimbursable by the state, are unknown.

Essential Services Building Seismic Safety Program

Senate Bill 239 (Chapter 1521)

The act establishes an "essential services seismic safety" program. This program, which is similar to the existing hospital seismic safety program, requires local enforcement agencies to review plans and inspect construction of essential services buildings (ESB). These buildings include fire and police stations, emergency operations centers, California Highway Patrol and sheriff's offices, and emergency communication dispatch centers. The Office of State Architect (OSA) is responsible for overseeing the implementation of this program, as well as for promulgating regulations and hearing appeals.

The added costs attributable to this act are unknown, but the state's experience under the hospital seismic safety program indicates that these costs are potentially major and are dependent on the number of projects undertaken in any year.

This act provides $95,000 from the General Fund for the OSA to carry out its activities. Local expenditures for seismic safety design review and any additional construction are state reimbursable.

State Civil Service Employee Compensation

The Legislature approved collective bargaining agreements for civil service employees by passing four urgency measures--SB 578 (Chapter 236), SB 1203 (Chapter 921), AB 1199 (Chapter 922), and AB 1252 (Chapter 266). These measures approve the cost provisions of 20 memoranda of understanding (MOUs) for 1985-86 and 1986-87.

The major provisions of these MOUs provide for:

- A 6 percent salary increase effective July 1, 1985, and a 5 percent increase effective July 1, 1986;
- Additional "special adjustments" to the salaries of workers in some classifications (for example, clerical and correctional employees will receive an extra 2.5 percent and 4 percent increase, respectively, on January 1, 1986);

- New state contribution rates for health and dental care costs; and
- A new vision care program to be effective on July 1, 1986.

We estimate the cost of these four provisions at approximately $253.8 million (various funds) in 1985-86. The ongoing cost of the 1985-86 provisions will be approximately $286 million.

Industrial Loan Special Fund

Senate Bill 20 (Chapter 142) and Assembly Bill 36 (Chapter 140)

These acts continuously appropriate $63 million from the Contingency Reserve for Economic Uncertainties, as provided in Section 12.30 of the Budget Act of 1984, to the Industrial Loan Special Fund. This will enable the Commissioner of Corporations to (1) guarantee a private loan; and/or (2) execute a state loan to reimburse account holders of the Western Community Money Center (WCMC) which was declared insolvent as of April 20, 1984. The acts also:

1. Require that all amounts remaining in the Industrial Loan Special Fund be returned to the Contingency Reserve for Economic Uncertainties once they are no longer required to satisfy the terms of the guarantee or loan.

2. Require the loan to be repaid using the proceeds from the liquidation of WCMC assets and the assets of the Thrift Guaranty Corporation (TGC). The TGC was established by Ch 946/76 to insure losses of up to $50,000 in each account held and managed by industrial loan companies. The assets of TGC ($25 million) were not sufficient to completely offset the liabilities of the WCMC ($93 million).

3. Give the TGC authority to levy a special assessment on all industrial loan companies in the state, regardless of whether a company's accounts are insured by the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, a private insurer, a surety, or a guarantee corporation.

4. Permit industrial loan companies to insure depositor accounts with federally established agencies such as the Federal Deposit Insurance Corporation. An industrial loan company is permitted to insure depositor accounts with a private insurer, the TGC, and after July 1, 1990, a successor corporation to the TGC.

According to the Department of Corporations, a private loan for $63 million was secured as of August 1, 1985. The proceeds of this loan are being used to reimburse WCMC account holders. The cost to the state's Contingency Reserve for Economic Uncertainties will depend on how much of the loan is not fully repaid.

Office of Emergency Services--Disaster Response

Senate Bill 1473 (Chapter 1562)

The act appropriates $20 million from the Reserve for Economic Uncertainties to the Disaster Response--Emergency Operations Account which the act creates within the reserve. The funds in this account will be made available to state agencies to offset costs incurred as a result of emergencies declared by the Governor. The measure indicates such emergencies could include fires, floods, storms, earthquakes, or other public calamities.

The money in the new disaster account will be allocated to state agencies by the Director of Finance, upon an order of the Governor. The measure specifies that no funds may be allocated sooner than 30 days after written notification is filed with the chairpersons of the Joint Legislative Budget Committee and the fiscal committees in each house.

Typically, if state agencies incur costs in responding to emergencies which exceed the amounts available in their budgets for such activities, they receive additional funding through a deficiency appropriation from the Legislature. The new account, therefore, could be used to supplement or avoid the need for a legislative deficiency appropriation for those agencies which may incur emergency costs.

Housing Trust Fund

Senate Bill 478 (Chapter 1584)

The act provides for an annual transfer of $20 million from tidelands oil revenues to the newly established Housing Trust Fund (HTF). Revenues in the HTF may be spent only on programs aiding low- and very low-income households, and only upon appropriation by the Legislature.

In addition, at least 20 percent of the monies in the HTF must be spent in rural areas, with one-fourth of these rural funds committed to the newly established Farm Labor Rehabilitation Loan program. This program provides low-interest rehabilitation loans to owners of farmworker housing in order to bring that housing up to health and safety code standards.

The provisions of this bill "sunset" on January 1, 1989.