

fees and taxes paid by those who directly benefit.

Creative Financing Methods Inadequate—General Obligation Bonding Needed

We recommend that the Legislature present to the voters for their approval an amendment to the California Constitution that would give localities access to the general obligation bond market. Specifically, we recommend that the voters be asked to approve a constitutional amendment permitting localities to increase temporarily their property tax rates above the current 1 percent limit, for the express purpose of amortizing debt issued to finance voter-approved public facilities.

Financing methods which currently are available to local government could provide a significant portion of the funds needed for public improvements. However, we do not believe that the entire infrastructure problem can be solved without resort to general obligation bonds. General obligation bonds are a preferable means of financing many projects (and perhaps the only means for some) because (1) they are backed by the *full faith and credit* of the issuing agency; (2) they require approval by the voters; and (3) they generally provide for a better match between who pays and who benefits over the life of a project. Further, the use of general obligation bonds may permit some projects which could be financed under alternative financing mechanisms to be completed at lower cost, due to the superior security they offer.

Furthermore, we find no basis for precluding the use of general obligation bonds by local governments for projects which a majority of voters are willing to support. Accordingly, we recommend that the Legislature take action to give localities access to the general obligation bond market. Specifically, we recommend that voters be asked to approve a constitutional amendment permitting localities to temporarily increase property tax rates above the current 1 percent limit, for the express purpose of servicing debt issued to finance voter-approved public facilities.

V. LEGISLATIVE CONTROL OF THE BUDGET

A. COLLECTIVE BARGAINING FOR STATE EMPLOYEES

How Can the Legislature Carry Out Its Responsibilities Under the State's Collective Bargaining Laws in a Meaningful Way?

Background

In 1983-84, compensation increases for state employees will, for only the second year, be subject to determination through the collective bargaining process.

In this section, we focus primarily on the state's initial experience with collective bargaining—analyzing what happened and what can be learned from the process—in order to provide the Legislature with a framework for considering similar compensation matters in the budget year and beyond. Our *Analysis of the 1982-83 Budget Bill* (page B-44) contains a more detailed description of the bargaining process for state employees.

SEERA. The State Employer-Employee Relations Act (SEERA), Chapter 1159, Statutes of 1977, provides for a formal bilateral employee relations system for most civil service employees. Under its provisions, the Governor or his designee is required to "meet and confer in good faith"

with employee organizations which have been selected by a majority of employees within individual bargaining units in an effort to reach agreement relative to the "wages, hours, and terms and conditions of employment."

The negotiated agreements resulting from this process are to be formalized in memoranda of understanding (MOUs). Any provision in such a memorandum requiring the expenditure of funds (for example, negotiated salary or benefit increases) or a change in law must be approved by the Legislature. If provisions requiring the expenditure of funds are not approved or fully funded, either party *may* reopen negotiations on all or part of the MOU. Mediation is required if the parties are unable to reach agreement.

HEERA. The Higher Education Employer-Employee Relations Act (HEERA), Chapter 744, Statutes of 1978, established a similar system with respect to academic and nonacademic employees of the University of California (UC), including the Hastings College of Law, and California State University (CSU). Unlike SEERA, if the Legislature or Governor fails to fund an MOU fully, the entire MOU *must* be referred back to the parties for further meeting and conferring.

Employees Affected by Collective Bargaining

Most state civil service and related employees are covered by collective bargaining. Of the state's 142,213 full-time employees (excluding higher education), 115,882, or 82 percent, have been assigned to specific bargaining units. As shown in Table 73, the remaining 26,331 employees are not subject to collective bargaining, due primarily to (1) their responsibilities as managerial, supervisory or confidential employees or (2) specific statutory exemptions for (a) staff of state agencies with a direct role in the collective bargaining process, such as the Public Employment Relations Board (PERB) and the Department of Personnel Administration (DPA); and (b) statutory officers whose salaries are set directly by the Legislature.

Table 73
State Civil Service and Related Employees
Covered by State Employer-Employee Relations Act (SEERA)

Category	Estimated Personnel Years	
	Number	Percent
Employees in bargaining units	115,882	81.5%
Employees not subject to bargaining:		
Managerial and supervisory	20,152	14.2
Confidential	1,186	.8
Excluded specifically by SEERA	3,825	2.7
Exempt employees not in bargaining units	1,168	.8
Total (excluding legislative staff)	142,213	100.0%

Decisions on compensation for those employees who are not covered by a collective bargaining agreement are made as follows:

- The Governor, through the Department of Personnel Administration, proposes changes in existing conditions of employment for nonrepresented civil service and related employees.
- The UC Regents and CSU trustees propose such changes for UC and CSU nonrepresented employees, respectively.

- The Legislature then acts on the proposals, either:
 - (a) Through the normal budget bill process (for provisions which require an appropriation), or
 - (b) By enacting a separate bill (for provisions which require changes to existing law).

Neither the provisions of the SEERA, nor the salary-setting procedure for non-covered employees apply to staff employed by the Legislature. Compensation increases for these employees are set by the Legislature, outside of the process established by SEERA.

Status of Collective Bargaining Implementation

SEERA. The PERB has designated a total of 20 separate bargaining units for state civil service and related employees. Exclusive bargaining representatives have been selected for each unit. Table 74 identifies the distribution of state civil service employees among bargaining units and the status of any MOU covering the members of each unit. It shows that:

- 14 of the 20 units are operating under MOUs that cover both the current and the budget years; the MOUs for 5 units will expire at the end of 1982-83; and 1 unit, the psychiatric technicians, will operate under the same MOU until the end of 1984-85.
- 45 percent of the state civil service and related employees in bargaining units are part of either the administrative, financial and staff services or office and allied occupational groups.
- 10 out of the 20 units have the California State Employees' Association (CSEA) serving as their exclusive representative.

Table 74
Distribution of State Civil Service and Related Employees
Among Bargaining Units and Current MOU Status
1982-83

<i>Unit Number</i>	<i>Occupational Group</i>	<i>Estimated Personnel Years</i>		<i>Exclusive Representative</i>	<i>MOU Status</i>
		<i>Number^a</i>	<i>Percent</i>		
1	Administrative, Financial and Staff Services	22,156	19.1%	California State Employee's Association (CSEA)	Effective July 1, 1982 to June 30, 1984
2	Attorney and Hearing Officer	1,837	1.6	Association of California State Attorneys, Inc.	Effective July 1, 1982 to June 30, 1984
3	Education and Library	2,049	1.8	CSEA	Effective July 1, 1982 to June 30, 1984
4	Office and Allied	30,334	26.2	CSEA	Effective July 1, 1982 to June 30, 1984
5	Highway Patrol	4,252	3.7	California Association of Highway Patrolmen	Effective July 1, 1982 to June 30, 1983
6	Corrections	7,548	6.5	California Correctional Officers Association	Effective July 1, 1982 to June 30, 1983
7	Protective Services and Public Safety	4,477	3.9	Coalition of Associations and Unions of State Employees	Effective July 1, 1982 to June 30, 1984
8	Firefighter	3,063	2.6	California Department of Forestry, Employees' Association	Effective July 1, 1982 to June 30, 1983
9	Professional Engineer	4,716	4.1	Professional Engineers in California Government	Effective July 1, 1982 to June 30, 1983
10	Professional Scientific	1,447	1.3	CSEA	Effective July 1, 1982

11	Engineering and Scientific Technicians	2,811	2.4	CSEA	to June 30, 1984 Effective July 1, 1982
12	Craft and Maintenance	9,723	8.4	CSEA	to June 30, 1984 Effective July 1, 1982
13	Stationary Engineer	499	0.4	International Union of Operating Engineers, Stationary Engineers' Division	to June 30, 1984 Effective July 1, 1982
14	Printing Trades	833	0.7	CSEA	to July 1, 1984
15	Custodial and Services	5,745	4.9	CSEA	Effective July 1, 1982
16	Physician, Dentist and Podiatrist	819	0.7	Union of American Physicians and Dentists	to June 30, 1984 Effective July 1, 1982
17	Registered Nurse	1,595	1.4	CSEA	to June 30, 1983 Effective July 1, 1982
18	Psychiatric Technicians	7,686	6.6	Communication Workers of America, Psych Tech Union	to June 30, 1984 Effective July 1, 1982
19	Health and Social Services/Professional	2,854	2.5	American Federation of State County and Municipal Employees	to June 30, 1985 Effective July 1, 1982
20	Medical and Social Services/Support	1,438	1.2	CSEA	to June 30, 1984 Effective July 1, 1982
	Total	115,882	100.0%		

^a As of May 1982

California State University. The PERB has designated nine separate statewide bargaining units for CSU employees. Currently, exclusive representatives have been selected in eight of the nine CSU bargaining units. The undecided unit, consisting of CSU faculty, includes the majority (52 percent) of the system's employees. Table 75 shows the distribution of CSU employees among bargaining units and each unit's current MOU status. The table indicates that of the eight represented groups in the current year, four MOUs were finalized, one tentative agreement was reached, and three MOUs are still in negotiation.

Table 75
Distribution of CSU Employees Among Bargaining
Units and Current MOU Status
1982-83

Unit Number	Occupational Group	Employees Number ^a	Percent	Exclusive Representative	MOU Status
1	Physicians	119	0.4%	Union of American Physicians and Dentists	Effective July 1, 1982
2	Health Care Support	264	0.9	CSEA	to August 30, 1983
3	Faculty	15,967	51.6	Undecided	Currently in negotiations
4	Academic Support	1,365	4.4	United Professors of California	—
5	Operations Support Services	2,192	7.1	CSEA	Currently in negotiations
6	Skilled Crafts	940	3.0	State Employees Trades Council	Effective July 1, 1982
					to June 30, 1985
					Tentative agreement reached in November, 1982

7	Clerical Support	7,697	24.9	CSEA	Effective July 1, 1982 to June 30, 1985
8	Police	217	0.7	State University Police Association	Effective July 1, 1982 to June 30, 1984
9	Technical Support Services	2,163	7.0	CSEA	Currently in negotiations
	Total	30,924	100.0%		

* Source: California State University.

University of California. The PERB has designated 19 separate bargaining units for UC employees, 18 of which are structured on a system-wide basis. The remaining unit, number 7, consists of printing trade employees working at three printing plants in the UC system. Unlike the status of collective bargaining in state civil service and within the CSU system, exclusive representatives have been selected for only two of the UC units, as shown in Table 76. Thus, the UC system is still in the beginning stages of the collective bargaining process.

Table 76
Distribution of UC Employees Among Bargaining Units
1982-83

Unit Number	Type	Occupational Group	Employees		Exclusive Representative
			Number ^a	Percent	
1	Systemwide	Police	190	0.4%	Statewide University Police Association
2	Campus	Faculty (Santa Cruz)	292	0.6	Faculty Association, UC Santa Cruz
3	Lab	Lawrence Livermore National Laboratory (LLNL) Skilled Crafts	261	0.6	Undecided
4	Campus	UC Berkeley/Lawrence Berkeley Skilled Crafts	198	0.4	Undecided
5	Campus	UC San Francisco Skilled Crafts	86	0.2	Undecided
6	Campus	UCLA Skilled Crafts	380	0.8	Undecided
7	Printing Plants	Printing Trades	110	0.2	Undecided
8	Lab	LLNL Technical	1,653	3.6	Undecided
9	Systemwide	Technical	3,927	8.5	Undecided
10	Lab	LLNL Service	494	1.1	Undecided
11	Systemwide	Service	6,174	13.3	Undecided
12	Systemwide	Clerical and Allied Services	18,565	40.0	Undecided
13	Health care	Patient Care—Technical	4,214	9.1	Undecided
14	Health care	Residual Patient Care—Professional	1,539	3.3	Undecided
15	Health care	Registered Nurses	4,548	9.8	Undecided
16	Lab	LLNL Professional Scientists and Engineers	3,205	6.9	Undecided
17	Systemwide	Professional Librarians	552	1.2	Undecided
18	Systemwide	Nonacademic Senate Instructional	Undetermined	—	Undecided
19	Systemwide	Research and Allied Professionals	Undetermined	—	Undecided
Total			46,388	100.0%	

^aSource: PERB and UC.

For those 17 UC units without exclusive representatives, elections are expected to be completed during 1983-84. Consequently, it is uncertain at this time how compensation increases for these UC employees will be determined for the budget year.

Table 76 indicates that of the 46,388 employees in the UC system that have been assigned to bargaining units, the largest single group is clerical and allied services (40 percent of the total).

Collective Bargaining During 1982-83

Civil Service Employees. Throughout 1981-82, the DPA (representing the Governor) met and conferred with those organization that had been recognized as the exclusive representative of employees in a specific bargaining unit. The parties' task was to negotiate a compensation package for 1982-83, in the form of an MOU. Once these negotiations had been completed, the Director of the Department of Personnel Administration presented to the members of the budget conference committee those MOU provisions which, in the director's judgment, required legislative action. This presentation was made orally; the MOUs themselves were not presented (in some cases, they had not even been reduced to writing).

While negotiations were in process for state employees covered under collective bargaining, DPA also was preparing a compensation package for those state employees *excluded* from the coverage of an MOU. This "management" compensation package encompassed many of the same benefits that ultimately were included in the negotiated MOUs.

The funds required for the fiscal provisions of the MOUs and the "management" compensation package were appropriated in Item 9800 (augmentation for employee compensation) of the 1982 Budget Act. The two companion bills to the 1982 Budget Act, Chapter 327 and 1125, Statutes of 1982, formally approved the fiscal provisions of (a) the MOUs, by reference to the agreement for each bargaining unit and (b) the management compensation package.

CSU Employees. Upon completion of negotiations for 1982-83 covering four of the system's eight units, CSU notified the Legislature, by letter, that the financial provisions included in the agreements contained the same increases as those provided to state civil service employees in Item 9800. The MOUs themselves, however, were not submitted for legislative review. Instead, CSU advised the Legislature that because no additional legislative action was required, the CSU letter fully satisfied the statutory notification requirements.

Even though CSU saw no need for any further action by the Legislature, the Legislature "approved" the MOUs, using a process similar to the one followed for the MOUs covering civil service employees. Chapter 1125, Statutes of 1982 (AB 1363), approved the fiscal provisions of the MOUs for CSU employees.

Changes in compensation for CSU employees not covered by MOUs were decided upon by CSU officials. Once the Legislature appropriated funds for employee compensation, CSU officials proposed, and the Board of Trustees approved, a benefit package that was consistent with the appropriations.

Fiscal Impact of the MOUs in 1982-83

Both the administration and CSU officials have assured the Legislature

that the total fiscal impact of the MOUs agreed to for 1982-83 is reflected in the appropriations made explicitly for employee compensation in the 1982 Budget Act. Any additional benefits provided to state employees by the MOUs, these officials maintained, will be "absorbed" within existing appropriations, and thus do not represent an increase in costs to the state.

Subsequent to the ratification of the MOUs, we asked the DPA and CSU to provide a detailed cost accounting of all provisions of the MOUs, and to designate whether each provision required a new appropriation or was considered "absorbable" within existing appropriations. We also asked, for comparative purposes, that the DPA and CSU provide the same information on the costs of each new benefit provided to employees not covered by the collective bargaining process in 1982-83.

Based on our review of the information submitted by the DPA and CSU, we believe the provisions of the 1982-83 MOUs can be divided into the following three categories:

- Provisions with no fiscal effect;
- Provisions that received direct appropriations or consideration within the 1982 Budget Act;
- Provisions considered absorbable within the current-year appropriation.

Items with no Fiscal Effect. Most of the 1982-83 MOUs contain provisions that grant certain privileges and benefits but do not have any foreseeable fiscal impact. For example, the agreements include provisions granting access to available bulletin boards for the posting of information and establishment of various committees. These provisions have little or no implications for state costs or legislative policy.

Provisions Having a Direct Fiscal Effect. In the Budget Act of 1982, the Legislature appropriated \$93.9 million from all funds (\$61.9 million from the General Fund) to fund the following collective bargaining provisions:

- A cost-of-living increase to maintain the state's percentage contributions for employee health insurance premiums.
- The continuation of an employee dental care program for civil service and related employees only. (Additional funds for this purpose were included in the support budgets of UC and CSU.)
- An increase in shift differential and certain overtime pay (for civil service and related employees only).

Our analysis indicates, however, that the actual cost of these provisions in the current year will be closer to \$85.1 million or 9.4 percent less than the 1982 Budget Act appropriations. As seen in Table 77, this is because the appropriations for these provisions from the special funds and other funds were overestimated by \$11.6 million.

The Governor's Budget for 1983-84, however, identifies a General Fund deficiency of \$13.8 million in the current year for employee compensation. As shown in Table 77, the deficiency is caused by two factors: (1) an increase in expenditures beyond what was anticipated in the 1982 Budget Act (\$2.8 million) and (2) the failure of the six-month reduction in employer contributions to the PERS to generate sufficient funds to support the employee compensation item (\$11 million).

Provisions Considered Absorbable Within Existing Appropriations. Our review of the agreements and cost estimates provided by the DPA and CSU reveals that various provisions in the MOUs and noncovered

Table 77
Summary of Fund Adjustments
For Employee Compensation Increases
in 1982-83
(in thousands)

	<i>General Fund</i>			<i>Special Funds</i>			<i>Other Funds</i>			<i>Total, All Funds</i>		
	<i>1982 Budget Act</i>	<i>Estimated 1982-83</i>		<i>1982 Budget Act</i>	<i>Estimated 1982-83</i>		<i>1982 Budget Act</i>	<i>Estimated 1982-83</i>		<i>1982 Budget Act</i>	<i>Estimated 1982-83</i>	
<i>Expenditures</i>	<i>Amount</i>		<i>Change</i>	<i>Amount</i>		<i>Change</i>	<i>Amount</i>		<i>Change</i>	<i>Amount</i>		<i>Change</i>
Health Insurance	\$43,707	\$43,251	-\$456	\$9,438	\$8,886	-\$552	\$8,846	\$3,971	-\$4,875	\$61,991	\$56,108	-\$5,883
Dental Insurance	16,219	17,726	1,507	6,378	4,996	-1,382	6,186	2,360	-3,826	28,783	25,082	-3,701
Shift Differential and Overtime Pay	1,988	3,225	1,237	564	112	-452	528	43	-485	3,080	3,380	300
Employee Compensation for Legisla- ture	—	510	510	—	—	—	—	—	—	—	510	510
Totals.....	\$61,914	\$64,712	\$2,798	\$16,380	\$13,994	-\$2,386	\$15,560	\$6,374	-\$9,186	\$93,854	\$85,080	-\$8,774
<i>Funding</i>												
Transfers From Departments for Retirement Adjustment of January 1, 1983	\$61,914	\$50,915	-\$10,999	\$16,380	\$13,994	-\$2,386	\$15,560	\$6,374	-\$9,186	\$93,854	\$71,283	-\$22,571
Deficiency Allocation Required.....	—	13,797	13,797	—	—	—	—	—	—	—	13,797	13,797
Totals.....	\$61,914	\$64,712	\$2,798	\$16,380	\$13,994	-\$2,386	\$15,560	\$6,374	-\$9,186	\$93,854	\$85,080	-\$8,774

employee compensation packages affecting various conditions of employment will require the expenditure of an *additional* \$61.3 million from all funds in 1982-83. No funds have been *specifically* appropriated by the Legislature to cover these costs. Instead, funds appropriated by the Legislature for other purposes will be used to finance these benefits. It is in this sense that the \$61.3 million in additional costs are considered absorbable within existing appropriations.

Table 78 shows the "absorbable" costs identified by the DPA, the Department of Finance, and CSU officials.

Table 78
Employee Compensation Costs Absorbed by State Agencies and CSU
1982-83
(in thousands)

<i>Provisions</i>	<i>Employee Group</i>			<i>Totals</i>
	<i>Civil Service and Related Covered by MOUs</i>	<i>CSU Covered by MOUs</i>	<i>Excluded From Collective Bargaining or Not Covered by MOUs</i>	
Special pay	\$214	—	—	\$214
Change in rest periods	14,717	—	—	14,717
Credit for Saturday holidays	10,152	1,924	3,552 ¹	15,628
Adjustment of vacation accruals	5,765	—	3,387 ¹	9,152
Sick leave (includes bereavement leave)	2,158	52	1,421 ¹	3,631
Uniform allowances	810	10	154 ²	974
Changes in work week	3	—	—	3
Overtime	689	99	—	788
Overtime holidays	—	24	—	24
Training	686	—	—	686
Safety	—	6	—	6
Increase in per diem rate	8,191	15	3,505 ²	11,711
Increase in mileage rate	1,744	—	811 ²	2,555
Miscellaneous	1,175	—	—	1,175
Totals	\$46,304	\$2,130	\$12,830	\$61,264

¹ Includes costs for civil service and related employees only. Data are not available for CSU employees.

² Includes costs for civil service and related employees and CSU employees.

Table 78 shows the "absorbable" costs identified by the DPA, the Department of Finance, and CSU officials.

The \$61 million in "absorbable" costs shown in Table 78 is a *minimum* estimate of these costs for 1982-83. This is because the costs of providing Saturday holiday credits, vacation accrual adjustments, and changes in sick leave benefits for CSU employees that are not covered by an MOU were not available at the time this *Analysis* was completed. As Table 78 shows, the three benefits for which full cost data are not available account for a significant portion of the "absorbable" costs incurred on behalf of excluded civil service employees. Thus, we anticipate the actual cost to the state of these benefits will be significantly in excess of \$61 million.

Of the total cost to be absorbed in 1982-83, \$48.4 million, or 79 percent, is attributable to the various provisions of the state civil service and CSU MOUs. The remainder is attributable to benefits provided for employees outside this year's bargaining process.

The employee benefit provisions which result in the greatest "absorbable" costs are:

- Changes in rest periods (\$14.7 million);
- Credit for Saturday holidays (\$15.6 million);
- Adjustment of vacation accruals (\$9.2 million);
- Changes in sick leave provisions, including the provision of bereavement leave (\$3.6 million) and
- Increases in per diem and mileage rates (\$14.3 million).

Our review indicates that the size and nature of these "absorbable" costs raise three important issues, all of which have relevance for legislative control of the budget:

1. *Absorption of Additional Costs May Subvert Legislative Priorities.*

Each year, the Governor submits to the Legislature a program budget setting forth each agency's programs and activities, and the costs associated with each. During its deliberations, the Legislature revises the budget to (a) establish its own priorities, and (b) eliminate any "slack" in the budget. Consequently, when agencies are directed to absorb costs for employee compensation provisions, programs or activities funded by the Legislature may be eliminated or cut back in order to free up the funds needed to pay for the employee compensation increases. The decisions as to *which* programs and activities will be cut back are made on the basis of the administration's priorities, rather than the Legislature's.

The specific effects of requiring departments to absorb significant unanticipated costs is unclear. Provisions deemed absorbable, such as higher per diem rates, additional time off for holiday credits and increased vacation accruals, will force departments to consider certain administrative options for keeping expenditures within the amount appropriated, such as:

- Reducing the amount of travel.
- Reducing staff.
- Modifying service levels, either by deleting functions or delaying service availability.

2. *"Absorbable" Costs Increase General Fund Expenditures.* Experience indicates that most departments will not spend all funds available to them in a given year. There are several reasons for this. On the one hand, needs for which funds have been budgeted may not arise. On the other hand, departmental budget control procedures designed to ensure that expenditures remain within budgeted levels may result in some appropriated funds being held back from obligation.

Using such unanticipated savings for other purposes, however, may still increase General Fund expenditure beyond the total shown in the budget. This is because *the Legislature counts on unidentified savings* in putting the budget together, and typically appropriates more money than it anticipates will be available for expenditure. For example, the 1982 Budget Act is premised on there being unidentified savings of at least \$50 million, and the 1983-84 budget assumes similar unidentified savings of \$60 million. Consequently, to the extent that what would otherwise turn out to be savings are instead used to fund additional employee benefits, state expenditures may exceed what the Legislature intended, or can afford. This, in fact, is what appears to be happening in 1982-83. Whereas the Legislature originally counted on unidentified savings of \$50 million this year, the Department of Finance is now estimating that these savings will be only \$20 million.

In this sense, then, the "absorbable" costs turn out to be *direct* costs. Put

another way, what a department can absorb is *not* absorbable by the General Fund.

It may be that in the future, departments will request additional funds through the budget process to support these previously absorbed costs. This will put the Legislature in the difficult position of having to consider a request to fund something "which the Legislature itself has already approved."

3. *The Legislature is Kept in the Dark About Significant Policy Changes Until After the Fact.* For both civil service and CSU employees, information about the cost of the provisions itemized in Table 78 was not presented to the Legislature when it was asked to approve the MOUs in the budget companion bills. As a result, the Legislature was denied the opportunity to enforce its funding and policy priorities on decisions made by the administration.

In summary, the collective bargaining process, as conducted for 1982-83, (1) did not comply with the statutory requirement that the Legislature review and approve all MOU provisions requiring the expenditure of funds, (2) resulted in \$61 million in state costs, in addition to the \$85 million in so-called direct costs, which will continue in future years and (3) necessitated the diversion of existing program funds thereby circumventing the legislative process and reducing legislative control over the allocation of limited resources.

1982-83 Fiscal Effect Summary. Our analysis indicates that collective bargaining agreements and the compensation package for noncovered employees resulted in current-year costs of approximately \$146 million, consisting of \$85 million in costs reviewed by the Legislature (including recent adjustments) and \$61 million in costs which were never presented to the Legislature for its consideration.

Problems With the Process for Legislative Review of MOUs

Under SEERA and HEERA, the Legislature must approve MOU provisions which require either (1) the expenditure of funds or (2) a change in the law before the provisions can be implemented. Last year's experience indicates that the existing process for extending to the Legislature an opportunity to review and approve these features of MOUs is not satisfactory. Specifically, the Legislature was given only a short time in which to act on the MOUs, and was not given the information it needs in order for the review and approval process to be meaningful. Moreover, the process is too fragmented to allow adequate legislative review. This is because information on MOUs for state civil service and related employees, CSU employees, and eventually UC employees is submitted sequentially, using different formats, rather than concurrently, using the same format.

In 1982-83, the Legislature received no written documentation that would enable it to determine the implications of the MOUs which it was asked to approve. Instead, the budget conference committee received only a brief oral presentation on what the administration claimed were the direct fiscal provisions of the MOUs, shortly before it completed its work on the 1982 Budget Bill. There were no detailed cost estimates—or even descriptions—of the provisions available to permit an evaluation of the MOUs by legislators and legislative staff. Even if this information had been available, there was virtually no time afforded the Legislature for review of the agreements.

Written copies of the MOUs, with the complete package of provisions, were not submitted to the Legislature at the time of its deliberations because the MOUs had not been prepared. In fact, three months following legislative action on the MOUs, printed copies of some MOUs still were not available. As a result, the Legislature often learned about some of the specific provisions contained in the MOUs when legislation was proposed to provide similar benefits to employees excluded from the collective bargaining process. For example, during its deliberations on the management compensation package discussed earlier (Chapters 327 and 1125, Statutes of 1982), the Legislature learned that it had approved several new benefits for most state civil service employees, including bereavement leave (through a change in sick leave policy), increased vacations and vacation credit for Saturday holidays.

This clearly hampers the Legislature's ability to carry out its oversight functions in employment compensation matters.

Legislative oversight of contract provisions is further hampered by the lack of administrative guidance to state departments on how to budget for current and future contract provisions. This problem is compounded because agreements are developed on a unit, rather than an agency, basis. Agencies with employees in various bargaining units are likely to encounter difficulties in assessing their budget needs, since these needs are dependent on the fiscal effects of several agreements. In addition, a set of diverse administrative practices may arise as a consequence of agencies having to make budget adjustments in order to handle the cost of contract provisions. Central direction is needed to insure that all agencies implement the agreements consistently.

Legislative Control and Collective Bargaining

With collective bargaining, the Legislature is faced with a new process for determining the compensation levels for state employees. This process raises the important issue of how legislative review and control over contract provisions can be assured without hampering unduly the duties of the state's representative in the negotiations.

In summary, our review indicates that in 1982-83 the Legislature experienced three serious problems in carrying out its duties under collective bargaining:

- The Legislature had only a short time to review the contract provisions presented to it by administration and CSU officials.
- The information that was presented did not give a precise picture of the fiscal ramifications of the provisions within the MOUs.
- No process exists to ensure the consistent management and administration of the contract provisions.

In order that a collective bargaining system for state employees is managed consistently and with appropriate legislative oversight:

We recommend that legislation be enacted requiring that:

1. *The DPA, UC and CSU submit to the Legislature by May 15 all MOUs and other proposals for compensation increases for 1983-84.* This will provide the Legislature with an opportunity to consider and act on such proposed increases as part of the regular budget process.
2. *The Department of Finance, UC and CSU annually submit a comprehensive cost summary of proposed and negotiated compensation changes for their respective employees.* These cost summaries should be submit-

ted to the Legislature along with MOUs, and should include long-range cost estimates for changes in benefits and working conditions which would have a delayed cost impact.

3. *The Department of Finance review all cost estimates prior to legislative budget hearings, to verify their reliability and consistency.* This will provide the Legislature with cost estimates that are reviewed and coordinated by one central agency.

4. *The Department of Finance provide guidance to agencies, in the form of management memos, as to standard procedures for implementing the various cost provisions contained in the MOUs.* This will provide a consistent approach to implementing and budgeting the various provisions in the MOUs.

B. THE STATE PUBLIC WORKS BOARD

How Can the Legislature Assure that Capital Outlay Projects Are Carried Out in Accordance With Its Intent?

The State Public Works Board is charged with the responsibility for determining if and when site acquisition, improvements, and the purchase of equipment shall be undertaken for capital outlay projects approved by the Legislature. Specifically, it must approve preliminary plans before amounts appropriated by the Legislature for working drawings and construction can be allocated. Once the board approves preliminary plans, no further review or action—except to augment construction costs—is taken by the board. The board consists of three voting members—the Director of the Departments of Finance, Transportation, and General Services. Six legislative members act as advisers to the board, but do not vote.

Specific Authority for the Board

Legislative control and oversight of capital outlay appropriations is exercised through control Section 8.00 of the annual Budget Act and the Government Code (Section 15752, et. seq). Section 8.00 is not contained in the proposed Budget Bill, but its provisions are included in Section 44 of the 1983 budget trailer bill.

Chapter 808, Statutes of 1982, attempted to strengthen the board's process by establishing new oversight, review and reporting requirements for capital outlay projects. Specifically, the board's review of preliminary plans must ensure that the project is:

- consistent with legislatively approved cost and scope
- carried out with all due speed and diligence.

Moreover, as of January 1, 1983, the state agency conducting the capital outlay project must submit a quarterly report to the board detailing the project's progress. At the time this Analysis was prepared, however, the board had not identified administrative procedures to implement the act's requirements, despite the fact that the measure had been in effect for more than one month.

Legislators' Expectations versus Public Works Board Action

The board serves a useful purpose in that if its duties are properly executed, the Legislature's intent in appropriating funds for capital outlay will be implemented and capital expenditures will be undertaken in a timely fashion.

For the past few years, however, we have become increasingly concerned over the manner in which the state's capital outlay program is processed through the State Public Works Board. Although the Legislature has attempted to strengthen the process through various changes to Section 8.00 and the Government Code, our review indicates that the process continues to deteriorate rather than improve.

This problem is caused, in part, by the Department of Finance's failure to adequately review projects submitted to the board. Several years ago the Legislature attempted to improve the department's review of these projects by requiring (in Section 8.00) that the Department of Finance certify, in writing, to the chairperson of the Joint Legislative Budget Committee, the chairpersons of each fiscal committee and the legislative members of the board, that each project submitted to the board meets legislatively approved scope and cost.

The department, however, has not performed this responsibility as the Legislature intended. The prior director did not review or sign the letter of certification required by Section 8.00. Instead, she delegated this responsibility to staff. Frequently, the letter of certification failed to identify those projects which did not meet legislatively approved scope and cost. In many cases, for example, the certification failed to identify proposals which involved:

- augmentations to project costs
- changes to the project scope
- requests for allocation of funds prior to satisfying Budget Act language
- requests for approval of preliminary plans when the preliminary plans are neither complete nor available.

Moreover, in those instances where the Department of Finance identifies a change in scope or cost, the department generally does not comply with Section 8.00, because it does not detail either the change or the associated cost implication of the modification.

The board, itself, is no better in complying with legislative intent. Generally, unless the requested action is in direct conflict with *specific* budget act language, the board approves all requests submitted by the department, even when discrepancies of the type cited above are brought to its attention. Thus, neither the Department of Finance nor the board is providing the measure of control which the Legislature believes exists when it appropriates funds for capital outlay. In order to establish better control measures, *we, therefore, recommend that the Director of Finance personally assume the responsibility of certifying in writing that the projects taken to the board meet legislatively approved scope and cost.*

Status of Capital Outlay Funds Needs Monitoring

The board's duties include determining if and when capital outlay projects shall be undertaken. Implicit in this responsibility is making the determination that funds are available to undertake the project. The board, however, has not met its obligations in this area.

As far back as January 1982, the Department of Finance indicated that the condition of these funds was uncertain. Accordingly, in April 1982, our office advised the Chairman of the Joint Legislative Budget Committee that the Department of Finance had placed projects on the board agenda with the stipulation that board approval was recommended, contingent on the availability of funds. At that time, we recommended that the Depart-

ment of Finance provide a fund status report prior to board action.

The department chose not to provide any written information on the condition of these funds. Instead, department staff merely informed the board verbally that adequate funds were available for each project.

In November 1982, the Department of Finance staff, without explanation, began to withhold projects funded from the Special Account for Capital Outlay from the board's monthly agenda. In each of these months, our office advised the Chairman of the Joint Legislative Budget Committee of the department's action, and recommended that the board obtain a fund status report from the department. The board, however, chose to ignore this recommendation and a report has not yet been provided.

As we discussed earlier in this document, the Department of Finance's assurances of funding availability now appear to have been incorrect. Data from the State Controller's Office showing the fund balance for various tidelands oil funds differ significantly from the data shown in the Governor's 1983-84 Budget. Table 79 compares the estimates of fund balances obtained from these two sources.

Table 79
Selected Funds Receiving Tidelands Oil Revenue
State Controller's Balances and
Governor's Estimated Balance as of June 30, 1982^a
(in thousands)

<i>Fund</i>	<i>As reported by Controller</i>	<i>As estimated in the Governor's Budget</i>	<i>Difference</i>
Capital Outlay Fund for Public Higher Education:			
1. Reserve for economic uncertainties	-\$6,274	\$523	\$6,797
2. Reserve for unencumbered balances of continuing appropriations	4,405	1,452	-2,953
Energy and Resources Fund:			
1. Reserved for economic uncertainties	-8,998	-8,825	173
2. Reserve for unencumbered balances of continuing appropriations	5,483	2,315	-3,168
State Park and Recreation Fund:			
1. Reserve for economic uncertainties	12,602	-184	-12,786
2. Reserve for unencumbered balances of continuing appropriations	35,731	36,839	1,108
Special Account for Capital Outlay:			
1. Reserve for economic uncertainties	-40,260	12,612	52,872
2. Reserve for unencumbered balances of continuing appropriations	65,082	23,303	-41,779

^a Sources: State Controller (as of 1-14-83); Governor's Budget for 1983-84.

Table 79 shows that, according to the State Controller, three of the four capital outlay funds which receive tidelands oil revenue were overcommitted on June 30, 1982. The State Park and Recreation Fund was the only one with a positive year-end balance.

In view of the data discrepancies between the State Controller and the Governor, it is apparent that the board has been acting without sufficient information, and as a result may have overcommitted the various funds. To avoid this problem in the future, we recommend that the State Controller provide to the board, on a quarterly basis, a written fund status report for each of the funds that provide financing for capital outlay.

Board Membership Should Be Changed

In the past, we have recommended that Section 15770 of the Government Code be amended to revise the composition of the State Public Works Board by removing the Director of General Services and adding the Director of Housing and Community Development. In 1981, the Legislature approved SB 681 which would have made this change in the board's composition. The Governor, however, vetoed the bill.

We continue to believe this change is warranted. The Department of General Services, by way of its "service agency" role to other state agencies, participates in the development of a substantial number of projects on which the board must act. Thus, many issues which come before the board directly involve decisions made by the Department of General Services. This places the Director of General Services in a position of constantly having to approve—or disapprove—proposals that are developed by the Director's staff, and that in many cases have already been approved by the Director himself. This puts the Director in a difficult position by, in effect, giving him a direct stake in the outcome of the vote which he must make.

The Director of Housing and Community Development would not be subject to the same conflicting pressures. Further, the Director's interest in the state's acquisition and construction projects and their impact on community development would be an asset to the board. Accordingly, *we recommend that legislation be enacted to change the State Public Works Board membership by replacing the Director of General Services with the Director of Housing and Community Development.*

Staff Accountability Needed

The Director of Finance serves as chairman of the Public Works Board. The secretary to the board, however, is located in the Department of General Services, Real Estate Services Division. Staffing for the board is provided by two departments as follows: staff of the Department of General Services handle property acquisition matters and preparation of board agendas, while Department of Finance staff review capital improvement projects. The Legislative Analyst's office traditionally has served as staff to the legislative members of the board.

The division of duties between the Department of Finance and the Real Estate Services Division results in dual standards being applied to state capital outlay projects. Moreover, this arrangement, in effect, assigns to the Real Estate Services Division a responsibility for assessing the policy and cost implications of proceeding with an acquisition project. These statewide policy and cost matters are outside the division's normal real estate property purchase/management expertise. These matters more properly fall within the Department of Finance's area of statewide fiscal expertise. Consequently, *we recommend that the Legislature assign responsibility for providing staff support for the board exclusively to the Department of Finance.*

Summary of Proposed Changes

As discussed above, the Public Works Board serves a useful purpose. Its performance in carrying out its responsibilities, however, must be improved if the Legislature is to have any assurance that the capital program

it funds is carried out in accordance with its intent. If the process is not improved to the point where it is able to provide this assurance, there is no point in having the board, and the Legislature should withdraw the board's authority to change or augment the capital program.

In an effort to improve the Public Works Board process we believe the following changes should be made:

- The Director of Finance should be required to personally assume the responsibility for certifying in writing that the projects taken to the board meet legislatively approved scope and cost.
- The State Controller should be required to provide a written quarterly fund status report to the board.
- The composition of the board should be changed by removing the Director of General Services and adding the Director of Housing and Community Development.
- All administrative staff to the board should be located within the Department of Finance. In our review of the Real Estate Services Division, the Department of General Services (Item 1760-001-666 of the *Analysis*), we have recommended that this responsibility be transferred to the Department of Finance.
- The Legislature should provide clear direction on the scope and cost of each approved project. This can be accomplished through the budget act and by adopting supplemental report language.

Many of these changes could be made administratively. In the past, however, relying on administrative changes has not been successful. Consequently, we recommend that these changes, where appropriate, be made through specific legislation or Budget Act language.

C. COURT DECISIONS OVERTURN LEGISLATIVE ACTIONS

How Can the Legislature Protect Its Policy and Funding Decisions From Being Overturned by the Courts?

Recent Court Decisions Have Reduced Budget Savings

Over the last two years, estimates of General Fund revenues have been repeatedly reduced as the recession took its toll on the state's economy. Budgets, which initially were balanced were, by midyear, in deficit. In an attempt to keep the state solvent, the Legislature was forced to adopt numerous program reductions and reforms in the course of the fiscal year. Similarly, the state's deteriorating fiscal condition required the Legislature to make major reductions in baseline expenditures in preparing the annual budgets for 1981-82 and 1982-83.

Some of the anticipated savings from these legislative actions have been delayed, changed or reversed by the courts. Table 80 shows that during 1982-83, court decisions issued since legislative action on the 1982 Budget Act was completed have increased General Fund costs by \$400 million, and reduced revenues by \$31 million, *for a total negative impact on the state's General Fund of \$431 million*. In 1983-84, these decisions will increase General Fund costs by \$197 million.

Thus, as a result of the court's actions, even deeper reductions in other program areas will be necessary to keep the budget in balance.

Medi-Cal. The program area most affected by court decisions during the current year is Medi-Cal. Seven decisions will increase 1982-83 costs under the Medi-Cal program by \$202.5 million. The one with the largest

fiscal impact, handed down in the case *California Hospital Association v. Department of Health Services*, overturned the 6 percent cap imposed by AB 251 (Chapter 102, Statutes of 1981) on the increase in reimbursements for hospital inpatient services.

Three other court decisions have also thwarted the Legislature's effort to reduce the cost of the Medi-Cal program. In *Jeneski v. Myers*, for example, a superior court delayed implementation of drug formulary controls imposed by the Legislature in AB 799 (Chapter 328, Statutes of 1982), one of the Medi-Cal reform bills. Ultimately, the controls were implemented as provided in the legislation. The delay, however, increased General Fund costs by \$6.4 million in the current fiscal year.

A court decision in the *Turner v. Woods* case has increased General Fund costs under both AFDC and Medi-Cal. SB 1X (Statutes of 1981) specified that the standard work expense deduction shall be in lieu of mandatory deductions, such as federal and state taxes, when calculating income for purposes of determining AFDC grants. To the extent that AFDC recipients were no longer qualified for aid as a result of this factor, Medi-Cal caseloads would also decline. In July 1982, a U.S. District Court ruled that this treatment of income deductions violated federal law. As a result, \$14.1 million of anticipated General Fund savings will not be realized during 1982-83.

PERS Contributions. On February 9, 1983, the court of appeals, in deciding *Valdes v. Cory* overturned Ch. 115/1982, which withheld state employer payments to PERS during the last three months of 1981-82. This decision adds \$177.1 million to the current-year General Fund deficit. Other court decisions, unrelated to recent budget reforms, have had an impact on the General Fund condition. For example:

Principal Insurance Office Deduction. A recent appellate court decision overturned the Board of Equalization's interpretation of when the insurance tax principal office deduction was terminated. In June 1976, the voters adopted a constitutional amendment which repealed this deduction. A companion statutory measure, which took effect almost seven months later, also repealed this deduction. The court ruled, in effect, that the effective date of the statutory measure prevailed. As a result, insurance companies were able to claim this deduction for one additional year, and the state had to pay back \$31 million to these insurance companies.

Destruction of Arrest Records. A superior court decision, in the case of *Hooper v. Deukmejian*, essentially voided the self-financing mechanism which the Legislature established in 1975 for the destruction of pre-1976 marijuana arrest records. As a result, the General Fund will have to bear the costs for this program, which are estimated at \$1.4 million in 1983-84, and \$5.6 million over a four-year period.

Number of Appeals Heard by Courts Likely to Increase

The large number of adverse court decisions on budgetary issues have two important implications for legislative control and priority setting. First, these decisions reflect the increasing difficulties that the Legislature is having in setting priorities through the budget and making its priorities stick during the course of the year. Second, these decisions make it difficult for the Legislature to control expenditures so as to keep the state's budget in balance.

The two problems reinforce each other. To the extent the courts do not allow the Legislature to cut low priority expenditures, the Legislature must reduce higher priority expenditures.

Table 80
Increased General Fund Costs/Revenue Losses
Due to Court Decisions and Settlements
1982-83 and 1983-84
(in millions)

	1982-83	1983-84
I. Medi-Cal		
1. <i>California Hospital Association v. Department of Health Services</i> —6 percent hospital reimbursement cap (AB 251)	\$175.6	\$139.0
2. <i>Jeneski v. Myers</i> —drug formulary (AB 799)	6.4	—
3. <i>Richardson v. Myers</i> —nonemergency medical transportation (AB 799)	3.7	3.7
4. <i>Minor v. Myers</i> —maintenance need levels (AB 799)	5.3	16.3
5. <i>Turner v. Woods</i> —AFDC income deductions (SB 1x)	3.2	6.2
6. <i>Beltran v. Myers</i> —property transfers	6.5	11.0
7. <i>Ramos v. Myers</i> —beneficiary notification	1.4	1.4
8. Other cases	0.4	0.1
Subtotal, Medi-Cal	\$202.5	\$177.7
II. Welfare		
1. <i>Turner v. Woods</i> —AFDC income deductions (SB 1x)	\$10.9	\$13.3
2. <i>Lowry v. Woods</i> —costs of child care provided by household members not on AFDC	3.4	1.2
3. <i>Seibert v. Woods</i> —AFDC emergency shelter costs	0.2	0.4
4. <i>Green v. Obledo</i> —elimination of maximum limit on work-related transportation expenses for AFDC recipients	5.6	—
5. <i>Farias v. Woods</i> —placement of foster children with nonparent relations	0.4	2.8
Subtotal, Welfare	\$20.5	\$17.7
III. Attorney General		
1. <i>Hooper v. Deukmejian</i> —destruction of marijuana arrest records	—	\$1.4
IV. Insurance Tax		
1. <i>California Compensation and Fire Company v. Board of Equalization</i> —timing of elimination of the principal office deduction	\$31.0	—
V. PERS		
1. <i>Valdes v. Cory</i> —overturned the transfer of surplus reserve funds which were to replace General Fund	\$177.1	—
Totals	\$431.1	\$196.8

Actions to Minimize Adverse Court Decisions

The Legislature could take several steps to minimize the potential for the courts to overturn legislative decisions and thus ensure that the state's expenditure program reflects *its* priorities. These steps include:

1. Defining more explicitly legislative intent in proposed statutes. Legislation containing general intent provisions and measures which delegate policy decisions to the administrative agencies leave more room for the courts to decide how acts of the Legislature should be implemented.
2. Reviewing the procedural requirements which administrative agencies must follow when implementing new statutes. Many of these requirements are designed to prevent precipitative action by administrative agencies. These same restrictions, however, impede the rapid implementation of legislative decisions and thus thwart legislative intent.

Recommendation

Court decisions are playing a bigger and bigger role in determining how—and how much—funds are spent by the state. Traditionally, this has been one of the most zealously guarded powers of the Legislature. *As a result, we recommend that the fiscal committees of both houses hold oversight hearings on how the process for enacting and implementing legislation can be improved so as to prevent the courts from overturning legislative spending and policy decisions.*

D. THE NEED FOR BETTER BUDGET INFORMATION

How Can the Legislature Improve the Fiscal Information On Which It Is So Heavily Dependent?

Our review of the fiscal information which traditionally has been presented to the Legislature indicates the need for improvements in the timing, accuracy and comprehensiveness of this information. We believe that improvements are necessary and achievable in four specific areas:

- (1) The preparation and reporting of *General Fund fiscal forecasts*;
- (2) The updating of *revenue estimates for special funds*;
- (3) The timely updating and accuracy of budget data in the *California Fiscal Information System (CFIS)*; and
- (4) The development and updating of information on *state personnel-years*.

1. Improvements in Fiscal Forecasts

We recommend that the Legislature enact legislation requiring the Department of Finance to include specific information in its fiscal forecasts, and to present these forecasts on four separate occasions during each fiscal year.

We believe that the state's current approach to fiscal forecasting has a number of limitations. These shortcomings become especially important when the state is operating close to the "fiscal margin" (that is, without a large General Fund surplus or reserve).

In our opinion, the single most important objective of fiscal forecasting is to provide the administration and the Legislature with the most *current* and *accurate* picture possible of the state's fiscal situation. Only then can the Legislature make informed decisions regarding the budget. The forecasting process should, in a sense, be "built around" the state's budget process, and should provide updated information precisely when the Legislature is making key budgetary decisions. In this way, fiscal forecasting can alert the Legislature promptly to the frequent and often unexpected changes in factors affecting state revenues and expenditures. These factors include new economic developments, revisions in existing economic data which change the economic outlook for the future, updated state revenue and expenditure information, and changes in federal government spending plans.

To achieve this objective, we believe that it is necessary for the Department of Finance to:

- Present *additional estimates* of revenues, expenditures, and the General Fund condition at *specified points in time*;
- Regularly prepare, in addition to the current-year and budget-year

fiscal estimates, *forecasts for the four-year period* following the budget year;

- Develop these forecasts in an *appropriate amount of detail*, including an itemization of specific *economic assumptions* and possible *error margins*; and
- Submit similar fiscal estimates for *alternative economic assumptions*, for the purpose of showing the *sensitivity* of the state's projected fiscal outlook to differing economic developments.

In some of these areas, the department already has taken steps to improve its reporting. During 1982, for example, it provided revised General Fund fiscal estimates in March and November, in addition to the normal May revision. In other areas, however, improvements are still needed. For example, the Governor's Budget for 1983-84 provides no long-term fiscal perspectives. There is no forecast of revenues beyond the budget year, nor any information on how projected expenditure trends beyond the budget year relate to projected trends for revenues.

To remedy these deficiencies in the forecasting process, we recommend that the Legislature enact legislation requiring the department to produce the four categories of information listed above. Specifically, we believe that legislation should be enacted containing the following provisions:

Timing of Forecast Revisions. In addition to the regular January and May estimates, the Department of Finance should provide fiscal forecasts at three other points in time: (a) in *early March* (when new data pertaining to the national economy and the federal budget are available); (b) in *early August* (following legislative and executive action on the budget, after state ballot measures have been decided in the primary election, and prior to legislative action on fiscal legislation; and (c) in *November* (after the books have been officially closed on the preceding fiscal year, so that the surplus estimates can be adjusted for revenue and expenditure revisions and fiscal legislation). These additional forecasts would not necessarily require the preparation of estimates from the "ground up", as is done for the January and May forecasts. In many cases, the Legislature's needs could be met if Finance simply provided *updates*, reflecting only the most relevant adjustments to the basic estimates. For example, the March update could selectively incorporate such factors as the effects on various state programs of changes in the proposed federal budget, cash flow developments, and new or revised economic data.

Causes for Revisions in Fiscal Forecasts. The Department of Finance should routinely prepare and publish an itemized list of the factors responsible for any change in the estimated year-end General Fund balance. Specifically, this report would *separately* identify any changes to the surplus estimates resulting from the following factors: changing economic conditions (including explicit reference to the forecasts for specific economic variables); changes in the underlying relationships between tax collections and economic conditions; cash-flow patterns in both the revenue and expenditure areas; actions by the Legislature; actions by the executive branch; actions by the judicial branch; and changing participation rates in entitlement programs.

This report would provide data similar to information currently published by the Office of Management and Budget, the Congressional Budget Office, and the Office of Tax Analysis (U.S. Department of Treasury) in their reports on federal government expenditures and revenues.

(See for example, *A Review of the Accuracy of Treasury Revenue Forecasts, 1963-1978*, Congressional Budget Office, U.S. Congress, February 1981.)

The Degree of Uncertainty Surrounding Fiscal Estimates. The Department of Finance should routinely provide the Legislature with more complete information about the degree of uncertainty surrounding its fiscal estimates. This might include providing estimates of the range within which the year-end General Fund balance will most likely fall, given economic forecasting uncertainties and error margins associated with the particular statistical estimating techniques being employed. It should also include information on the sensitivity of surplus estimates to changes in the rates of inflation, employment growth, and personal income growth, as well as to the approval of pending ballot measures and major financial legislation.

Alternative Fiscal Forecasts. The department should regularly prepare fiscal estimates, particularly for revenues, based on the economic scenarios envisioned by various *other* forecasters. These other forecasters could include the major California banks, leading econometric models (e.g., Chase Econometrics, Data Resources, and UCLA), and the federal authorities (e.g., Office of Management and Budget, Council of Economic Advisors, and Congressional Budget Office). The effect of "less likely" although still "realistically possible" economic scenarios should also be considered. One such possible scenario might be a recession which, although not actually predicted by any individual forecaster, is felt by many forecasters to have at least a 30 percent chance of occurring.

We believe that these steps would significantly improve the fiscal forecasting process in California and the ability of the Legislature to make informed decisions regarding the budget.

2. Special Funds Revenue Estimates

We recommend that legislation be enacted to require the Department of Finance to present updated estimates of major special funds revenues concurrent with the presentation of updates for General Fund revenues during the fiscal year.

In past years, the Department of Finance has generally provided a comprehensive estimate of special funds revenues only once a year—in January, as part of the Governor's Budget. As discussed in Part II, however, special funds revenues have played an important role in financing the General Fund budget in 1981-82, 1982-83, and 1983-84. Especially important has been the use of monies from two sources—the Motor Vehicle License Fee Account in the State Transportation Fund, and tidelands oil revenues. Because of this increased reliance on special funds revenues to help solve General Fund budget problems, and the fact that special funds revenue estimates are subject to the same forecasting errors as are General Fund revenue estimates, special funds revenue estimates for the major sources should be updated frequently.

Accordingly, we recommend that the department be statutorily required to present updates of the major special funds revenues several times each year. These revisions should be made at the same time that the department's General Fund revenue revisions are made. By having more timely estimates of special funds revenues, the Legislature will be in a better position to make decisions regarding the overall funding of state expenditures.

3. The California Fiscal Information System Needs Timely Budget Data

The California Fiscal Information System (CFIS) is intended to (a) provide a centralized fiscal and program data base for forecasting, modeling, and revenue monitoring of the state's budget, and (b) improve the availability of state expenditure and program performance data. In attempting to utilize CFIS, we have found three areas where improvement of the system could lead to better and more accurate information on which to base legislative policy decisions. They are (a) the timely updating of expenditure data, (b) the timely updating of the legislative information system, and (c) the presentation of summary by object data in a format which reflects the source of funds.

a. Budget Information

We recommend that supplemental report language be adopted directing the Department of Finance to update CFIS General Fund and special fund budget data for the prior year, current year, and budget year immediately following published revisions of expenditure data by the Department of Finance in May and November.

Budget data contained in CFIS could be used for two distinct purposes: analysis of historical trends in state expenditures and analysis of current-year and budget-year expenditures. Unfortunately, the data contained in CFIS are not updated during the fiscal year to reflect revisions in expenditure data published by the Department of Finance, or to reflect legislative action on the budget or other legislation. Due to these problems, CFIS is not capable of providing assistance in questions involving an up-to-date analysis of expenditures, which is one of the primary reasons the Legislature authorized the system in the first place. Accordingly, we recommend adoption of the following supplemental report language:

"The Department of Finance shall update CFIS General Fund and special fund budget data for the prior year, current year and budget year (when applicable), immediately following published revisions of expenditure data in May and November."

b. Legislative Information System

The CFIS Legislative Information System (LIS) is designed to produce up-to-date information on the location and fiscal effect of all legislation. Until recently, this system worked independently of the legislative tracking system used by the Department of Finance to prepare its annual financial legislation report. As a result of maintaining two parallel, yet distinct systems, fiscal estimates for legislation in one system often differ from the estimates entered in the other. The reconciliation of these two systems is a time-consuming process, and prevents the Legislature and the executive branch from relying on LIS for accurate up-to-date information.

Recently, the Department of Finance has taken steps to integrate these two systems as a means of avoiding the reconciliation problem and providing more accurate information on the fiscal effects of legislation.

Our analysis of the LIS, however, indicates that there is another problem which the system integration project will not resolve. Entries to the system often lag two to three days behind actions taken by the Legislature. This again results in the inability of the Legislature to rely on LIS for

accurate, up-to-date information, particularly toward the end of the session. Accordingly, *we recommend that the Department of Finance act to insure the timeliness of information contained in the CFIS Legislative Information System.*

c. Summary by Object, by Fund Source

We recommend that supplemental report language be adopted directing the Department of Finance to include in CFIS expenditure data a summary by object schedule, categorized by funding source.

The Governor's Budget contains a schedule of expenditures, summarized by object, for each item. The schedule details operating expense and equipment expenditures, such as travel, data processing, and consultant services. In addition, it provides detailed information on each department's personal services, including positions, workload adjustments and salary savings. This object schedule, however, is not categorized by funding source. Thus, the system cannot be used to determine how much the *General Fund* is spending for statewide travel or consultant services—questions frequently asked by the Legislature.

It is our understanding that the Department of Finance has recently begun to categorize expenditures for operating expenses and equipment by funding source. So that the Legislature may have better information on which to base its decisions, we recommend that personal services also be categorized by funding source, and that the entire summary by object, categorized by funding source, be available on CFIS. Accordingly, we recommend the adoption of the following supplemental report language:

"The Department of Finance shall include, in CFIS expenditure data, a schedule categorizing objects of expenditure, including personal services, by funding source."

4. More Information Needed on State Personnel-Years

We recommend the adoption of a new control section in the 1983 Budget Act requiring the Department of Finance to publish the total number of personnel-years and estimated salary savings for each department and agency periodically during the year.

As we discuss in Part I of this document, the Legislature encounters great difficulty in tracking the number of state employees during the budget year. Once the Governor proposes his budget, there are four ways in which the proposed number of state personnel-years may be changed. First, the Governor may amend his proposal through the submission of a Department of Finance budget amendment letter. As a result, the number of state employees (personnel-years) proposed by the Governor invariably will differ from the number shown in the printed budget document. For example, our analysis indicates that the previous Governor submitted amendment letters to his original 1982-83 budget which increased the proposed number of personnel-years by 1,152.

Second, the Legislature may alter the number of personnel-years through its actions on the state budget. In 1982-83, for example, the Legislature reduced the number of personnel-years requested by the Governor by 1,505.

Third, after the Budget Bill is adopted, the executive branch may make changes in the number of state personnel by administratively establishing positions without legislative review. In most cases, the Department of

Finance will notify the Joint Legislative Budget Committee of these changes. This is not true, however, of all administratively established positions.

Finally, changes in employment will occur naturally due to vacant positions, leaves of absences, and delays in filling new positions. Because these vacancy factors are reflected in estimates of salary savings in the original Governor's Budget, the total number of personnel-years is affected only by the difference between these estimates and the actual level of salary savings realized.

Table 81
Changes in Personnel-Years
From Proposed Amounts to Actual Levels
1980-81 to 1982-83

	1980-81	1981-82	1982-83
Governor's Proposal ^a	221,117.8	226,743.3	231,375.3
Budget As Enacted ^b	221,158.0	225,984.0	231,022.3
Difference	40.2	-759.3	-353.0
Midyear Revision ^a	226,473.3	229,099.5	233,386.7
Change from Budget as Enacted	5,315.3	3,115.3	2,364.4
Actual ^a	225,567.4	228,813.4	— ^c
Change from Budget as Proposed.....	4,449.6	2,070.1	— ^c
Change from Budget as Enacted	4,409.4	2,829.4	— ^c
Change from Midyear Revision	-905.9	-286.1	— ^c

^a Source: Governor's Budgets.

^b Source: Department of Finance.

^c 1982-83 actual will not be available until the submission of the Governor's 1984-85 Budget.

Table 81 compares the number of personnel-years originally approved by the Legislature with the *actual* number of personnel-years, for the last two years. It also shows the number approved by the Legislature and mid-year estimate for the current year. In each year, the actual number (midyear revision) is significantly higher than the number approved by the Legislature. For example, in 1981-82, actual personnel-years were 2,829 higher than the number approved. Part of this difference may be due to the effects of legislation enacted after the budget. The major portion of the increase, however, is attributable to administratively established positions and to revisions in salary savings estimates. The magnitude of these subsequent changes may indicate that the administration has more flexibility over the number of state employees than the Legislature intends.

To facilitate greater legislative control over the number of state employees, we recommend the establishment of a Control Section to require publication of an updated estimate of the total number of personnel-years four times during each fiscal year. This recommendation, along with proposed language, is also discussed in our analysis of general control sections (please see the concluding section of the *Analysis* "Analysis and Recommendations with Respect to General Control Sections".)

VI. EMERGING ISSUES

A. THE IMPACT OF REFUGEES ON CALIFORNIA

How Is the Influx of Refugees Affecting the State's Budget?

During the last few years, California has experienced a significant influx of refugees from around the world. Although since the end of the Vietnam war the majority of the refugees have come from Indochina, others have come from such diverse places as Cuba, Africa, and the Soviet Union. The large influx of refugees has led to considerable additional pressure on state and local resources and services, particularly medical services, cash assistance, education, and social services, as discussed below.

California has not been able to exert much control over the influx of refugees or the resulting impact of this influx on state and local programs and expenditures because immigration quotas and placement arrangements reflect decisions made by the federal government. In addition, the federal government limits the amount of funds it makes available for the support of refugees.

California's Disproportionate Share of Refugees

According to estimates prepared by the Department of Finance (DOF), as of October 1982 there were a total of 297,000 refugees living in California. Of this total, 230,000, or 77 percent, were Indochinese refugees; 54,000, or 18 percent, were non-Indochinese refugees; and 15,000, or 5 percent, were Cuban/Haitian entrants who did not have refugee status.

As regards the Indochinese refugees, California has a disproportionate share of the total residing in the United States. For example:

- California's Indochinese refugee population is larger than that of the eight states with the next largest Indochinese refugee populations combined.
- California has more Indochinese refugees per capita than any other state, and twice as many as Texas, which has the second highest per capita concentration of this immigrant group.
- There are more Indochinese refugees living in Los Angeles County than in any state in the union, and more in Orange County than in any state except Texas.

Within California, Indochinese refugees are concentrated in a few counties. Eighty-two percent of the Indochinese refugees live in the five counties of San Francisco, Orange, Santa Clara, San Diego, and Los Angeles, yet these counties make up only 56 percent of the state's total population.

Federal Support of Refugees

Federal policy recognizes that many refugees will require specialized services and support upon their arrival in this country and for a period of time to follow. These services include cash and medical assistance, social services, and educational assistance. Cash assistance consists of cash grants provided through various programs, such as Aid to Families with Dependent Children (AFDC). Medical assistance includes medical care provided through the Medi-Cal program. There are a wide range of social services available to refugees, including In-Home Supportive Services and child welfare services. Educational services encompass such programs as bilingual education and community and social orientation.

Table 82 shows the amount of federal funds budgeted for support of

services provided to refugees in 1982-83 and 1983-84. As the table shows, federal support of \$374.6 million is anticipated for services to refugees in 1983-84. This is \$30.8 million, or 7.6 percent, *less* than current-year federal expenditures. This decrease reflects a reduction in the number of refugees on aid who are eligible for 100 percent federal funding.

Table 82
Federal Funds for Support of Refugees
1982-83 and 1983-84
(in thousands)

	<i>Estimated</i> 1982-83	<i>Proposed</i> 1983-84	<i>Change</i>	
			<i>Amount</i>	<i>Percent</i>
Cash and Medical Assistance	\$380,051 ^a	\$349,634 ^a	-\$30,417	-8.0%
Social Services	17,700	17,300	-400	-2.3
Education	7,710	7,715	5	0.1
Totals	\$405,461	\$374,649	-\$30,812	-7.6%

^a Does not include the federal costs of medical assistance for refugees who have been in this country for 36 months or more.

Federal Funds for Cash and Medical Assistance are Limited

The amount of federal funds available for the cash and medical assistance costs of a refugee depends on the length of time the refugee has been in this country. The federal government pays 100 percent of these costs for refugees who have been in this country for less than 36 months (referred to as "time-eligible"). The federal government, however, pays only a part of the cash and medical assistance costs of refugees who have been in this country 36 months or longer (referred to as "time-expired").

Cash assistance is available to time-eligible and time-expired refugees through the following programs:

- ***Aid to Families with Dependent Children (AFDC).*** The AFDC program provides cash grants to children and their parents or guardians whose income is insufficient to meet their basic needs. Eligibility is limited to families with children who are needy due to the death, incapacity, or continued absence or unemployment of the parents or guardians.
- ***Supplemental Security Income/State Supplementary Payment (SSI/SSP).*** The SSI/SSP program is a federally-administered program which is jointly funded by the federal and state governments, under which needy and eligible aged, blind, and disabled persons receive financial assistance.
- ***Refugee Cash Assistance (RCA).*** The Refugee Cash Assistance program provides cash grants to refugees who meet the income and need requirements of the AFDC program but who are ineligible for AFDC payments due to household composition (for example, the family has no absent or incapacitated parent). Only time-eligible refugees qualify for this program.
- ***County General Assistance.*** Needy California residents, including refugees, may receive aid through county general assistance programs. Eligibility criteria for these programs are established by each county.

Table 83 shows the number of time-eligible and time-expired refugees receiving aid in 1982-83 and 1983-84, under each of California's four cash assistance programs.

Table 83
Refugees Receiving Aid
Time-Eligible and Time-Expired
1982-83 and 1983-84

	1982-83	1983-84	Change	
			Amount	Percent
Time-Eligible:				
AFDC	96,576	73,567	-23,009	-23.8%
SSI/SSP	8,074	5,986	-2,088	-25.9
Refugee Cash Assistance	15,595	12,042	-3,553	-22.8
General Assistance	5,895	3,983	-1,912	-32.4
Subtotals	126,140	95,578	-30,562	-24.2%
Time-Expired:				
AFDC	32,392	68,692	36,300	112.1%
SSI/SSP	2,637	5,882	3,245	123.1
General Assistance	3,114	7,282	4,168	133.9
Subtotal	38,143	81,856	43,713	114.6%
Totals	164,283	177,434	13,151	8.0%

Table 83 shows that:

- Approximately 177,400 refugees will receive some form of cash assistance in 1983-84. This is an 8.0 percent increase over the number of refugees receiving assistance in the current year.
- Of the 177,400 refugees on aid, approximately 142,300 (73,600 time-eligible and 68,700 time-expired) are receiving AFDC payments. As a result, refugees will make up 8.9 percent of the state's total AFDC caseload (1,601,459) in 1983-84.
- The number of refugees who are eligible for 100 percent federal funding will decrease in 1983-84, as increasing numbers of refugees reach their 36th month in this country. Accordingly, the number of time-expired refugees will increase significantly—by 115 percent—between 1982-83 and 1983-84.

Fiscal Impact on California of Limited Federal Funds

As a result of the 36-month time limit on federal funds, state and local costs for cash assistance will increase significantly between 1982-83 and 1983-84. Table 84 shows the costs of cash assistance provided to time-expired refugees in the current and budget years. The table shows that:

- General Fund costs for cash assistance to time-expired refugees will total \$60.9 million in 1983-84, an increase of \$31.3 million, or 106 percent above the current year.
- County costs will total \$26.3 million in 1983-84, an increase of 126 percent over 1982-83.

The expenditures shown in Table 84 understate the total costs to the state and local governments because it does not include the cost of medical assistance provided to time-expired refugees. Because of the time limit on 100 percent federal funding, state and county costs will continue to increase in 1984-85 and beyond.

Table 84
Costs of Cash Assistance
For Time-Expired Refugees
1982-83 and 1983-84
(in thousands)

Program/Funding Source	Estimated 1982-83	Proposed 1983-84	Change	
			Amount	Percent
1. AFDC ^a				
a. General Fund.....	\$23,714	\$48,972	\$25,258	106.5%
b. County Funds	6,235	13,574	7,339	117.7
c. Federal Funds	25,829	56,215	30,386	117.6
Subtotals, AFDC.....	\$55,778	\$118,761	\$62,983	112.9%
2. SSI/SSP				
a. General Fund.....	\$5,874	\$11,903	\$6,029	102.6%
b. Federal Funds	7,865	18,758	10,893	138.5
Subtotals, SSI/SSP	\$13,739	\$30,661	\$16,922	123.2%
3. General Assistance County funds.....	\$5,437	\$12,753	\$7,316	134.6%
Totals.....	\$74,954	\$162,175	\$87,221	116.4%
General Fund.....	\$29,588	\$60,875	\$31,287	105.7%
County Funds.....	\$11,672	\$26,327	\$14,655	125.6%
Federal Funds	\$33,694	\$74,973	\$41,279	122.5%

^a Includes grant and administrative costs.

Delays in Federal Funding to Pay for Refugee Cash and Medical Assistance

California has experienced significant delays in receiving federal funds for refugees whose cash grants and medical assistance are eligible for 100 percent federal support. Each quarter, the federal government advances refugee funds to the state based on a federal projection of eligible state spending during the upcoming quarter. The first quarterly advance to California for federal fiscal year (FFY) 1982 was received on November 10, 1981—more than half way through the first quarter of FFY 82. Subsequent advances were made in a more timely fashion, but were in amounts far less than the state's actual expenditures. As of December 31, 1982, California had submitted bills to the federal government totaling \$281.4 million for cash and medical assistance for refugees during FFY 82. Of this amount, the federal government had paid \$240.5 million, or 40.9 million, less than the amount billed. California is the only state which has not yet received an allocation sufficient to meet 100 percent of estimated expenditures for FFY 82.

Thus, at a time when California is facing a cash-flow crisis that is unprecedented in modern times, it is having to make interest free loans to the federal government from the General Fund.

Whenever the federal government fails to advance refugee funds in a timely manner, the state must temporarily use General Fund monies to pay the costs of cash and medical assistance provided to time-eligible refugees. This temporarily reduces the General Fund balances available for spending for other General Fund programs or for short-term investment. We estimate that the federal delays in advancing federal funds during FFY 82 resulted in a loss of \$1.9 million in potential General Fund interest earnings.

In a letter dated November 2, 1982, the Secretary of the federal Department of Health and Human Services informed the Governor of California

that no additional funds would be granted to California for expenditures made by the state during FFY 82 until the completion of an audit of the state's claim for the remaining \$40.9 million. Normally, such audits are conducted after payments are made and any portion of the claim disallowed is repaid by the state. The Secretary's decision therefore casts some doubt as to whether the state will be fully reimbursed for costs incurred in FFY 82. Future delays, or even shortfalls, in federal funds seem likely. For example, as of December 31, 1982, California had yet to receive refugee funds adequate to pay for estimated spending during the first quarter of FFY 83.

There is nothing that the Legislature can do either to limit the number of refugees for which it bears a financial responsibility, or require the federal government to provide funds on a timely basis on behalf of those for which it is responsible. In our analysis of the State Supplementary Payment (SSP) Program (*Item 5180-111-001*), we recommend adoption of Budget Bill language requiring that General Fund monies not be expended when the federal government fails to advance sufficient refugee funds on a timely basis.

B. WORK FOR BENEFIT PROGRAMS

Does "Workfare" Offer a Means to Increase Welfare Recipients' Earnings and Employment or Reduce State Costs?

Introduction

Work-for-benefit programs (referred to as workfare) require employable public assistance recipients to perform public service work without pay as a condition of eligibility for assistance. The purposes of such programs are many—to provide needed public services to the community, to provide on-the-job training and work experience for public assistance recipients, and to reduce the cost of welfare by enhancing the employability and earning power of recipients and by discouraging employable individuals from seeking assistance in the first place.

Workfare programs have existed in a number of states for over forty years. State and local agencies providing general relief to indigents have often required recipients to provide labor to public agencies as a condition of receiving cash assistance. Until recently, however, federal law prohibited establishment of workfare requirements for recipients of Aid to Families with Dependent Children (AFDC) or food stamps.

In 1971, Congress authorized demonstration projects for AFDC workfare. Several states, including California, established workfare programs under this authority. California's program, known as the Community Work Experience Program (CWEP), operated in 35 counties from 1972 to 1975. The Food Stamp Act of 1977 authorized local jurisdictions to operate food stamp workfare demonstration projects. Seven projects were established nationwide between July 1979 and November 1980, and an additional 14 projects, including one in San Diego County, were implemented in January 1981.

In 1981, Congress expanded its previous authorization and enacted legislation allowing states, at their option, to establish *statewide* workfare programs. The Omnibus Budget Reconciliation Act of 1981 (P.L. 97-35) permits states to establish workfare programs for recipients of AFDC. This program, like California's 1972-75 effort, is known as the Community

Table 85
Comparison of Program Structure
WIN and CWEP (AFDC Workfare)

	<i>WIN</i>	<i>CWEP</i>
A. State Participation	Mandatory	Optional
B. Program Scope	Statewide or selected areas. 41 counties currently participate.	Statewide or selected areas.
C. Client Participation	Mandatory for all AFDC recipients and applicants in participating counties. <i>Exemptions:</i> 1. Clients under age 16, over age 64. 2. Clients age 16 to 19, if attending high school or secondary vocational education. 3. Clients who are ill or disabled. 4. Clients who are caring for an incapacitated member of the household. 5. Parents of children under age 6 who provide full-time care. 6. Clients who work at least 30 hours per week in unsubsidized employment. 7. Clients who are geographically remote from a WIN site.	Mandatory for AFDC recipients only in participating counties. <i>Exemptions:</i> 1. Same. 2. Same. 3. Same. 4. Same. 5. Parents of children age 3 or under or under age 6 if no child care is available. 6. Clients who work at least 80 hours per month and earn at least minimum wage. 7. Clients for whom AFDC grants would be less than \$10 per month.
D. Client Responsibilities/ Available Services	Nonexempt participants must register for work, conduct a job search and accept suitable employment. Available services include job search assistance, on-the-job training (OJT), work experience, public service employment (PSE), and child care.	Nonexempt participants must work off AFDC benefits by providing public service work to a public or private nonprofit agency. Maximum monthly hours equal to monthly family grant divided by minimum wage. Federal law does not require states to provide any training or supportive services.
E. Wages/Benefits	<i>Wages:</i> Participants enrolled in OJT or PSE must receive at least minimum wage. If income disregard is not available, monthly wages must be at least as much as the monthly AFDC grant the participant would be entitled to receive. <i>Other Benefits:</i> Job search expenses, work experience and training allowance (up to \$30 per month), and relocation assistance.	<i>Wages:</i> None. <i>Other Benefits:</i> Client expenses (such as transportation and child care), up to \$25 per month, and worker's compensation.
F. Noncompliance: Sanctions/Definitions	<i>Noncompliance:</i> Refusal to register or to accept suitable employment. <i>Sanction:</i> Loss of parent's share of AFDC grant for 3 months (first occurrence) or 6 months (subsequent occurrences).	<i>Noncompliance:</i> Refusal to interview or to accept work assignment. <i>Sanction:</i> Same as WIN.
G. Funding	Federal funds cover 90 percent of program costs, including training, supervision, materials, administration, day care, and transportation. No federal funds for participant wages (except PSE).	Federal funds cover 50 percent of AFDC administrative and participant reimbursement costs (up to \$25 per month). No federal funds for capital outlay, equipment, materials, or supervision of participants.

Work Experience Program (CWEP). (Hereafter, CWEP denotes the national program, unless otherwise indicated.) In addition, the Food Stamp and Commodity Distribution Amendments of 1981 (P.L. 97-98) authorizes states to establish workfare programs as a component of the Food Stamp program.

Through 1982, 23 states had established workfare programs authorized by P.L. 97-35 in at least one county. Six of these states—Idaho, Ohio, Oklahoma, West Virginia, Vermont, and Iowa—have chosen to establish the program statewide. In California, one county—San Diego—has established a CWEP demonstration project (September 1982) in conjunction with its state-funded Employment Preparation Program (EPP). (EPP provides job-search assistance and supportive services to AFDC applicants and recipients in selected counties throughout the state.)

Structure of Current Work Programs and Workfare Programs

The federal government currently requires the state to participate in two work programs for public assistance recipients. The Work Incentive (WIN) program provides job-search assistance, training, and supportive services to AFDC recipients and applicants, within the limits of the funding available. As a result, not all eligible clients receive employment-related services. The Food Stamp Recipient Registration program provides job-search assistance to food stamp recipients.

Table 85 displays the current structure of WIN, and compares it to the structure of the optional AFDC workfare program, CWEP. The most significant differences between WIN and CWEP are as follows:

- State participation in WIN is mandatory; CWEP is a state option.
- Nonexempt participants in WIN are required to register for work and accept suitable employment; those in CWEP are required to work without pay as a condition of eligibility.
- Federal funds cover 90 percent of WIN services, including training and supportive costs; federal funds cover 50 percent of CWEP administrative costs and participant costs of up to \$25 per month, but do not cover training, supportive services, or supervision.

Table 86 shows the current structure of the Food Stamp Recipient Registration program and compares it to the structure of Food Stamp workfare. Food Stamp workfare is similar to CWEP because (1) it is an optional program, (2) it requires participants to work for their food stamp benefits, and (3) the federal government supports 50 percent of the program's administrative expenses.

Issues in Designing Workfare Programs

If the Legislature elects to establish either CWEP or Food Stamp workfare, it will be faced with a number of choices regarding the design of the programs. While federal regulations establish various requirements for client participation, work requirements, services, and funding of these programs (see Tables 85 and 86), the state retains some legislative and administrative flexibility, as summarized below.

Program Scope. The state may select participating counties for CWEP, although county cooperation is a practical prerequisite for successful implementation. Counties may establish their own Food Stamp workfare programs independent of the state.

Table 86
Comparison of Program Structure
Food Stamp Registration and Food Stamp Workfare

	<i>Food Stamp Registration Program</i>	<i>Food Stamp Workfare</i>
A. State Participation	Mandatory.	Optional.
B. Program Scope	Statewide or selected areas. 14 counties in California currently participate.	Statewide or selected areas. Local jurisdictions may establish program without state initiative.
C. Client Participation	<p>Mandatory for all Food Stamp recipients in participating counties</p> <p><i>Exemptions:</i></p> <ol style="list-style-type: none"> 1. Clients under age 18 or over age 59. 2. Students enrolled at least one-half time in school, training programs, or higher education. 3. Unemployable due to physical or mental disability. 4. Parent of child under age 6, or between ages 6 and 12 if no child care is available, or between ages 12 and 18 if another parent is registered for work or employed. 5. Caretakers of incapacitated persons. 6. Clients working at least 30 hours per week, or earning at least \$100.50 per week. 7. Regular participants in drug addiction or alcohol rehabilitation program. 8. AFDC recipients participating in WIN. 9. Clients receiving unemployment compensation benefits. 	<p>Mandatory for all Food stamp recipients in participating counties.</p> <p><i>Exemptions:</i></p> <ol style="list-style-type: none"> 1. Same. 2. Same. 3. Same. 4. Same. 5. Same. 6. Same. 7. Same. 8. Same unless client is enrolled in WIN training less than 20 hours per week.
D. Client Responsibilities/ Available Services	Nonexempt participants must register for work, conduct a job search, and accept suitable employment. Services are limited to job search assistance.	Nonexempt participants must work off food stamp benefits by providing public service work to a public or private nonprofit agency. Maximum monthly hours equal to monthly value of food stamps divided by minimum wage. Total hours, including CWEP hours, may not exceed 30 hours per week.
E. Wages	N/A. No training or employment services provided.	None.
F. Noncompliance: Sanctions/Definitions	<p><i>Noncompliance:</i> Refusal to register for work or accept suitable employment.</p> <p><i>Sanction:</i> Loss of entire household's food stamps for 2 months</p> <p>100% federally funded.</p>	<p><i>Noncompliance:</i> Refusal to interview or to accept work assignment. Any eligible household member may complete the work obligation of another member.</p> <p><i>Sanction:</i> Same.</p> <p>Federal funds cover 50 percent of administrative costs, including transportation and participant expenses (up to \$25 per month). No federal funds for site equipment, training, materials, or supervision of participants.</p>
G. Funding		

Client Participation. State flexibility is limited to the exemption of clients in nonparticipating counties. Federal law specifies requirements for participating jurisdictions.

Work Assignments. State and local governments have discretion over most types of work assignments. Federal law, however, prohibits states from assigning workfare participants to jobs which (1) displace regular agency employees, (2) involve participation in political activities, (3) require unreasonable commute distances, or (4) violate labor agreements or health and safety standards.

Training and Supportive Services. Although state and local governments can provide training and supportive services to workfare participants, federal funding is not available for these purposes.

Funding. States are required to provide a 50 percent match for the administrative costs associated with workfare programs. The state must determine the extent to which local governments will share in these costs.

Effect of Similar Funding Arrangement on California CWEP. Like the national workfare program authorized in P.L. 97-35, the California CWEP program, which operated in 35 counties from 1972 to 1975, provided no financial assistance to counties and special districts for many costs they incurred in administering the program. For example, counties were not reimbursed for their costs related to training and supervision of CWEP participants, for purchasing additional equipment, or for providing required worker's compensation coverage to CWEP participants. These costs were an important factor in many counties' refusal to participate in the program, and in other counties' decisions to delay participation.

Effectiveness of Workfare Programs

The effectiveness of workfare programs is a controversial issue. Proponents assert that workfare programs provide needed work experience and training for welfare recipients, and discourage employable recipients from applying for aid. The result, they argue, has been to enhance welfare recipients' earning power, to reduce their dependence on aid, and to reduce the cost of public assistance. Opponents of workfare have criticized the program on grounds that it is used to punish and harass welfare recipients by forcing them into performing menial tasks in make-work jobs with no training or supervision. They argue further that workfare programs do not reduce welfare caseload or expenditures.

In actual practice, workfare programs have varied considerably in their primary objective, program design, and in the attitude of program administrators toward welfare recipients. As a result, individual examples can be found to support the assertions of both workfare's proponents and its critics.

Research on workfare programs is limited, and some of the available research suffers from methodological and data collection problems. Nevertheless, a discussion of the available literature on workfare may prove useful to the Legislature in considering this important policy issue. To provide a basis for such a discussion we examined evaluative research covering four workfare programs—the California Community Work Experience Program (California CWEP), the Food Stamp Workfare Demonstration Projects, the Utah Work Experience and Training Program (Utah WEAT), and the Massachusetts Work Experience Program (Massachusetts WEP)—as discussed below.

California CWEP. This program was established by the state Welfare Reform Act of 1971, and operated from 1972 to 1975 in 35 counties. The

program design was similar to the CWEP program established by P.L. 97-35. We primarily examined an evaluation of the program prepared by the Employment Development Department (EDD), dated April 1976.

Food Stamp Demonstration. We examined an evaluation of the seven Food Stamp workfare demonstration projects published by the U.S. Department of Agriculture in June 1982, as well as an evaluation of San Diego County's program published by the county's Department of Social Services in September 1982.

Utah WEAT. This program was established in 1974. All able-bodied general assistance and AFDC clients in Utah's WIN unassigned recipient pool were required to work without pay for up to 96 hours per month. We reviewed an evaluation of this program conducted by the federal Department of Health, Education and Welfare in 1978.

Massachusetts WEP. This program was established in January 1978 and operated for 15 months. Technically, it was a WIN work experience demonstration project, not a workfare program. Nevertheless, its overall program design is similar to CWEP programs. We reviewed an evaluation of the program published by Brandeis University in October 1980, under contract with the U.S. Department of Labor.

In judging the performance of these four workfare programs, we focused on findings with respect to two broad issues—the impact of workfare on participants' employability and earning power, and the impact of workfare on welfare caseloads and costs.

Impact on Participant Employability and Earnings

Of the four evaluations we examined, only two—Food Stamp Demonstrations and Massachusetts WEP—collected and analyzed data regarding program impact on participants' employability and earning power. Table 87 summarizes these research findings.

Table 87
Effectiveness of Selected Workfare Programs
Impact on Participant Employment and Earnings

<i>Program</i>	<i>Employment</i>	<i>Earnings</i>
A. California CWEP	No data.	No data.
B. Food Stamp Workfare Demonstration Projects	Males—significant decrease in frequency of employment compared to control group. Females—significant increase in frequency of employment compared to control group.	No significant effect on wages. Because of effects of less frequent employment, total earnings of males were \$152 less over a three-month period compared to the control group. Because of effects of more frequent employment, total earnings of females were \$186 more over a three-month period compared to a control group.
C. Utah WEAT	No data.	No data.
D. Massachusetts WEP	No statistically significant effect on employment. 63 percent of participants had entered employment within 9 months after participation, as did 57 percent of nonparticipants.	No significant effect on wages or earnings.

The effect of these two workfare programs on the participants' employ-

ability and earning power was not significant. In the first year of the Food Stamp demonstration projects, the earnings of men actually declined after leaving workfare, compared to those in control groups. Women's earnings increased slightly, due to more frequent employment, but the average wage of both men and women was unchanged. In the Massachusetts Work Experience Program, there was no significant impact on the frequency of the participants' employment compared to that for a control group, and no significant impact on average earnings.

The absence of a significant positive impact on employment and earnings is not unexpected, given that the majority of workfare programs have placed participants in low-skill jobs with minimal training and supervision. In the Food Stamp workfare program, the primary jobs held by participants were in the clerical, maintenance and groundskeeping, laundry, and child care areas. In the Massachusetts WEP, 65 percent of the jobs were of the type that required minimal skills, such as janitorial and park maintenance positions.

Impact on Welfare Caseload and Costs

Reductions in AFDC and Food Stamp caseload and benefit payment costs attributable to workfare could reflect two separate factors:

1. For nonparticipants, workfare could establish a "deterrent" effect. Employable individuals would find the work requirement unattractive, and would be discouraged from applying for aid.

2. For workfare participants, increases in employment due to enhanced vocational and job-seeking skills could result in grant termination or reduction. Also, application of sanctions for failing to comply with program requirements would result in the loss or reduction of benefits.

Deterrent Effect. The question of whether workfare deters employable individuals from seeking public assistance is largely undocumented in available research. If workfare assignments consist of menial jobs without training or supervision, then participation may in fact be unattractive. The opposite effect is also possible. If a workfare program is operated in conjunction with training programs, then applying for aid may actually become attractive for some individuals who might not apply otherwise.

Participation Rates Limit Potential Caseload Impact. Table 88 shows that the level of participation in workfare programs has been very low. For example, in 1975, 8 percent of AFDC recipients in participating counties were eligible for the California CWEP program. Of this number, however, only 2.6 percent of the participants were actually placed in work assignments. In San Diego County's Food Stamp workfare program in 1981-82, 6 percent of the county's Food Stamp heads of households were affected by workfare registration, and 38 percent of those were actually assigned to work. During a 6-month period, 5.1 percent of the AFDC caseload was subject to the Utah WEAT program, and 44 percent of these persons were assigned to work. In Massachusetts, 2.5 percent of AFDC heads of household were subject to the WEP program in a 15-month period and 13 percent of those were assigned to work.

With such low participation rates, the potential effect of workfare programs on total caseload and costs cannot be large. Even if workfare participants were more successful in finding employment than nonparticipants (which, according to these studies, they are not), the absolute number of AFDC and Food Stamp recipients going off aid or having their grants reduced would not be large in relation to the total number of AFDC and

Food Stamp recipients at any one time. Also, even though workfare programs have applied financial sanctions more frequently than work registration programs, the absolute number of persons having their grants terminated or reduced would not be large.

Table 88
Participation Rates in Selected Workfare Programs

Program	Number of Public Assistance Recipients	Recipients Eligible for Workfare		Program Participants Actually Assigned to Work	
		Number	Percent	Number	Percent
A. California CWEP (1975)	2,277,000	183,000	8.0%	5,700	2.6%
B. Food Stamp Workfare Demonstration Projects					
1. Nationally, 1979-80	13,076	5,400	41.3	1,244	23.0
2. San Diego County, 1981-82	41,845	2,505	6.0	942	37.6
C. Utah WEAT (1977)	35,500	1,804	5.1	801	44.4
D. Massachusetts WEP (1978)	125,000	3,120	2.5	400	12.8

Welfare Savings. In fact, the workfare programs we reviewed have not resulted in decreased welfare caseloads or grant payments. Table 89 shows that, in the California CWEP, participating counties actually experienced *larger* caseload increases than nonparticipating counties. Further, there was no significant difference in the average AFDC grant between participating and nonparticipating counties. In the Food Stamp demonstrations, participating females experienced an average decline of \$10 per month in Food Stamp grants, but males experienced none. The reduction

Table 89
Effectiveness of Selected Workfare Programs
Impact on Welfare Caseload and Costs

Program	Impact on Caseload	Impact on Welfare Grants
A. California CWEP	CWEP counties experienced a 7.5 percent increase in the number of AFDC applications, compared to a 1.7 percent increase in non-CWEP counties. There was no significant difference in the number of AFDC cases discontinued between CWEP and non-CWEP counties.	There was no significant difference in the average AFDC grant between CWEP and non-CWEP counties. No AFDC savings were identified, but both the state and counties incurred substantial administrative costs.
B. Food Stamp Workfare Demonstration Projects	No evidence was found of a decline in Food Stamp caseload attributable to workfare.	For females, the effects of increases in employment and increased sanctions resulted in an average reduction of \$10 per month in Food Stamp grants. For males, the effects of decreases in earnings and increased sanctions were offsetting, resulting in no significant change in average Food Stamp grants. Net savings (grant savings less administrative costs) were not statistically significant.
C. Utah WEAT	27 percent of participants entered employment, but no data available on impact on caseload.	No data on grant reductions or AFDC savings.
D. Massachusetts WEP	No significant effect on caseload detected.	No significant reduction in average AFDC grants relative to a control group.

in grant amounts for women, however, did not result in a significant number of recipients going off aid. The evaluation of the Utah WEAT program provided no evidence of decreased AFDC caseload or grants attributable to the program. The evaluation of the Massachusetts WEP program concluded that there was no evidence of decreased participation in AFDC or average grant amounts compared to a control group.

Summary

We conclude that the effectiveness of past workfare programs in achieving their objectives has generally fallen short of expectations. None of the evaluations we examined provided clear evidence that workfare programs have enhanced clients' employability or earning power, or resulted in reduced AFDC and Food Stamp expenditures. To a great extent, the divergence of expectations and performance has been a result of inflated performance objectives rather than poor program performance. For example, the effect of the California CWEP on the AFDC caseloads between 1972 and 1975 fell far short of the administration's initial forecasts. The initial forecasts, however, were unreasonably optimistic given the low participation rates that occurred.

We also note that poor performance in some workfare programs is attributable to program design faults that are not necessarily inherent in all workfare programs. For example, workfare programs that provide participants with no training or supervision and place them in jobs performing menial tasks for which no labor market demand exists cannot be expected to enhance participants' employability and earning power. Workfare programs operated in conjunction with training programs may be more effective than those thus far evaluated.

In judging these results, it is important to remember that the federal government recoups 50 percent of any AFDC savings attributable to workfare. The state and counties recoup 45 percent and 5 percent, respectively. In the case of food stamps, the federal government recovers 100 percent of any savings attributable to workfare. For this reason, all research analyzing the cost effectiveness of Food Stamp workfare programs concludes that state and local governments do not benefit financially from the establishment of such programs. Because of the limitations of the research conducted thus far, it is more difficult to reach a conclusion regarding the fiscal effect of AFDC workfare programs. Nevertheless, no clear evidence has yet been established demonstrating that state or local governments benefit financially from the implementation of these programs.

O