Major Financial Legislation Enacted in 1988

Office of the Legislative Analyst
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Table of Contents

Introduction

Introduction

This report summarizes the fiscal effects of legislation enacted during the 1988 Regular Session of the California Legislature.

This report is divided into two parts. ***Part 1*** of the report describes the provisions and fiscal effects of some 40 major bills enacted during the 1988 Regular Session. Each of these bills is significant from both a fiscal and policy standpoint. Many of the other bills approved by the Legislature and the Governor during the 1988 Regular Session also will have important consequences for the people of California. Thus, the discussion of individual bills in Part I of this report is intended merely to be illustrative of the actions taken by the Legislature on major financial legislation in 1988.

Part 2 discusses the condition of the General Fund, taking into account the effects of legislation enacted during 1988, as well as two propositions approved by the voters at the November 1988 election. As shown in this section, the General Fund ended the 1987-88 year in a deficit position. Given current estimates of revenues and expenditures, it now appears that 1988-89 will close with only $14 million available in the Special Fund for Economic Uncertainties. Given the likelihood that additional expenditures will be approved through the deficiency process, it appears that corrective action will be needed to keep the 1988-89 budget in balance.

Part 1

Part 1

Summary of Major Financial Legislation 1988 Regular Session

Table 1 shows the disposition of Senate and Assembly Bills during the 1988 Regular Session. As indicated, 3,207 bills were introduced and eventually 1,597 of these were chaptered. The table also shows that the Governor vetoed 325 bills. This section summarizes those measures enacted during the 1988 Regular Session with a major fiscal effect at the state level.

Table 1
Disposition of Senate and Assembly Bills
1988 Regular Session

	Senate	*Assembly*	*Total*
Introduced	1,199	2,008	3,207
Enrolled	779	1,241	2,020
Vetoed by Governor	109	216	325
Chaptered	556	1,041	1,597

Budget Restorations

Budget Restoration Act
Chapter 974 -- Assembly Bill 1903 (Vasconcellos)

This act amends the Budget Act of 1988 to restore funding that was eliminated by the Legislature in response to the state's unanticipated $1 billion revenue shortfall last year (1987-88). The bill appropriates funds as follows:

Department of Justice	$355,000
Department of Commerce - Competitive Technology	7,000,000
Department of Commerce - Tourism	5,500,000
University of California	30,754,000
California State University	18,345,000
County Revenue Stabilization	10,000,000
Secretary for Resources	683,000
Department of Housing and Community Development	425,000
California Coastal Commission	400,000
Department of Aging	750,000
Department of Alcohol and Drug Programs	1,300,000
Department of Health Services	27,475,000
Department of Mental Health	5,700,000
Department of Corrections	71,900,000
Youthful Offender Parole Board	1,000,000
Department of the Youth Authority	14,400,000
Student Aid Commission	4,000,000
California Arts Council	1,000,000
Agricultural Labor Relations Board	600,000
Department of Food and Agriculture	1,500,000
Employee Compensation	1,835,000
Energy Resources Commission	600,000

The act appropriates a total of $205.5 million to augment the Budget Act of 1988. This amount includes $197.7 million from the General Fund, $600,000 from the Energy Resources Program Account, $7 million from the Special Account for Capital Outlay, $500,000 from unallocated special funds, and $335,000 from unallocated nongovernmental cost funds.

Revenue Measures

Telecommunications Equipment for the Deaf
Chapter 242 -- Senate Bill 2268 (Bill Greene)

This act directs the Public Utilities Commission (PUC) to establish a new surcharge to fund the Telecommunications Devices for the Deaf (TDD) program. The TDD program provides special telephone equipment for deaf, hearing impaired, and disabled individuals at no additional charge to the basic cost of their telephone service. Since 1979, the TDD program has been funded by a monthly surcharge of up-to-10 cents per telephone line for all other subscribers. This act replaces the up-to-10 cents surcharge, until July 1, 1990, with a monthly surcharge not to exceed one-half of 1 percent of all intrastate telephone bills. The act provides that the total revenue generated by the new surcharge shall not exceed $32 million in 1988.

The PUC estimates that the new surcharge will produce approximately $32 million annually, which is an increase of $15 million over the annual amount produced by the up-to-10 cents surcharge. The additional funds would be used to meet increased demand for the TDD program.

Payment of Interest on Loans to General Obligation Bond Programs
Chapter 984 -- Senate Bill 2172 (Campbell)

This act provides that whenever non-self-liquidating general obligation bond programs obtain loans from the state's Pooled Money Investment Account (PMIA) for expenditures related to a bond program's purposes prior to the actual sale of bonds, the interest on these loans shall be paid for out of the proceeds from the eventual sale of the bonds. The act applies to all of the state's non-self-liquidating general obligation bond programs, with three exceptions. Under prior law, such interest was paid for directly by the General Fund. The act also has the effect of providing that any interest earned on temporarily idle PMIA loan balances prior to their actual expenditure for bond fund purposes shall be credited to the bond program, not to the General Fund.

The Department of Finance estimates that this act will result in net savings to the General Fund of $68 million in 1988-89 and unknown amounts annually thereafter. This net savings is the sum of two partially offsetting factors. First, there will be direct General Fund savings of $109 million from reduced General Fund interest payments on PMIA loans to bond programs. Second, because the PMIA loans earn interest prior to when they actually are expended for bond program purposes, there will be reduced General Fund revenues from interest income of $41 million.

This act also includes General Fund appropriations totalling $1.1 million for the support of several state programs.

Child Care Tax Credits
Chapter 1239 -- Senate Bill 722 (Hart)

This act establishes two separate state tax credit programs for employer-sponsored child care assistance programs. The measure allows employers to claim a tax credit equal to 30 percent of (1) the "start-up" costs for establishing a child care program or constructing a child care facility, and (2) the contributions to child care information and referral services. The credit is limited to a maximum amount of $30,000 per year.

The act also allows employers to claim a credit for 50 percent of the amount of contributions made to a child care plan on behalf of an employee's dependent who is under age 15. The credit would cover qualified plans which provide child care services at the worksite, at child care centers, or at home, as long as the facilities meet state licensing requirements. The maximum credits allowed would be $600 for each contribution to a full-time child care program and $300 for each contribution to a part-time program.

The act specifies that its credit provisions shall not apply to tax years beginning on or after January 1, 1992.

This act will result in General Fund revenue losses in the range of $8 to $9 million annually from 1988-89 through 1992-93.

Taxable Income Exclusion for Ridesharing Benefits
Chapter 1437 -- Senate Bill 1904 (Morgan)

This act reinstates certain tax deduction and income exclusion provisions related to ridesharing which were repealed by tax conformity legislation enacted in 1987. Along with other related provisions, this act provides that compensation, except salary and wages, received by an employee for the actual costs of participating in specified ridesharing programs may be excluded from the employee's gross income.

Beginning in 1988-89, this act will result in unknown General Fund revenue losses potentially in the range of $100,000 annually.

Employer Tax Credits for Health Benefits
Chapter 1521 -- Senate Bill 2260 (Keene)

This act creates a tax credit for employers who provide specified health benefits to an employee or the employee's dependents. The tax credit is equal to the greater of $25 per month, or 25 percent of employer costs for providing such benefits. Additional credits are available if employers provide supplemental benefits for prenatal care and mental health treatment. The act provides that only employers of 25 or fewer employees who have not provided health insurance during the two years preceding the effective date of this measure are eligible to claim the credit.

The act specifies that its provisions will become effective only under certain conditions. Specifically, the act would be "triggered" if (1) the Governor's Budget, as enacted, shows that the Special Fund for Economic Uncertainties is funded at 3 percent of General Fund expenditures, and (2) the administration's projection for real growth in personal income is at least 4 percent. Once these conditions are satisfied, the act will be effective for the four succeeding tax years.

Contingent upon the certification of the specified fiscal conditions, this act will result in General Fund revenue losses potentially in the range of $13 million annually for a four-year period.

Taxpayers' Bill of Rights
Chapter 1573 -- Assembly Bill 2788 (Harris) and Chapter 1574 -- Assembly Bill 2833 (Katz)

These acts provide additional rights and safeguards to taxpayers. Chapter 1573 deals with the Personal Income Tax law and the Bank and Corporation Tax law, both administered by the Franchise Tax Board. Chapter 1574 relates to the Sales and Use Tax law administered by the Board of Equalization. The measures establish taxpayer rights advocates within the two boards and give them the power to stay disputed collection actions that might irreparably harm any taxpayer. The advocates also can prevent property seizures that would threaten the health or welfare of a taxpayer or the taxpayer's family. The measures also require the boards to identify areas of recurring taxpayer errors and to implement expanded taxpayer education programs.

Under the acts, taxpayers generally would (1) receive more notice prior to collection or enforcement actions and (2) be able to recover hearing expenses incurred in appealing unreasonable staff actions, bank charges for erroneous tax levies and most costs of successful litigation to challenge the application of a tax. Taxpayers also will be able to sue the state for damages due to actions of staff of either board who recklessly disregard published procedures. In addition, these measures allow the executive officers of the two boards to settle tax disputes of less than $5,000.

These acts will result in additional annual General Fund administrative costs of at least $2 million starting in 1989-90. State and local tax revenues also will be reduced by unknown, but probably minor amounts.

Resources

Delta Flood Protection Act
Chapter 28 -- Senate Bill 34 (Boatwright)

This act establishes the Delta Flood Protection Fund to provide increased state funding for two programs: (1) repair and improvement of levees in the Sacramento-San Joaquin Delta and (2) flood protection studies and projects in the Delta. The act increases the state's share of the cost of repairing levees.

Chapter 28 states legislative intent (1) to deposit $12 million in the fund annually for 10 years, to be allocated equally to the two programs and (2) to provide $5 million annually to the Department of Water Resources for mitigation of adverse environmental effects in the Delta, San Francisco Bay and Suisun Marsh, and the Salton Sea and its tributaries. In the 1988 Budget Act, the Legislature appropriated $6 million of tidelands oil revenues for the Delta Flood Protection Fund, $5.5 million of which was earmarked for levee repair subventions, and $500,000 of which was designated for flood protection studies.

Wine Coolers Subject to the Beverage Container Recycling Program
Chapter 170 -- Assembly Bill 612 (Sher)

This act (1) adds wine and distilled spirit coolers to and (2) exempts carbonated fruit juices from the list of redeemable containers subject to the beverage container recycling law, beginning January 1, 1990. Previously, only soft drink (including carbonated fruit juice) and beer containers were subject to the beverage container recycling law.

According to the Department of Conservation, this act will result in a net revenue increase to the beverage container recycling program of up to $1.5 million in 1990-91 and up to $3 million annually thereafter. The increased revenues will be

used to pay the one-cent redemption value for recycled containers and for other program purposes.

Drought Assistance
Chapter 957 -- Senate Bill 32 (Ayala)

This act requires the Department of Water Resources (DWR) to identify local areas where a continued drought in 1989 could impose severe health and economic hardship, and to coordinate with local agencies in those areas to develop options for addressing potential shortages. In addition, the act requires DWR, in consultation with other state agencies, to identify legislative or regulatory actions that may be needed to implement water supply options in a timely manner, including emergency financial assistance programs and streamlined regulatory approval of new water projects. If the drought does not continue in 1989, the provisions of the act would not take effect.

The department estimates that the requirements of this act, if the drought continues, will cost approximately $1 million (primarily from the General Fund) in 1988-89. We estimate that costs will increase significantly in 1989-90 if the drought persists. The magnitude of these costs, however, is unknown.

Local Marine Fisheries Impact Program
Chapter 1002 -- Assembly Bill 2605 (Seastrand)

This act establishes a Local Marine Fisheries Impact Program under the Environmental Affairs Agency (EAA) to address the impact of oil and gas development on commercial fishing operations. The act authorizes the Secretary of Environmental Affairs to provide grants to extend the range of fishing vessels and for various other programs which reduce the impact of oil and gas development on commercial fishermen. The measure sunsets January 1, 1992.

The EAA estimates that the Local Marine Fisheries Impact Program will cost a total of $6.5 million (three-year period,

January 1989-January 1992) from federal offshore oil revenues. The Legislature appropriated $2.2 million in the 1988 Budget Act for this program.

Flood Control Cost Sharing
Chapter 1251 -- Senate Bill 502 (Royce)

This act changes the formula used to determine the state and local share of costs of federal flood control projects, making the state responsible for *70 percent* of the costs of lands, easements, rights-of-way and relocations for flood control projects, including those of reservoir projects. Additionally, under the act, the state must pay 70 percent of the federally required cash contribution for flood control projects, nonfederal planning costs, and environmental mitigation. The previous formula required the state to provide *75 percent* of the costs of lands, easements and rights-of-way, and *90 percent* of the costs of relocations (such as highway bridges or power lines) for those flood control projects *that do not involve reservoirs*. Despite the decline in the *percentage* of state responsibility, the inclusion of reservoir projects (as well as other new state obligations) will increase the state costs for flood control projects significantly.

We estimate that the act will result in net increased state costs to the General Fund or the Special Account for Capital Outlay of approximately $188 million over a 20-year period, beginning in 1989-90. Of these costs, approximately $153 million is for the state costs of an authorized dam and reservoir project. The state costs of potential future -- but not yet authorized -- dam and reservoir projects are unknown.

Reallocation of Beverage Container Recycling Funds
Chapter 1528 -- Senate Bill 1730 (Dills)

This act reallocates funds in the beverage container recycling program's Redemption Bonus Account to various recycling activities. Primarily, the act *increases* the amount the Department of Conservation may provide as incentive payments to recycling centers for reaching recycling targets and *decreases* the amount available for grants. In addition, as of July 1989, the act eliminates the continuous appropriation for administrative costs, making these costs subject to appropriation in the annual Budget Act.

We estimate the shift in Redemption Bonus Account funding from grants to recycling center incentive payments would total between $30 million and $50 million through 1993, depending upon redemption values and container recycling rates.

Wildlife Nonconsumptive User Program
Chapter 1539 -- Assembly Bill 3873 (Costa)

This act authorizes the Department of Fish and Game to issue, for a specified fee, a wildlife area pass that allows a person to enter and use facilities and programs on designated lands managed by the department. Revenues from these passes would be used to support (1) natural history education and recreation programs and (2) various wildlife management programs.

This act (1) creates the Native Species Conservation and Enhancement Account (NSCEA), (2) transfers up to $2 million from the Fish and Game Preservation Fund to the new account, and (3) appropriates up to $2.6 million from the NSCEA for the start-up costs of the program. The act will result in unknown annual costs to the NSCEA for the natural history and recreation programs. These costs will be fully offset by revenues from the wildlife pass fees and related proceeds.

California Clean Air Act
Chapter 1568 -- Assembly Bill 2595 (Sher)

This act requires state and local agencies to develop and review plans to attain air pollution standards, to take various actions to decrease air pollution, and to reduce transport of air pollution. As a result of this measure, the Air Resources Board (ARB) is required to identify local air pollution control districts that have not met state air quality standards. The identified districts are required to submit attainment plans to the ARB that reduce major air pollution emissions by 5 percent a year. Once these plans are approved by the ARB, local districts are required to implement them and report annually to the ARB on their progress. In addition, the ARB is required to take necessary actions by January 1, 1992 to reduce motor vehicle emissions by the year 2000 and to adopt regulations by January 1, 1992 that reduce emissions from consumer products.

According to the Air Resources Board, this act will cost $5.8 million in 1989-90 and $6.3 million annually thereafter. These costs are offset by potential fees of up to $7.5 million on stationary pollution sources and vehicle and engine manufacturers.

Expanded Authority for Local Air Pollution Control Districts

Chapter 1569 -- Assembly Bill 3971 (Cortese)
Chapter 1541 -- Assembly Bill 4355 (Connelly)
Chapter 1546 -- Senate Bill 2297 (Rosenthal)

These three acts expand the authority of the Bay Area (Chapter 1569), Sacramento (Chapter 1541) and South Coast (Chapter 1546) air pollution control districts to regulate and develop programs to (1) reduce mobile sources of air pollution, (2) reduce indirect sources of air pollution, and (3) encourage the use of "clean fuels." Previously, the Bay Area and Sacramento districts were authorized to regulate *stationary sources*, but did not have the additional authority to control mobile and indirect sources of air pollution. In addition, the Sacramento and South Coast districts did not have the authority to encourage the use of "clean fuels."

These acts will have no net effect on state costs, but will result in unknown costs to the air pollution control districts. The Sacramento and South Coast districts are given fee authority to offset these new costs. The Bay Area district is not given any new fee authority.

Criminal Justice

Trial Court Funding
Chapter 944 -- Assembly Bill 1197 (Willie Brown)
Chapter 945 -- Senate Bill 612 (Presley)

Chapter 945 enacts the Brown-Presley Trial Court Funding Act of 1988, and deletes provisions of prior law relating to trial court funding. Chapter 944 provides state funding to implement the act during the second half of 1988-89. The measures were enacted to relieve fiscal pressures at the local level and to enhance judicial services throughout the state.

The Brown-Presley Trial Court Funding Act generally provides state funding for the trial courts in the form of net block grants to counties for each superior, municipal, and justice court judgeship, and superior and municipal court commissioner or referee. The act also provides for the state to assume approximately 90 percent of the costs of municipal and justice court judges' salaries. In order to receive these funds, counties must forego reimbursement for certain state-mandated local programs and existing block grants for superior court judgeships.

Chapter 945 also creates the Trial Court Improvement Fund, and states legislative intent that this fund receive an annual Budget Act appropriation. The Judicial Council will allocate these monies for trial court projects to those counties which elect to participate in the Trial Court Funding Program.

The other key fiscal provision of the measures is not directly related to trial court funding. Chapter 944 increases the allocation of property tax revenues to cities which receive no share or a low share of property taxes. These cities generally will receive a minimum of 7 percent of the property tax revenues generated within their boundaries, to be phased in over a seven-year period. Cities in Mono and Ventura Counties will receive a smaller percentage over a shorter time period. This entitlement will be funded by reducing the county share of property revenues.

Chapter 944 appropriates $206.5 million from the General Fund to finance the Trial Court Funding Program for the second half of 1988-89. We estimate that the Brown-Presley Trial Court Funding Act will impose net General Fund costs in the range of $430 million in 1989-90, and increasing amounts annually thereafter, if all 58 counties participate in the program. This cost estimate includes a $20 million annual appropriation to the Trial Court Improvement Fund.

Education

Community College Reform
Chapter 973 -- Assembly Bill 1725 (Vasconcellos)

This act establishes numerous reforms for the California Community Colleges (CCC) covering education policy, governance, finance, and personnel.

Specifically, this act requires the CCC, the University of California (UC), and the California State University (CSU) to develop a transfer core curriculum that would fulfill the lower-division general education requirements of the UC and the CSU. The measure also clarifies the mission of the CCC by establishing priorities among the various services currently offered by the colleges.

The act also (1) specifies the areas of responsibility of the State Board of Governors (BOG) and the local governing boards, (2) establishes the terms and composition of the membership of the state board, and (3) requires the BOG to develop a comprehensive educational and fiscal accountability system and implement the system commencing September 1991.

Chapter 973 further establishes a new mechanism to fund the community colleges. This mechanism, referred to as Program-Based Funding, would provide state General Fund apportionments to districts based on the costs of various program offerings, rather than based on average daily attendance (ADA). The mechanism would be phased in over a three-year period.

Finally, this act repeals the current credential requirements for community college faculty and instead requires the BOG to adopt regulations that specify "minimum qualifications" for employment. Local community college districts are required to (1) increase their complement of full-time faculty members to specified levels, (2) establish affirmative action hiring procedures, and (3) implement a staff development program.

This act appropriates $7.3 million from the General Fund in 1988-89 to support staff development ($5 million), affirmative action ($1.3 million), innovative educational programs

($300,000), and various studies and Chancellor's Office staff ($650,000).

Chapter 973 further specifies that only if $70 million in additional General Fund support is appropriated to the community colleges will specified personnel reforms become operative. An additional $70 million (a total of $140 million) would trigger the remaining reforms which pertain to faculty tenure and the new funding mechanism.

Replacement of Schoolbuses
Chapter 1426 -- Assembly Bill 35 (Katz)

This act, an urgency measure, establishes the Katz Safe Schoolbus Clean Fuel Efficiency Demonstration Program and the Katz Schoolbus Fund to purchase replacement schoolbuses. Under this program, the State Energy Resources Conservation and Development Commission is required to: (1) select local education agencies for participation, (2) determine which schoolbuses need to be replaced based on specified criteria, and (3) ensure that at least 35 percent of the vehicles are powered by methanol or other low-emission, clean-burning fuels, unless the commission determines within 18 months of the effective date of this measure, that this project is infeasible.

In addition, the act requires participating agencies to maintain and report records of mileage and fuel consumption to the commission in a timely manner. The commission is also required to submit a report to the Governor and the Legislature by June 30, 1989 on the measure's implementation.

This act appropriates $60 million from the Petroleum Violation Escrow Account of the Federal Trust Fund. It is to be distributed by the State Controller, subject to approval by the Director of Finance, as follows: (1) $59.6 million to the Katz Schoolbus Fund for schoolbus acquisition, (2) $269,000 to the State Energy Resources Conservation and Development Commission for program administration, and (3) $150,000 to the Department of the California Highway Patrol to develop the priority list for schoolbus replacement. In addition, all interest derived from the appropriated funds is to be used for the dem-

onstration program. The act further declares legislative intent to appropriate for its purposes one-half of each future disbursement received by the state from federal oil overcharge funds (the funding source of the Petroleum Violation Escrow Account).

Health

Alternative Residential Model
Chapter 85 -- Senate Bill 1513 (Craven)

This act modifies the method for determining rates for residential care providers for the developmentally disabled and requires implementation of quality assurance standards for these providers. Specifically, the act requires that the new system, known as the Alternative Residential Model (ARM), be phased in with full statewide implementation by January 1, 1991. The act provides rate adjustments to residential care providers as follows:

- 10 percent to providers not participating in the ARM pilot project (excluding those receiving special services rates),
- 5 percent to providers receiving special services rates,
- an additional 12 percent, on average, to residential care providers converting to the ARM during 1988-89, and
- 16 percent, on average, to providers participating in the ARM pilot project in order to bring their rates to 1987-88 levels.

According to the Department of Finance, the act will result in General Fund costs of approximately $5.5 million in 1987-88 and approximately $28 million annually thereafter.

We note that actual costs could vary significantly depending on the timing and number of regional centers and providers choosing to convert to the ARM. Conversion to the ARM also will affect subsequent rate adjustments and quality assurance expenditures.

Additional Medi-Cal Funds for Outpatient Services at Disproportionate-Share Hospitals
Chapter 976 -- Senate Bill 2563 (Maddy)

This act appropriates $5 million from the General Fund to the Department of Health Services to provide rate increases, effective October 1, 1988, for outpatient services provided by hospitals that serve a disproportionate share of low-income patients. The measure requires the department to develop outpatient disproportionate provider factors based on the portion of each hospital's total outpatient gross revenue that is attributable to Medi-Cal and other payment sources for low-income individuals and to incorporate the factors into specific rate adjustments.

This measure will result in costs of $10 million ($5 million General Fund) in 1988-89 and unknown costs annually thereafter, depending on action taken in each year's budget act to provide rate increases for outpatient services provided at disproportionate-share hospitals.

Perinatal Services
Chapter 980 -- Senate Bill 2579 (Bergeson)

This act makes various changes related to perinatal services provided through the Medi-Cal program. Among its provisions, the act:

- Eliminates the Medi-Cal share-of-cost requirements for pregnant women and children who have incomes between 100 percent and 185 percent of the federal poverty level. This change will increase the number of women and children whose care is paid for under Medi-Cal.
- Requires the department to seek federal approval to implement the case management of pregnant women eligible for Medi-Cal.
- Permits the Department of Health Services (DHS) to increase rates by up to 18 percent for Medi-Cal providers of obstetric services.

We estimate that the act will result in annual costs totaling at least $33.6 million (at least $13 million General Fund) beginning in 1989-90. The costs incurred as a result of this act will be offset by at least $7.5 million in client fees, General Fund savings to various programs, and savings to counties. The state programs potentially experiencing savings include Medi-Cal, Child Health and Disability Prevention, California Chil-

dren's Services and Community Based Perinatal Services. The Department of Finance indicates that the DHS will redirect funds to cover these costs.

In addition, the act will result in annual costs of $9 million ($4.5 million General Fund) should the DHS choose to increase Medi-Cal rates to providers of obstetric services. The Budget Restoration Act (Ch 974/88) includes $3.3 million from the General Fund to support rate increases in 1988-89.

Additional Medi-Cal Funds for Disproportionate-Share Hospitals
Chapter 981 -- Assembly Bill 4563 (Margolin)

This act permits the California Medical Assistance Commission (CMAC) to negotiate contract rate increases not to exceed an annualized amount of $50 million ($25 million General Fund) for additional reimbursement to hospitals that serve a disproportionate share of low-income patients. The act also requires the DHS to amend the Medi-Cal state plan and regulations to incorporate the methods mandated by the federal Omnibus Budget Reconciliation Act of 1987 for (1) determining which hospitals are considered disproportionate-share hospitals and (2) providing the additional payments to the hospitals.

This measure will result in annual costs of up to $50 million ($25 million General Fund) annually depending on the size of the rate increases negotiated between the CMAC and the disproportionate-share hospitals. The Budget Restoration Act (Ch 974/88) appropriates $8 million ($4 million General Fund) for this purpose in 1988-89.

Medi-Cal Services for Aliens
Chapter 1441 -- Senate Bill 175 (Maddy)

This act makes changes to the Medi-Cal program to implement the 1986 Immigration Reform and Control Act (IRCA) and the federal Omnibus Budget Reconciliation Act (OBRA). Before this federal legislation passed, aliens were generally not eligible for Medi-Cal services unless they were legal residents.

Under the IRCA, undocumented aliens may become legal residents and therefore entitled to Medi-Cal benefits if they are otherwise eligible -- that is, if they meet all eligibility criteria except for their residency status. Legalized aliens who are children, aged, blind, or disabled are entitled to the full scope of Medi-Cal benefits; others are entitled to emergency services including labor and delivery, plus prenatal and postnatal care.

The OBRA extends limited Medi-Cal coverage, beginning January 1, 1989, to undocumented aliens who are otherwise eligible. Under the OBRA, these aliens are eligible only for emergency services, including labor and delivery.

Although federal law limits the benefits which states must provide for legalized and undocumented aliens, state law did not authorize the Medi-Cal program to restrict the scope of benefits. Services provided in excess of the federal requirements would be 100 percent state-funded.

Among other things, this act (1) authorizes the DHS to limit services to aliens to those services required by federal law, (2) provides state-funded Medi-Cal coverage of prenatal and postnatal care, long-term care, and renal dialysis services for undocumented aliens who are otherwise eligible, and (3) guarantees counties the same level of Medi-Cal reimbursement for aliens during 1988-89 and 1989-90 as they received during 1986-87.

This act will result in (1) costs to provide limited-scope services to undocumented aliens until January 1, 1989, (2) savings due to limiting the scope of benefits provided to undocumented aliens after January 1, 1989, and (3) savings due to limiting the scope of benefits provided to certain legalized aliens. The measure also may result in General Fund costs to pay counties that receive less Medi-Cal revenue for aliens in 1988-89 or 1989-90 than they did in 1986-87.

We estimate that the full cost of complying with IRCA and OBRA, **in the absence of this act,** ***would be from $87.4 million to $130 million ($31.7 million to $73.8 million General Fund) in 1988-89 and from $272.2 million to $541.3 million ($127.4 million to $393.5 million General Fund) annually beginning in 1989-90. This act, by authorizing the state to provide limited services to some aliens, will result in savings of $17.3 million to***

$59.9 million ($20.2 million to $62.3 million General Fund) in 1988-89 and annual savings of $95.9 million to $365 million ($98.9 million to $365 million General Fund) beginning in 1989-90. Thus, the net cost of providing the services authorized by this act will be $70.1 million ($11.5 million General Fund) in 1988-89 and $176.3 million ($28.5 million General Fund) annually thereafter. The 1988 Budget Act appropriates these net amounts to pay for the 1988-89 costs.

Business, Transportation, and Housing

Long-Range Transportation Funding Levels
Chapter 24 -- Senate Bill 140 (Deddeh)

This act establishes long-range funding levels for state transportation improvements, and specifies that adjustments in state resources be made to meet these levels. The purpose of these provisions is to guide the California Transportation Commission in its development of the State Transportation Improvement Program. In addition, the act establishes a state-local transportation demonstration program in order to provide $300 million in state funds to match eligible locally sponsored highway and mass transit rail projects, beginning in 1990-91. Chapter 24 also requires the Governor, beginning in 1989-90 and biennially thereafter, to submit to the Legislature a six-year transportation funding plan.

The state may incur annual multi-million dollar costs to the extent that it fully funds the transportation improvements at the levels established by Chapter 24, and additionally implements the state-local transportation demonstration program. Alternatively, if the funding levels prescribed by the act are not achieved, costs would be lower.

Increased Bridge Tolls in San Francisco Bay Area
Chapter 406 -- Senate Bill 45 (Lockyer)

This act authorizes toll increases on seven state-owned bridges in the San Francisco Bay Area, if approved by voters in specified bay area counties in the November 1988 election. The purpose of this measure is to fund bridge construction and improvements, specified rail transit extensions and improvements, and other projects to alleviate congestion on bay area bridges. The toll for most passenger vehicles would increase to $1 effective January 1, 1989, while tolls for other vehicles could increase up to a specified maximum toll rate. The act also authorizes the California Transportation Commission to issue bonds, to be repaid from toll revenues, for specified bridge and transit purposes.

This measure was approved by the voters in specified counties at the November 1988 general election, thereby resulting in additional toll revenues of up to $40 million in 1989. Of this amount, about $9 million will be used for rail transit projects designed to reduce congestion on the San Francisco-Oakland Bay Bridge. In subsequent years, these toll revenues will increase.

Smart Corridor Demonstration Project
Chapter 1427 -- Assembly Bill 1239 (Moore)

This act appropriates $6.5 million in specified federal funds to the Department of Transportation (Caltrans) for allocation to the Los Angeles County Transportation Commission (LACTC) to carry out the Smart Corridor Telecommunications Demonstration Project. The purpose of this project is to demonstrate the use of various technologies to help alleviate traffic congestion and conserve energy on freeways and parallel local roads in downtown Los Angeles. In addition, the act requires Caltrans to study the feasibility of applying these technologies to other urban areas, and to conduct a demonstration of an in-vehicle information and navigation system.

This act appropriates $6.5 million in specified federal funds to the department for allocation to LACTC to carry out the project. In addition, Caltrans estimates it would incur one-time costs of up to $500,000 from the State Highway Account to conduct the feasibility study required by the act.

PVEA Funds for Transportation Management Projects
Chapter 1428 -- Assembly Bill 1649 (Sher)
Chapter 1435 -- Senate Bill 2723 (Seymour)

These measures appropriate a total of $22.4 million in federal Petroleum Violation Escrow Account (PVEA) funds for various state and local projects to encourage the use of alternative modes of transportation and to improve traffic flow.

In particular, the acts provide (1) $10 million for the Department of Transportation (Caltrans) to make loans and grants to persons in the San Francisco Bay area and southern California for vanpool vehicles, (2) $5.1 million for the Energy Commission to conduct a demonstration program to promote alternative fuels, electric vehicles, and optimum methanol engine technology, (3) $3.6 million to five local governments for roadway signalization and traffic management projects, (4) $1.7 million to Caltrans for transportation management projects on specified state highways, (5) $1 million for Caltrans to use for demonstration projects to reduce fuel consumption through computerized monitoring of traffic flow, and (6) $1 million for Caltrans to purchase rail cars and equipment for intercity rail operations.

Chapter 1428 appropriates $6.3 million and Chapter 1435 appropriates $16.1 million in PVEA funds -- for a total of $22.4 million -- for these transportation projects.

Weatherization of Low-Income Housing and Energy Conservation Training
Chapter 1429 -- Assembly Bill 2487 (Hauser)

This act provides funding for various energy conservation programs. Funds provided to the Department of Housing and Community Development by this act will support energy conservation housing rehabilitation for lower- and very low-income households – specifically for farmworker housing, residential hotels, and rental housing for the elderly and handicapped. Funds allocated to the Department of Economic Opportunity by this act will be used to provide weatherization assistance to low-income households. The act also provides funds to the State Energy Resources Conservation and Development Commission to establish two regional training centers on energy efficient building standards.

This act appropriates $9.7 million from the federal Petroleum Violation Escrow Account (PVEA) for these purposes, to be allocated as follows: $2 million to the Department of Housing and Community Development; $6.4 million to the Department of Economic Opportunity (DEO); and, $1.3 million to the State Energy Resources Conservation and Development Commission. In addition, this act redirects $4 million in PVEA funds that were appropriated by Chapter 1342,

Statutes of 1986 for a new DEO weatherization program. These funds will instead be used to fund DEO's existing weatherization assistance program.

Peninsula Rail Service and Transit Capital Improvements
Chapter 1434 -- Senate Bill 2628 (Morgan)

This act creates a new transit district to operate rail service on the San Francisco peninsula, effective only after San Francisco, San Mateo, and Santa Clara Counties each determine the sources of financing by which the rail transit system is to be acquired and operated. Under the act, the district would replace the current arrangement under which the Department of Transportation (Caltrans) contracts with Southern Pacific for the service, if the district acquires from Caltrans (1) department-owned equipment, facilities and stations and (2) the right-of-way presently owned by Southern Pacific.

If the responsibility for the operation of the peninsula rail service actually is shifted from the state to the transit district, the state would realize annual operating savings of up to $11 million, while the district would incur multi-million dollar annual operating costs. These local costs would be offset to some degree by fare revenue. The district also could incur multi-million dollar costs to acquire air rights above the Transbay Terminal as authorized by the measure.

The state could potentially incur multi-million dollar costs to the extent that the reimbursement received from the transit district is inadequate to offset the state's costs for acquiring the rail line assets.

In addition to the provisions related to the peninsula rail service, Chapter 1434 appropriates $29.9 million in federal Petroleum Violation Escrow Account funds for transit capital improvements. These funds are in addition to $162,000 provided for this purpose in the 1988 Budget Act.

Commercial Drivers' License Program
Chapter 1509 -- Senate Bill 2594 (Deddeh)

This act conforms California law to the federal Commercial Motor Vehicle Safety Act of 1986, relating to the licensing of commercial drivers by the Department of Motor Vehicles (DMV). The federal law requires states to comply with its provisions by 1992, or they will lose a portion of their federal highway funding.

Under Chapter 1509, commercial drivers must take written and behind the wheel driving tests that comply with federal standards. Additionally, commercial drivers will be subject to controls and requirements after they are licensed that are more stringent than previously.

Chapter 1509 further states that it is the intent of the Legislature that the licensing and regulatory activities be supported by fee revenues, and that the DMV fully recoup its costs within four years of the act's enactment. Additionally, the act requires the DMV to determine whether the existing $10 drivers' license fee will fully finance the activities required by the act, and report to the Legislature on any adjustments in fees needed to fully recover costs.

The act appropriates $5.4 million from the Motor Vehicle Account to fund partially the costs of the licensing program. The DMV's preliminary estimates indicate costs of $4.0 million in 1988-89, $5.2 million in 1989-90, and $6.5 million in 1990-91, for total costs of $15.7 million to implement the new licensing program.

Smog Check Program
Chapter 1544 -- Senate Bill 1997 (Presley)

This act extends to January 1, 1999, the Smog Check Program administered by the Bureau of Automotive Repair (BAR), within the Department of Consumer Affairs. The program was originally due to expire by January 1, 1990. The purpose of the act is to continue the state's efforts in attaining and maintaining the ambient air quality standards by reducing vehicle emissions.

In addition, Chapter 1544 makes various changes to improve the program. The major changes include:

- Increasing the number of vehicles subject to the Smog Check requirement beginning January 1, 1989 by (1) expanding the geographic areas covered by the program and (2) including vehicles that are currently exempt.
- Requiring the Air Resources Board (ARB) to develop and implement an intermittent roadside inspection program for heavy-duty vehicles. The ARB will be able to assess fines for heavy-duty vehicles with excessive smoke emissions or other emission-related defects.

Continuation of the existing Smog Check Program will result in annual special fund costs of about $34 million over a nine-year period, beginning in 1989-90 through the first half of 1998-99. We estimate that these costs will be offset by fee revenues of about $39.5 million annually. In addition, we estimate that the expansion of the program will result in unknown, potentially multi-million dollar annual costs, beginning in 1988-89. These costs will be offset by annual fee and fine revenues.

Commercial Vehicle Safety Program
Chapter 1586 -- Assembly Bill 2706 (Katz)

This act establishes a Commercial Vehicle Safety program. Under this program, the California Highway Patrol (CHP) must inspect all commercial truck terminals at least once every 25 months, and all terminal owners must pay inspection fees. The purpose of this program is to increase commercial vehicle safety and insure proper licensing of commercial drivers.

The act specifies that fees in excess of those necessary to conduct terminal inspections will be used to pay for additional roadside safety inspections as required by Ch 1596/88 (Senate Bill 2876--Seymour). Additionally, Chapter 1586 requires employers of commercial drivers to enroll their drivers in the Department of Motor Vehicles' (DMV) "pull notice" program under which the DMV periodically provides the employers with drivers' record reports.

According to the Department of Finance, the costs of terminal inspections will be $7 million in 1989-90 and $5.2 million annually thereafter. These costs will be entirely offset by fees which we estimate to be approximately $7.5 million annually. Consequently, we estimate that about $2.3 million in revenue will be available starting in 1990-91 to fund roadside safety inspections.

According to the DMV, it will incur costs of about $4 million in 1989-90, and $1.7 million annually thereafter to enlarge the "pull-notice" program to include additional commercial drivers. These costs will be offset by fees.

Welfare and Employment

Petroleum Violation Escrow Funds -- Energy Programs
Chapter 1436 -- Senate Bill 283 (Rosenthal)

This act appropriates a total of $25.3 million from federal Petroleum Violation Escrow Account (PVEA) funds as follows:

- ***Energy Assistance.*** The act appropriates $20 million to the Department of Economic Opportunity. The act specifies that $10 million of this amount is for the Energy Crisis Intervention Program (ECIP), for pilot projects designed to increase the self-sufficiency of low-income persons. The remaining $10 million is for the Home Energy Assistance Program (HEAP), which provides cash grants to eligible households.
- ***Energy Conservation.*** The act also appropriates $5.3 million from PVEA funds to the State Energy Resources Conservation and Development Commission for various energy conservation and research programs.

Local Government Financing

Local Government Claims Bill
Chapter 1485 -- Assembly Bill 2763 (Vasconcellos)

This act provides funding for reimbursement of the costs incurred by local governments in 1988-89 for administering eight new state-mandated local programs. Each year the Legislature enacts a local government claims bill, such as Chapter 1485, to provide funding for specific statutes and executive orders which are determined to impose state-mandated local programs by the Commission on State Mandates. In subsequent years, the funding for these programs is included in the annual Budget Act.

As passed by the Legislature, Chapter 1485 contained a total of $160 million to fund the current- and prior-year costs of eight new mandated local programs and deficiencies in a number of other existing mandate reimbursement programs. The amount provided for prior-year reimbursements and deficiencies was vetoed by the Governor, who proposes to fund these costs in equal amounts in the Budget Acts for the 1989-90, 1990-91, and 1991-92 fiscal years.

The act appropriates a total of $26.1 million from the General Fund to reimburse state-mandated costs incurred by local agencies and school districts.

Capital Outlay

Construction of 600-Bed Youth Authority Facility -- San Joaquin County
Chapter 921 -- Assembly Bill 936 (McClintock and Johnston)

This act appropriates funds for the development of a 600-bed youth correctional facility at the Northern California Youth Center in Stockton.

The act appropriates $5 million to the Department of the Youth Authority from the 1986 Prison Construction Fund (bonds) for site development for the 600-bed facility. The act further continuously appropriates $50 million from the 1988 Prison Construction Fund (a bond issue that was approved by the voters at the November 1988 election) for construction of and equipment for this facility.

Refinancing--Franchise Tax Board Building Lease and Bond Sale Process -- K-12 and Community Colleges
Chapter 1122 -- Assembly Bill 2656 (Roos)

This act authorizes the Director of General Services, on behalf of the Franchise Tax Board, to enter into a lease-purchase agreement or a lease with an option to purchase for the purpose of refinancing state office and parking facilities located at 9645 Butterfield Way in Sacramento. Under the act's provisions, the refinancing could include expansion and/or improvements of the existing office/parking facilities.

The act does not limit the amount of future lease payments that the Director of General Services may obligate the state to by entering into a new lease agreement. Therefore, the fiscal effect of the act is unknown. However, the five-year capital improvement plan for the Franchise Tax Board includes an expansion of the Butterfield Way facilities with an estimated cost of $27 million. If this project is financed under a lease agreement

authorized by this act, lease payments would total about $55 million over a 20 year-period (assuming a level payment structure at an 8 percent interest rate).

The act also expands the authority of county boards of supervisors with regard to sales of school district and community college bonds. The act's provisions regarding sales of school district and community college bonds should have no direct fiscal effect.

Prison Construction-Imperial County
Chapter 1220 -- Senate Bill 2894 (Bergeson)

This act authorizes the Department of Corrections (CDC) to construct and establish a 2,000-bed maximum security prison plus a 200-bed minimum security service facility in Imperial County.

The act appropriates $10 million to CDC from the 1988 Prison Construction Fund (to be funded by a general obligation bond, which was approved by the voters at the November 1988 election) for site suitability studies, environmental studies, site acquisition, master planning, preliminary plans and working drawings related to the authorized prison. The CDC estimates that another $195.6 million will be required to construct and equip the new prison. The act specifies that the $10 million appropriation is to be repaid from as-yet-to-be-authorized lease-purchase financing.

Second Veterans' Home -- Planning and Construction
Chapter 1240 -- Assembly Bill 200 (Clute)

This act authorizes the Department of Veterans Affairs to establish and construct a second California Veterans' Home. The department must locate the second home in Imperial, Los Angeles, Orange, Riverside, San Bernardino, Ventura, or San Diego County, and must operate it concurrently with the existing home in Napa County. The act also establishes a committee to advise the Director of the department on selection of a site for the second home.

The future costs of a second veterans' home are unknown, because the location, size and scope of the authorized facility are unknown. If the second home is constructed and operated in a manner similar to the existing home, there would be one-time multi-million dollar construction costs and multi-million dollar annual operating costs.

The act amends the 1988 Budget Act to appropriate $2.2 million from the Special Account for Capital Outlay (SAFCO) for site analysis, site selection, and environmental impact reports for a second California Veterans' Home. The act also requires that $1.1 million of this amount be transferred, upon the department's request, to the General Fund to support personnel and operating expenses related to site selection for the second home. The act specifies that the total appropriation is available for expenditure during 1988-89 and 1989-90.

Office Acquisition: Department of Transportation/ Department of General Services
Chapter 1472 -- Senate Bill 2381 (Deddeh)

This act authorizes the Department of General Services to *either* (1) consolidate the Department of Transportation (Caltrans) District 4 offices by financing the acquisition of office, parking and other facilities in the San Francisco Bay area, *or* (2) construct a new state office building in the East Bay, to consolidate the Caltrans District 4 offices along with offices of other unspecified state agencies. The act directs the Department of General Services to compare the economic merits of these two options.

New Caltrans Building -- Solely Occupied by Caltrans District 4 Staff. If the District 4 offices are consolidated in facilities to be occupied solely by Caltrans, the act authorizes the Treasurer to sell lease-revenue bonds, certificates of participation, or other forms of obligation to finance or refinance the specified facilities. The Department of General Services is authorized to enter into a joint powers agreement with other public entities, in order to acquire the facilities. The act requires the Department of General Services to notify the Legislature 30 days prior to advertisement for proposals to acquire the facilities, and 30 days prior to acquisition. The Department of General Services must sell the state-owned building at 150 Oak Street in San Francisco, and use the proceeds of the sale to offset the cost of acquiring the new Caltrans facility.

This measure appropriates not more than $10 million from the State Highway Account to Caltrans to pay all obligations incurred in the first fiscal year of financing a building solely to house Caltrans District 4 staff.

The annual cost to purchase (using debt instruments) or lease-purchase such a building would be approximately $10.6 million for a 24-year period, beginning in 1991-92. This cost will be partially offset by $3 million in annual avoided costs of current Caltrans leases. Sale of the 150 Oak Street building would offset the total cost of the acquisition by $15 million to $20 million. The act limits the purchase price of the proposed Caltrans facilities to $100 million -- excluding specified financing costs. The act also limits the total debt service cost for acquisition of the proposed facilities to the avoided cost of occupying existing buildings and facilities during the period in which the debt is retired.

New Multi-Agency State Office Building. If it is determined that the Caltrans District 4 offices should be consolidated, together with the offices of other state agencies, in a new state office building in the East Bay, the act requires the Department of General Services to begin preliminary planning of such a building.

The act makes no appropriation for preliminary planning of a multi-agency state office building. The cost of preliminary planning for this building is unknown. The cost of constructing this building is unknown, but would exceed the $100 million limit set by the act on the cost of acquiring a building to house only the Caltrans District 4 staff. The total cost of this project would be partially offset by the unknown avoided cost of leases currently held by Caltrans and other state agencies located in the East Bay. The Department of General Services estimates that sale of the existing Oakland state building could offset the cost of this project by approximately $16 million. The act permits, but does not require, the sale of this building.

The act appropriates $10 million from the State Highway Account for the purposes of office acquisition.

Prison Construction -- Kern and Los Angeles Counties
Chapter 1479 -- Senate Bill 1782 (Presley)

This act authorizes the Department of Corrections (CDC) to construct two 2,450-bed reception center/prison complexes in Kern County, one in the vicinity of Delano and the other in the vicinity of Wasco. Each complex would consist of a 1,750-bed reception center (where new inmates are classified on the basis of security considerations and assigned to a prison), a 500-bed medium security prison and a 200-bed minimum security prison.

The act provides additional construction funds for a previously authorized prison to be built near Lancaster in northern Los Angeles County.

The act also provides funds for (1) payment of claims made against the state by construction contractors on prison construction projects and (2) various planning activities related to unspecified new medical and/or psychiatric facilities and unspecified new correctional facilities.

The act appropriates a total of $425.2 million from prison bond funds to CDC as follows:

- $185.8 million to construct the reception center/prison near Delano -- consisting of $2.3 million from the 1986 Prison Construction Fund and $183.5 million from the 1988 Prison Construction Fund (a general obligation bond program that was approved by the voters at the November 1988 election).
- $182.2 million to construct the reception center/prison near Wasco -- consisting of $2.8 million from the 1986 Prison Construction Fund and $179.4 million from the 1988 Prison Construction Fund.

- $50.3 million to provide full construction funding for a 2,200-bed prison in northern Los Angeles County -- consisting of $5.1 million from the 1986 Prison Construction Fund and $45.2 million from the 1988 Prison Construction Fund. These appropriations are in addition to $149 million from prison bond funds appropriated for construction of this prison in Ch 165/87.
- $4.3 million from the 1988 Prison Construction Fund for site suitability studies, environmental studies, master planning, architectural programming and schematic drawings for unspecified new correctional facilities.
- $2.6 million from the 1988 Prison Construction Fund for site suitability studies, environmental studies, master planning, architectural programming and schematic drawings for unspecified new medical and/or psychiatric facilities.

The act also appropriates $14 million from the General Fund for the augmentation of prison construction projects for the payment of claims against the state by construction contractors. The act specifies this appropriation is to be repaid from the 1988 Prison Construction Fund -- this bond proposal was approved by the voters at the November 1988 election.

Part 2

Part 2
Condition of the General Fund

This section of the report discusses the condition of the General Fund for 1987-88 and 1988-89. The data used in this section are based on the Department of Finance's and the State Controller's most recent estimate of revenues and expenditures, and have been adjusted to reflect preliminary cost estimates for financial legislation and for ballot measures enacted in 1988.

1987-88 Year Ending Balance

As shown in Table 2, the General Fund balance at the beginning of 1987-88 was $672 million. This is the amount remaining after payment of $1.1 billion in tax rebates pursuant to Article XIII B of the State Constitution. Table 2 also shows a negative ending balance of $132 million. This figure comes from the State Controller's preliminary annual report for 1987-88. The negative year-end balance primarily results from expenditure estimates which are higher and revenue estimates which are lower than previously anticipated. In addition, the Controller indicates that there are $269 million of outstanding *expenditure authorizations.* These authorizations include items where appropriation authority exists but no claims have been submitted to expend the funds. These authorizations ($269 million) plus the year-end figure ($132 million) constitute the $401 million year-end deficit recently announced by the Controller.

We have no disagreement with the negative $132 million year-end figure. Our preliminary review indicates, however,

Table 2
Condition of the General Fund
1987-88 and 1988-89
(dollars in millions)

	1987-88[a]	1988-89[b]
Starting Balance - July 1	$1,730	-$132
Less tax rebate	-1,058	--
Adjusted Starting Balance	$672	-$132
Revenues and Transfers	32,549	36,101
Changes due to 1988 Legislation	--	-58
Revised Revenues	$32,549	$36,043
Total Resources Available	$33,221	$35,911
Expenditures	33,353	35,186
Changes due to 1988 Legislation	--	386
Proposition 98 -- K-14 Education Funding	--	200[c]
Proposition 97 -- Cal-OSHA	--	8
Revised Expenditures	$33,353	$35,780
Ending Balance - June 30	-$132	$131
Outstanding Expenditure Authorizations	(117)	(117)
Special Fund for Economic Uncertainties	(0)	(14)
Deficit	(249)	--

[a] Source: State Controller's Office, *Preliminary Annual Report for 1987-88;* LAO estimate of deficit.

[b] Source: Department of Finance, *1988-89 Final Change Book,* adjusted to reflect the State Controller's *Preliminary Annual Report for 1987-88,* the financial effect of legislation passed in 1988, and the implementation of two propositions adopted by the voters.

[c] The statewide ballot pamphlet, prepared in July 1988, contained a cost estimate of $215 million for Proposition 98. We have adjusted this earlier estimate to account for the impact of subsequent legislation which lowered the level of General Fund revenues during the current fiscal year.

that only $117 million of the $269 million in outstanding authorizations is likely to be used. We are unable to determine at this time whether claims for the $117 million will be submitted to the state during 1988-89 or at some later point in time. On this basis, it appears that a deficit of approximately $249 million (rather than $401 million) is a more accurate reflection of the state's year-end fiscal condition.

1988-89 Year Ending Balance

The Department of Finance's most recent estimates (published in the *Final Change Book*) anticipated that the General Fund balance would be approximately $600 million at the end of 1988-89. This estimate, however, assumed that there would be a $38 million cash balance carryover from 1987-88 available for 1988-89. In addition, this figure did not account for the financial impact of legislation and ballot measures enacted during 1988. In order to arrive at a new estimate of the ending balance for 1988-89, we have adjusted the department's estimates of revenues and expenditures to reflect (a) the revised information contained in the Controller's report and (b) the fiscal effect of 1988 legislation and current-year implementation of two ballot measures.

Table 2 shows that the new estimate of the General Fund balance on June 30, 1989 is $131 million. However, $117 million of this amount represents funds needed to cover previous obligations which have been authorized but not yet carried out. Thus, only the remaining $14 million remains *uncommitted* in the Special Fund for Economic Uncertainties. Given the current estimates of revenues and expenditures, and the likelihood that a significant level of additional expenditures will be approved in the coming months through the deficiency process, it appears that mid-year corrective action will be necessary to avert a deficit for 1988-89.

Changes to 1988-89 Revenues

The 1988 Budget Act projected that General Fund revenues in 1988-89 would total $36,101 million. Table 2 shows that this figure has been revised downward by $58 million due to legislation approved by the Legislature and the Governor in 1988. The revenue loss is largely due to the passage of Ch 984/88 which will reduce interest income to the General Fund. It does this by reallocating interest earned on temporarily idle Pooled Money Investment Account loan balances to other funds. Thus, General Fund revenues are now expected to total $36,043 million in 1988-89. This figure represents an increase of nearly 11 percent over 1987-88 revenues.

Changes to 1988-89 Expenditures

The 1988 Budget Act also provided for General Fund expenditures totaling $35,186 million. Table 2 shows that this figure has been *increased* by $208 million to include the estimated cost of implementing Propositions 97 and 98, and *increased* by $386 million to include the cost of legislation enacted in 1988. The cost of legislation enacted in 1988 is largely attributable to three bills:

- Ch 994/88 and Ch 945/88 which appropriate $206.5 million from the General Fund for Trial Court Funding; and
- Ch 974/88 which appropriates $205.5 million ($197.7 million from the General Fund) to restore funding for certain budget items which were eliminated by the Legislature in response to an unanticipated $1 billion revenue shortfall for 1987-88.

Thus, when the cost of 1988 expenditure legislation and the estimated cost of Propositions 97 and 98 are taken into account, General Fund expenditures for 1988-89 are expected to total $35,780 million. This amount represents an increase of slightly more than 7 percent over 1987-88 expenditures.

The $386 million for the effect of legislation passed in 1988, however, does not reflect the potential costs associated with legislation that was enacted without a specific source of funding. The amount of additional funding to be provided for the costs of such legislation is being determined by the administration in its development of the budget for 1989-90. The estimate of 1988-89 expenditures also does not account for the potential costs associated with deficiencies in existing appropriations. Revenues raised as a result of the passage of Proposition 99 (Cigarette and Tobacco Tax) also are not included in the 1988-89 totals because these revenues will be deposited in a special fund, not the General Fund.