SUMMARY OF RECOMMENDED LEGISLATIVE CHANGES CONTAINED IN THE ANALYSIS OF THE 1984-85 BUDGET BILL

FEBRUARY 1984

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INTRODUCTION

This report summarizes the recommendations for new legislation contained in the Analysis of the 1984-85 Budget Bill.

All of the recommendations contained in this report are discussed in greater detail in the Analysis. This report merely (1) summarizes our analysis of the issues involved, (2) outlines the contents of the recommended legislation, and (3) presents our estimate of the fiscal effect from enacting the legislation. These recommendations generally fall into one of three categories:

- Legislative changes that would result in direct savings to the state and/or local governments;
- Legislative changes in the state's administrative structure which would result in improved efficiency and result in cost savings; and
- Legislative changes which may not result in any cost savings, but would improve the delivery of mandated services to the citizens of California.
Judicial--Coordinated Proceedings

Reference:
Analysis page 17.

Analysis:

Chapter 1162, Statutes of 1972 was adopted to eliminate the unnecessary duplication in civil court proceedings that might otherwise result when suits on related matters are filed in different courts. Specifically, Chapter 1162 permits a litigant or the judge in a case to require the Judicial Council to appoint a "coordination motion judge" who will determine whether or not an action should be coordinated with related actions. If this judge decides to coordinate the actions, the Judicial Council must then appoint a "coordination trial judge" to hear and resolve the coordinated action. The statute requires the state to pay the council's administrative costs in supervising the coordination and to reimburse counties for all of their costs under the chapter.

The primary beneficiaries of the coordinated proceedings program are the counties. The program reduces the number of separate actions that must be handled by the courts, and thereby reduces county expenditures. Under Chapter 1162, however, the state incurs the full cost of the program. If the cost of the consolidated action, instead, was prorated between the courts involved, counties would still realize a net savings compared to the costs of processing separate actions. This approach would have the advantage of distributing the costs of the program among its primary beneficiaries.

Recommendation:

We recommend that legislation be enacted requiring the counties involved in a coordinated action to pay the costs of that action.
Fiscal Impact:

Based on Judicial Council estimates, enactment of this legislation could result in a General Fund savings of approximately $500,000 annually.
Judicial--Mandatory Arbitration Program

Reference:

Analysis page 18.

Analysis:

Chapter 743, Statutes of 1978 (as modified by subsequent statutes), established an arbitration program in order to provide a cost-effective and expedited method of resolving small civil suits, without a trial being necessary. The program generally requires superior courts with 10 or more judges to submit to arbitration all civil cases in which the amount in controversy is $15,000 or less.

The state funded the arbitration program as an experiment to determine if the arbitration program could reduce state and local court costs by reducing the number of cases requiring trials.

Using Judicial Council data, however, we were able to determine that the program did not have an observable effect on the rate at which cases were settled prior to trial. The Department of Finance also reviewed court data, and similarly determined that the arbitration program had no statistically significant impact on the change in the settlement rate between participating and nonparticipating courts, or among participating courts before and after commencing the program. The department concludes that all available information indicates that the program has not reduced costs to the state or to the counties.

To the extent that benefits result from the program they accrue largely to litigants or the courts themselves in the form of improved calendar management. This is why some municipal courts and superior courts in less-populated counties have voluntarily adopted arbitration programs and have financed the full costs of those programs.
All of this suggests that while the program may be beneficial under certain circumstances, the benefits do not justify ongoing state costs of at least $4.2 million annually. Continued state funding of the program would not be a productive use of state resources, given that the program is not accomplishing a major purpose for which it was established—reducing state and local government costs for the trial courts.

Recommendation:

We recommend that legislation be enacted to permit, rather than require, counties to conduct court arbitration programs.

Fiscal Impact:

Based on data from the state Controller's office, we estimate that adoption of this recommendation would result in an annual General Fund savings of approximately $4.2 million.
References:
Analysis page 140.

Analysis:

The general activities of the California Debt Advisory Commission (CDAC) are supported by a notification fee payable from the proceeds of debt issues. The fee amount equals one-fortieth of 1 percent of the principal amount of the bond issue, up to a maximum fee of $5,000 per issue. These fees are paid by the lead underwriter or purchaser of the bonds.

Our analysis indicates that the amount of revenues generated by the notification fee is substantially higher than CDAC's expenses. According to the budget document, the fee revenues ($900,000) will exceed the commissions expenses ($661,000) by $239,000 during the budget year. This will bring the ending balance in the CDAC fund to $2 million, an increase of 20 percent over the ending balance for the current year. We can find no justification for maintaining a fund balance beyond what is needed as a
reasonable reserve for unanticipated revenue shortfalls or expenditure increases.

Recommendation:

We recommend that legislation be enacted to reduce the amount of the notification fee charged by the commission. We further recommend that this legislation require the commission to report annually to the Legislature on the amount of fees collected during the prior fiscal year.

Fiscal Effect:

If the fee were reduced to half the current amount (that is, one-eighthieth of 1 percent, not to exceed $2,500 per issue) CDAC fund revenues would be reduced by $450,000.
STATE AND CONSUMER SERVICES

Department of Consumer Affairs--Division of Administration

Reference:
Analysis page 161.

Analysis:

The Legislature adopted language in the Supplemental Report of the 1983 Budget Act which directed the Department of Consumer Affairs and the chairpersons of each occupational licensing board, bureau and commission to report to the Joint Legislative Budget Committee (JLBC) and the fiscal committees concerning their respective policies, approaches, and methodologies utilized in (1) determining the fiscal impact of pending legislation, and (2) proposing and advocating legislation. The language also required our office to review the statements and report the results of this review to the JLBC and the fiscal committees.

Our analysis indicates that the department is not a unified consumer protection and professional and occupational licensing agency. Unlike other state departments, the director lacks clear statutory authority to compel the constituent agencies to adhere to the department's legislative policies and cooperate with its fiscal and legislative units. As a consequence, no uniform policy, approach, or methodology exists for analyzing, proposing and advocating legislation. We believe that this constitutes a major problem for the Legislature, particularly in the area of fiscal impact analyses, because there is no uniformity on overall quality control within the department regarding legislative activity. Thus, the Legislature is often called upon to resolve issues without being given the kind of clear and coherent information it needs from the department and its licensing agencies.
In order to provide the Legislature with reliable fiscal information, we recommend enactment of legislation so as to (1) provide the department greater statutory authority to oversee the fiscal analyses of pending legislation, and (2) require all of the department's boards, commissions, committees, and bureaus to submit all fiscal analyses for all pending legislation to the department for approval by the director before the analyses are transmitted to the Legislature. In making this recommendation, however, we do not intend that the licensing agencies be required to submit their positions on pending legislation to the director for prior approval.

Recommendation:

We recommend that legislation be enacted to require all of the department's boards, bureaus, commissions, and committees to submit fiscal analyses for all pending legislation to the director for approval before the analyses are transmitted to the Legislature.

Fiscal Impact:

There will be no direct fiscal impact.
Department of Consumer Affairs--Contractor's State License Board

Reference:

Analysis page 178.

Analysis:

Chapter 1615, Statutes of 1982, increased the Contractor's State License Board's licensing fees. Although this measure provided an increase in fee revenues to the board, it only allowed the board to charge an exact fee. Thus, the board has no administrative discretion to increase or decrease fees to control the amount of its revenues.

Our analysis indicates that, as a result of the higher fees established by Chapter 1615, the board's reserve for economic uncertainties has grown at an average annual rate of 71 percent since 1981-82. By June 30, 1985, the board projects that its fund reserve will reach $19,323,000. While this amount is less than what existing law allows (that is, an amount equal to the board's combined operating budget for the next two fiscal years), it is excessive to the board's needs.

Recommendation:

We recommend that legislation be enacted to (1) set upper limits on license fees charged by the board, and (2) give the board flexibility to administratively set fees up to the limits.

Fiscal Impact:

The proposed legislation will permit the board to adjust fee revenues upwards or downwards, within limits, to either fully offset its administrative costs or reduce the build-up of a fund surplus which is in excess of the board's need.
Department of Consumer Affairs--Contractor's State License Board--

Complaint Disclosure Program

Reference:

Analysis page 179.

Analysis:

Chapter 628, Statutes of 1981 (AB 1079), amended the Contractor's State Licensing Law to provide that information pertaining to a complaint filed against a licensed contractor shall be made available to the public only after the violation has been investigated thoroughly or disciplinary action has been initiated against the licensee.

In order to determine the effectiveness of the provision in Chapter 628, the Legislature directed the Legislative Analyst to report on the board's complaint disclosure procedures by January 1, 1984, in advance of the act's scheduled termination on July 1, 1984.

The board had experienced a 25-month delay before regulations were promulgated and the complaint disclosure program was implemented in December 1983. As a consequence of this long delay, it is not possible for us to evaluate the program and report on its effectiveness. We believe, however, that the program merits continuation on a trial basis in order to provide the Legislature with information which can serve as a basis for determining whether the program should be made permanent. Accordingly, we recommend extension of the program's existing sunset date.
Recommendation:

We recommend that legislation be enacted to extend the sunset date for the Contractor's State License Board's complaint disclosure program so that the Legislature will have an opportunity to determine the program's merits.

Fiscal Impact:

The recommended extension of the program would result in continuation of existing annual costs of approximately $67,000, starting in 1984-85.
Department of General Services--Public Official Bonds

Reference:
Analysis page 241.

Analysis:

Under existing law, certain elected and appointed officials must post bonds guaranteeing the faithful performance of their duties while in office. This requirement applies to the Clerk of the Supreme Court, several constitutional officers, and the agency secretaries, as well as various commission members and department directors. The bond protects the state against the embezzlement of public funds or indirect financial losses which might result from the action of an official whose performance is determined to be unfaithful. The extent of coverage varies in each case, but falls within the range of $10,000-to-$100,000 per official. Existing law requires bonds on behalf of 43 public officials, at an annual cost of $3,900.

Our analysis indicates that it would be more efficient for the state to self-insure against potential losses rather than purchase private insurance. Financial losses resulting from misconduct by public officials are rare, as no claims for benefits have been filed by the state under these policies in the last 15 years.

Recommendation:

We recommend that legislation be enacted to eliminate the requirement that state officials be covered by public official bonds.

Fiscal Impact:

Minor annual cost-savings (all funds).
Reference:

Analysis page 232.

Analysis:

The Department of General Services, Office of Real Estate Services is responsible for acquiring property on behalf of other state agencies. Appropriations for acquisition of property to support state programs generally make no distinction between the funds appropriated to pay for the acquisition and the funds appropriated to pay for administrative costs incurred by Real Estate Services. Currently, Real Estate Services is able to charge an appropriation for any amount of administrative costs without justifying the cost or substantiating the workload that led to it. In contrast, when funds are appropriated for major construction projects, the project cost estimate includes a specific amount for architectural/engineering services related to the project.

Recommendation:

We recommend that Section 15860 of the Government Code be amended to require that funds for administrative costs be limited to that amount identified and budgeted separately as part of each property acquisition appropriation. Recommend further that augmentation of such costs be allowed under unusual circumstances such as condemnation.

Fiscal Impact:

This measure would provide a means for monitoring and controlling administrative costs of property acquisition projects.
Public Employees' Retirement System (PERS)

State Contributions to the Public Employees' Contingency Reserve Fund

Reference:

Analysis page 278.

Analysis:

Section 22826 of the Government Code requires state agencies to contribute specified annual amounts to the Public Employees' Contingency Reserve Fund (PECRF). The PERS Board of Administration is authorized to set the following maximum contribution rates: (1) two percent for administration of the health benefits program and (2) four percent for the "contingency (special) reserve," both rates expressed as percentages of the gross premiums. While the contingency (special) reserve of the PECRF is authorized to be used for a variety of purposes, in recent years it has been used primarily to fund the state's health contributions for annuitants. In 1983-84, however, the PERS Board decided to use the reserve to subsidize health insurance premiums charged by one major health care provider: Blue Cross/Blue Shield ("the Blues"). The current-year subsidy could be as much as $20 million.

While acting within its statutory authority, the PERS Board made this significant policy determination (that is, that taxpayers in general should subsidize participants in the plan offered by "the Blues") without any legislative review or approval. Because of the significant fiscal and policy implications of decisions regarding the use of the PECRF contingency reserve, we recommend that the Legislature, rather than the PERS Board, make these decisions. A precedent for this arrangement already exists, as each year the state health premium contribution rates determined by the PERS must be approved by the Legislature in Control Section 4.00 and funded through the Budget Act.
Recommendation:

We recommend that the Legislature amend Section 22826 of the Government Code to provide that (1) a decision on any special reserve rate charge by the PERS Board shall be made no later than May 15 of each year, in order to give the Legislature time to review the action in its deliberations on the budget, (2) the Legislature must approve any special reserve charge proposed by the board (possibly using Control Section 4.00), and (3) any special reserve rate charge be funded through the augmentation for employee compensation item in the annual Budget Act.

Fiscal Impact:

Indeterminable annual impact on the General Fund and other state funds, depending on subsequent legislative action.
Department of Housing and Community Development--Employee Housing Program

Reference:

Analysis page 348.

Analysis:

The Employee Housing Program is responsible for enforcing minimum sanitary and safety standards in employee housing units and labor camps in the state that are occupied by five or more employees. The program's inspection and investigation programs are supported both by the General Fund and by fees collected from operators of the camps. The budget proposes, however, that over 80 percent of the program's 1984-85 support be provided by the General Fund.

The department reports it must rely primarily on the General Fund because the department is not authorized to retain any fines assessed and collected (these are retained by the local agency that actually prosecutes the violations), and because it's not practicable to collect fees for the investigation of certain complaints.

Recommendation:

In order to make the department's enforcement more efficient and less reliant on General Fund support, we recommend the enactment of legislation authorizing the department to issue civil citations directly to violators of state sanitary and safety standards. We further recommend that the department be empowered to use the collected fines to offset the program's reliance on General Fund support.

Fiscal Impact:

Potential annual General Fund savings up to $551,000.
Department of Transportation--State Transportation Improvement Program

Reference:

Analysis page 404.

Analysis:

Chapter 1106, Statutes of 1977, requires the California Transportation Commission to adopt and submit to the Legislature and the Governor annually by July 1 a five-year State Transportation Improvement Program (STIP) for all state and federally funded transportation improvements in California. The department is responsible for estimating the state and federal funds to be available in the five-year period and for scheduling projects accordingly. Currently, the department programs projects according to federal apportionments to California, rather than on a basis of the state's obligational authority, which determines the level of federal funds the state can actually spend, and which is normally lower than the apportionment level. Consequently, there probably will not be sufficient money to fund all the projects in the five-year period of the STIP. This results in an inherent "overprogramming" of highway capital projects.

As a benefit, the current programming practice enables the department to work on projects which require longer lead time and more engineering efforts, and creates a "shelf" of projects which would be available if additional construction opportunities arise. It also, however, (1) generates unrealistic expectations, (2) may allow projects of lower priority to be funded before higher priority projects, and (3) tends to inflate the size of any potential shortfall in state funds. To recognize the constraint imposed on the use of federal revenues by limits
in obligational authority and to provide a more realistic capital program, the State Transportation Improvement Program should be modified accordingly.

Recommendation:

We recommend that legislation be enacted directing the California Transportation Commission to adopt a State Transportation Improvement Program document which recognizes the level of federal funding which the state will be able to obligate during the five-year period of the State Transportation Improvement Program.

Fiscal Impact:

There will be no fiscal impact.
Department of Transportation--Support Facilities

Reference:

Analysis page 413.

Analysis:

Current law requires that Budget Act appropriations for capital outlay from the State Highway Account be made on a program basis without identifying specific projects. The California Transportation Commission is responsible for allocating appropriated funds to specific projects. Capital outlay projects include not only highway and other transportation projects, but also construction and improvement of department buildings, improvements to existing support facilities, and nonhighway land purchases. Consequently, all "nontransportation" projects are treated as part of the overall transportation capital outlay program, receiving an annual lump sum appropriation from the Legislature and fund allocation from the California Transportation Commission.

Our review indicates that similar projects on site acquisition and development, and construction and improvement of district headquarters, undertaken by other state agencies are subject to legislative review during the budget process. Consequently, there is no basis for exempting the Department of Transportation from the kind of reviews that other departments must undergo.

In addition, legislative review of such projects would enable the Legislature to coordinate more effectively decisions on how the state's overall office and space needs can best be met.
Recommendation:

We recommend that legislation be adopted requiring all capital outlay projects and expenditures proposed by the department and involving the construction and improvement of office buildings, lands, and support facilities be subject to legislative review and approval.

Fiscal Impact:

No direct fiscal impact.
Department of Transportation--Leasing Department Property

Reference:
Analysis page 414.

Analysis:

Current law allows the department to lease to public and private entities the use of areas above or below highways, and any land not currently needed for highway purposes. The department is considering leasing certain property it owns in Los Angeles to a private developer on a long-term basis, in order to permit the development of a large commercial office building, with certain space dedicated to parking for department personnel. During the lease period, rental payments would be deposited in the State Highway Account. Upon expiration of the lease, the improved property would revert to state ownership.

Our review indicates that it is not clear whether the current statutory authority provided to the department regarding property leases applies in cases of this type. Furthermore, in considering leases for commercial development of its properties, the department may fail to consider alternative uses of these properties to satisfy other state needs. However, this type of lease arrangement may become more attractive and prevalent as the department identifies projects which could generate additional revenues to the State Highway Account.

Recommendation:

We recommend that the Legislature consider the overall policy issue of department involvement in leasing nonhighway properties for commercial development purposes and enact legislation to clarify existing law and provide clear guidelines to the department and the California Transportation Commission to follow in making decisions regarding specific properties.
Fiscal Impact:

Unknown fiscal impact to the State Highway Account, depending on the policy guidelines.
Department of Motor Vehicles--Implied Consent Hearings

Reference:
Analysis page 504.

Analysis:

The Department of Motor Vehicles (DMV) currently conducts administrative hearings for persons who have their driver's license suspended as a result of a violation of the Implied Consent law, and who wish to protest the suspension. A violation of the Implied Consent law occurs when a motorist, who is suspected of driving under the influence (DUI) of alcohol or drugs, refuses to submit to one of the three blood-alcohol tests specified by law. The DMV estimates that 10,000 persons request a hearing annually, at a cost of approximately $2,000,000 to the department each year.

Our analysis indicates that the Implied Consent hearing process could be transferred to the courts and that related protests could be adjudicated at the same time the DUI offense is heard. According to the DMV, administrative hearings conducted by the department essentially duplicate the judicial processes related to adjudication of DUI offenses and, as a result, (1) the courts would incur little, if any, additional costs, and (2) the department would realize substantial savings.

Recommendation:
We recommend the enactment of legislation which would transfer the Implied Consent hearing function from the DMV to the courts and require that violations of the Implied Consent law be adjudicated at the same time as associated DUI offenses.
Fiscal Impact:

Potential savings of $2,000,000 annually to the Motor Vehicle Account, State Transportation Fund.
Reference:

Analysis page 508.

Analysis:

As part of its regulatory responsibility, the New Motor Vehicle Board (NMVB) within the Department of Motor Vehicles provides a quasi-judicial forum for protests filed by motor vehicle dealers against business decisions made by vehicle manufacturers. It appears that the volume of protests filed by dealers is rising rapidly and, as a consequence, the NMVB may need to increase its annual fee for all dealers licensed under the jurisdiction of the board. Moreover, our analysis revealed that (1) only a small percentage of the cases filed with the board are decided in favor of the protesting dealers, and (2) an overwhelming number of protests are settled or dismissed for lack of merit before a hearing can take place.

Given these circumstances, we believe the adoption of protest filing fees would (1) appropriately allocate the cost of protest hearings to those dealers responsible for such costs, and (2) increase the likelihood that protests filed with the board are bona fide. Similar filing fees currently are required in superior and municipal courts, where civil litigants are assessed a fee to offset the court's expenses.

Recommendation:

We recommend the enactment of legislation (1) authorizing the New Motor Vehicle Board to assess filing fees for protests filed by dealers, and (2) requiring that revenue resulting from filing fees be used to reduce the board's annual license fees.
Fiscal Impact:

Undetermined revenue to the Motor Vehicle Account, State Transportation Fund.
Traffic Adjudication Board

Reference:

Analysis page 521.

Analysis:

The legislation that established the Traffic Adjudication Board (TAB) required the board to retain an independent consultant to evaluate the costs and benefits of the project and its effect on the courts, law enforcement, the general public, and the Department of Motor Vehicles. The consultant's final report was submitted to the Legislature in December 1983.

The report concluded that citation processing by the TAB is significantly less costly than court processing, despite the fact the TAB provides motorists with faster and more convenient access to hearings than do the courts. Specifically, the report indicates that TAB processing of citations cost about 45 percent less than Sacramento court processing costs, and 35-40 percent less than Yolo County costs. In addition, the report estimates that if the TAB were to operate on a large scale basis, its ongoing processing costs would be approximately 29 to 44 percent less than court processing costs.

One major reason for these savings is that the TAB system results in significantly lower state and local law enforcement costs. For example, unlike many courts, the TAB arranges its schedules so that hearings involving the same law enforcement officer are held sequentially, and without significant intervening delays.

Another portion of the savings from the TAB project accrues to the Department of Motor Vehicles (DMV). The report indicated that if the TAB program was extended statewide, the DMV could save up to $5.3 million annually, as a result of two TAB features.
The TAB has proven to be more cost-effective than court processing, and faster and more convenient to users. It also provides more accurate, and timely updating of DMV records. Finally, it reduces the amount of time that law enforcement officers spend acting as witnesses in traffic violation cases, instead of performing other important law enforcement duties.

Recommendation:

We recommend that legislation be enacted to extend the TAB concept statewide.

Fiscal Impact:

We estimate that adoption of the TAB concept statewide would result in major savings to the state and local governments.
Air Resources Board--Collection of Delinquent Payments

Reference:
Analysis page 571.

Analysis:

Under existing law, no new motor vehicle may be offered for sale in California unless it meets the state's emission standards. The Air Resources Board attempts to ensure compliance with the standards in a number of ways, including certification of emission control systems, monitoring manufacturers' quality control and inspecting dealerships. The program is intended to be self-supporting with the manufacturer paying all costs. Payments totaling $139,242, however, have been outstanding for more than one year, all of it due from foreign-based manufacturers. Existing law does not authorize any penalties for late payments. Consequently, the board has no mechanism for ensuring that payments are made on time.

Recommendation:

We recommend that legislation be enacted authorizing the Air Resources Board (ARB) to assess penalties and/or sanctions against auto manufacturers who do not make required payments to the ARB on time.

Fiscal Impact:

As a result of the shortfall in manufacturer payments, the board has had to support a portion of the program's cost using state funds budgeted for other purposes. Enactment of the legislation would eliminate this practice.
State Lands Commission--Revenue from Timberlands

Reference:

Analysis page 625.

Analysis:

The State Lands Commission manages approximately 17,000 acres of commercially productive timberlands within the state's "school lands". The commission anticipates soon receiving an additional 12,000 acres of productive timberlands from the federal government.

The commission estimates that its sales of timber will produce approximately $300,000 in 1983-84, $400,000 in 1984-85, and $450,000 per year thereafter. Under current law, the proceeds from sales of school lands is deposited into the General Fund. Pursuant to Ch 1213/83, all school lands revenue, net of the commission's administrative costs, will be deposited into the State Teachers Retirement Fund beginning July 1, 1984.

The 17,000 acres of commercial-grade timber on school lands is located on 55 separate, often difficult-to-reach, sites. The commission indicates that, with a staff of six foresters in the field, it cannot effectively manage the 55 scattered timber sites. As a consequence, the commission currently is attempting to consolidate its timber parcels. The commission estimates that, by consolidating its timberlands, it can approximately double its harvests and revenues--to about $900,000 per year--within approximately five to 10 years.

Under current law, the commission can trade school lands for other lands of equal value, thereby allowing it to consolidate its timberlands. The commission indicates that trading land is very difficult, and that it could consolidate its lands more easily if it could acquire lands with cash from sales of its existing timberlands, rather than just with land. Under
current law, however, any trades that involve cash would require a prior appropriation.

Our analysis indicates that a land bank mechanism for selling and acquiring school lands, similar in concept to the Kapiloff Land Bank Fund used for selling and acquiring tide and submerged lands, would allow the State Lands Commission to more efficiently consolidate its productive timberlands than the present land-trading system.

**Recommendation:**

We recommend the enactment of legislation allowing the State Lands Commission to use proceeds from sales of school lands to purchase other school lands of equal or greater value.

**Fiscal Impact:**

The recommended legislation could result in a potentially major increase in revenue from sales of timber on school lands, to the extent the commission can increase the consolidation of timberlands using proceeds from land sales, rather than through land exchanges exclusively.
State Lands Commission--Offshore Leases

Reference:

Analysis page 623.

Analysis:

The State Lands Commission manages sovereign and statutory lands, including tide and submerged lands within three miles of the ocean shoreline. In December 1982, the commission approved a bid package to lease 40,000 acres of tide and submerged lands between Point Conception and Point Arguello off the Santa Barbara County coast. The commission also announced plans to lease the northernmost 70,000 acres off the Santa Barbara County coast, as well as other parcels. The commission has indefinitely suspended all offshore leasing, however, due in part to a jurisdictional dispute with the Coastal Commission.

The California Coastal Commission administers the 1976 Coastal Act, which gives the Coastal Commission (and local governments with approved coastal plans) permitting authority over "development" in the state's coastal zone. The Coastal Commission contends that a lease is a development activity requiring a coastal permit. The State Lands Commission, however, claims that its leasing decisions are policy decisions not subject to approval and permitting by the Coastal Commission, and that the Coastal Commission's role in leasing should be advisory.

There is no dispute that the Coastal Commission has permit authority over physical acts affecting the coastline, such as the exploration and development of oil and gas deposits. The Coastal Commission could deny or condition exploration or development permits for leases issued by the State Lands Commission. Consequently, Coastal Commission policies and actions will be very important to prospective lessees, regardless of whether the
leasing decision by the State Lands Commission is subject to the Coastal Commission's jurisdiction. We believe it makes sense, therefore, to provide the Coastal Commission with explicit permitting authority over offshore activity at the earliest point that the offshore activity is proposed—namely, during the leasing process.

Recommendation:

We recommend that legislation be enacted to clarify the Coastal Act and explicitly grant to the Coastal Commission permitting authority over offshore leases proposed by the State Lands Commission.

Fiscal Impact:

Uncertainty about future Coastal Commission actions increases the financial risk of prospective bidders on offshore leases. As a consequence, bids on these leases may be significantly lower than they would be for lease sales approved by the Coastal Commission. On this basis, we conclude that requiring a coastal permit at the outset of leasing activities probably would increase state revenue from future offshore leases. The amount of the increase is unknown and would depend on many factors.
California Coastal Commission--Local Coastal Programs

Reference:

Analysis page 678.

Analysis:

The Coastal Act of 1976 requires each city and county along the California coast to prepare local coastal programs (LCP) for the portion of their jurisdiction within the coastal zone. The purpose of the LCPs is to conform local land use plans and implementing ordinances with the policies of the Coastal Act. Until an LCP has been certified by the Coastal Commission, virtually all development within the coastal zone requires a coastal permit from the commission as well as a local permit.

The Coastal Act originally established January 1, 1980, as the deadline for local government submission of LCPs to the commission. This deadline proved unrealistic, however, and has been extended twice by statute. The current statutory deadline for submission of LCPs to the commission is January 1, 1984. As of that date, however, only 27 of the total of 121 LCPs needed to cover the entire coast had been certified by the commission.

Although the statutory deadline for LCP preparation has passed, there is a continuing state obligation to pay local jurisdictions the costs of LCP preparation, since such costs are state-mandated under existing law. There is no cutoff date for the availability of these local reimbursement funds, nor are there meaningful sanctions for failure to comply with LCP deadlines.
Recommendation:

We recommend the enactment of legislation to:

1. Establish new LCP deadlines, based on a realistic schedule of LCP completion dates for each segment of the coastal zone,

2. Have the commission complete and implement LCPs for all segments of the coastal zone that do not have certified LCPs by the new deadline,

3. Remove the existing mandate for LCP preparation by local governments after the new deadline,

4. Prohibit the expenditure of State Coastal Conservancy funds after the new deadline in any segment of the coastal zone for which the commission has not certified an LCP, and

5. Allow local governments to take over LCP implementation at any time, subject to commission approval.

Fiscal Impact:

This legislation would result in unknown future General Fund savings because LCP preparation costs would not continue indefinitely.
State Coastal Conservancy--Deposit of Revenues

Reference:

Analysis page 683.

Analysis:

In our Analysis, we recommend a full-scale financial audit of the conservancy because of discrepancies in the conservancy's budget and accounting records. Most of these discrepancies involve revenues to and expenditures from the "State Coastal Conservancy (Fund)," which never was formally established. A major cause of confusion has been the conservancy's practice of commingling its revenues and bond funds in the State Coastal Conservancy (Fund).

Recommendation:

We recommend the enactment of legislation to (1) formally establish the State Coastal Conservancy Fund, (2) clarify the conservancy's authority to deposit its revenues in the fund, and (3) establish separate accounts in the fund for the deposit of revenues received from projects financed from (a) the Parklands Fund of 1980 and (b) the State, Urban, and Coastal Park Bond Act of 1976.

Fiscal impact:

No direct fiscal effect.
Department of Parks and Recreation--Abolish the Bagley Conservation Fund

Reference:

Analysis page 2194.

Analysis:

The budget proposes in Control Section 18.30 to transfer the unencumbered balance of the Bagley Conservation Fund to the State Parks and Recreation Fund on the effective date of the 1984 Budget Act. According to the Governor's Budget, the unencumbered balance of the fund to be transferred will be $279,000 on June 30, 1984.

The Bagley Conservation Fund was created in 1971, to fund beach, park, and coastal recreational facilities. Since 1971, the principal source of funds for the Bagley Conservation Fund has been occasional transfers from the General Fund authorized by the Legislature.

Chapter 1065, Statutes of 1979, abolished several park-related funds and accounts and consolidated the balances in the State Parks and Recreation Fund (SPRF). In addition, Ch 1065/79 transferred to the SPRF all funds which had been appropriated to the Department of Parks and Recreation from the Bagley Conservation Fund. The legislation did not transfer to the SPRF the full unencumbered balance of the Bagley Conservation Fund or any appropriations to other agencies.

Control Section 18.30, will further consolidate park-related funds into the SPRF, which will simplify budgeting.

In order to fully consolidate funds, however, all balances in the Bagley Conservation Fund should be transferred and the fund should be abolished.
Recommendation:

We recommend the enactment of legislation to (1) transfer any encumbered balances and funds that may exist, as well as the corresponding expenditure authority for these funds, from the Bagley Conservation Fund to the State Parks and Recreation Fund, and (2) abolish the Bagley Conservation Fund.

Fiscal Impact:

No direct fiscal effect.
Department of Parks and Recreation--Increase Threshold for Review of Park Concession Contracts

Reference:

Analysis page 719.

Analysis:

Public Resources Section 5080.20 requires legislative review and approval of state park concession contracts involving a total investment or estimated annual gross sales in excess of $100,000. During 1982-83, the 17 largest concessions, with individual gross sales in excess of $250,000, accounted for $23.3 million, or 84 percent, of total concession sales in park units managed by the department. The remaining 150 contracts accounted for only $4.6 million, or 16 percent, of the total.

The threshold for legislative review should be raised from $100,000 to $250,000, so that the Legislature can concentrate its attention on those contracts of significant fiscal concern.

In addition, the department's annual concessions statement is of limited usefulness to the Legislature, because it does not list concessions located on state park system lands that are managed by local agencies. The Legislature should have this information in order to oversee the management of all state park lands.

Recommendation:

We recommend enactment of legislation to (1) increase the threshold for legislative review of concessions contracts from $100,000 to $250,000 of annual gross sales and (2) strengthen the reporting requirements for the department's annual concessions statement.

Fiscal Impact:

No direct fiscal impact.
Department of Water Resources--Fees for Encroachment Control Permits

Reference:
Analysis page 763.

Analysis:

Under existing law, the state Reclamation Board has primary responsibility for controlling encroachments, such as the construction of buildings and bridges, that affect the integrity of flood control structures and floodways in the Central Valley. Property owners must obtain a permit from the board prior to undertaking any construction or other activity affecting those project works. The board uses Department of Water Resources' staff to review, evaluate, and make recommendations on permit applications and to perform inspections. Since its inception in 1969, the costs of the encroachment control program have averaged approximately $500,000 per year and have been funded from the department's General Fund appropriation.

Our analysis indicates that it would be appropriate for the permit applicants to share in the cost of the permit process since individual encroachments primarily benefit the property owner applying for a permit.

Recommendation:

We recommend that legislation be adopted requiring the Reclamation Board to establish encroachment permit filing fees and annual inspection fees in order to reduce the General Fund cost of the permit and inspection program.

Fiscal Impact:

Potential savings of $300,000 annually to the General Fund.
State Water Resources Control Board--Water Rights Fees

Reference:
Analysis page 782.

Analysis:

Historically, the board's cost of reviewing and acting on water rights applications has been shared between the General Fund and those receiving the direct benefit from the process--the water rights applicant. Existing law requires a minimum fee of $10 to file an application and establishes a variable rate schedule based on the amount of water to be diverted. The minimum fee and fee schedule were last increased in 1969. While fees have remained constant, board costs for processing water rights applications have more than tripled, from $800,000 in 1969-70 to approximately $3.0 million in 1984-85. The $2.2 million increase has been absorbed by the General Fund. Water rights applicants should pay a portion of these increased costs.

Recommendation:

We recommend that legislation be enacted to increase water rights application and permit fees to partially offset increased processing costs.

Fiscal Impact:

If total fees were tripled, this would result in savings of approximately $74,000 to the General Fund.
Department of Health Services--
Contracting for County Medical Services Program
Hospital Inpatient Services

Reference:
Analysis page 885.

Analysis:
We estimate that the County Medical Services program (CMSP) annually pays for approximately 27,000 days of hospitalization for eligible persons, at a cost of approximately $16 million. The claims are reimbursed by the Medi-Cal fiscal intermediary based on cost-based rates established by the Medi-Cal program. Our review of CMSP hospital inpatient expenditures indicates that significant savings could be achieved by reimbursing hospitals that contract with the Medi-Cal program according to the contract rates rather than the current cost-based rates.

Recommendation:
We recommend enactment of legislation allowing the CMSP to reimburse hospitals under contract with Medi-Cal at Medi-Cal contract rates.

Fiscal Impact:
Approximately 25 percent of CMSP payments for hospital inpatient services, or $4 million annually, are made to hospitals currently under contract with Medi-Cal. We determined that if the CMSP reimburses hospitals with Medi-Cal contracts at contract rates rather than cost-based rates, there would be a savings of approximately 15 percent, or $615,000 annually. Any savings resulting from this change would remain in the CMSP Account and be available to pay for other services provided by the program.
Department of Health Services--
California Children's Services
Recoveries from Liable Third Parties

Reference:
Analysis page 898.

Analysis:

California Children's Services (CCS) pays medical expenses, sometimes including extensive rehabilitative care, for children injured during accidents, such as automobile or diving accidents. In a portion of these cases, parents or guardians take legal action on behalf of the child against liable third parties to recover costs and collect damages. Parents and guardians are required to notify the CCS program of lawsuits and reimburse CCS for its costs when they receive monetary awards, but they do not routinely comply with this requirement. As a result, counties that attempt to identify such cases in order to obtain reimbursement must rely on local newspapers for information.

Under current law, attorneys representing Medi-Cal clients, their guardians, or their estates must notify the department of legal actions involving liability for injuries. As a result of these requirements, Medi-Cal recoveries in cases involving legal action by Medi-Cal clients have increased.

Recommendation:

In order to insure that CCS is aware of legal actions involving liability for injuries treated under the CCS program, we recommend adoption of legislation pertaining to CCS that is similar to provisions applying to Medi-Cal that are contained in Section 14124.74-14124.83 of the Welfare and Institutions Code and Section 700.1 of the Probate Code.
Fiscal Impact:

Savings would occur. However, there is no basis for estimating the amount associated with this change.
Reference:
Analysis page 937.

Analysis:

Chapter 1044, Statutes of 1983 (AB 860), amended the original Superfund law to (1) make funds for remedial actions available for encumbrance for three years after the year of appropriation and (2) allow the department to establish multi-year contracts.

Multi-year contracts are appropriate for this program. Our analysis indicates, however, that allowing encumbrances for three years after the year of appropriation is inappropriate due to the nature of this program. Normally, a multi-year encumbrance period is allowed for specific capital outlay projects when the project involves multiple stages with well-defined costs. In contrast, when appropriated in the budget, remedial action funds are not for one specific site but for a group of sites. The department's plan for specific site expenditures is subject to significant changes within any fiscal year, let alone over a four-year period.

We believe that the unencumbered state funds should not be available for encumbrance after the initial year. Instead, the Legislature should reexamine the department's entire spending plan annually, including its spending plan for unencumbered funds.

Recommendation:

We recommend enactment of legislation deleting the provision that makes funds for remedial action available for encumbrance up to three years after the fiscal year of appropriation.
Fiscal Impact:

This legislation would have no fiscal effect because the same amount of funds would be available.
Analysis:

Current law establishes the state Superfund program to finance the cleanup of hazardous waste sites that pose a threat to public health. The state Superfund program is supported by the Hazardous Substances Account (HSA), which receives revenues from taxes paid by generators of hazardous waste. The current tax mechanism generates up to $10 million a year in revenues for 10 years. Collections may be less than $10 million in any year because tax assessments are reduced by the estimated amount of the unobligated fund balance from the prior year, called "M". Thus, the $100 million potentially available over the 10-year life of the program is reduced by the sum of the amounts of the unobligated balances carried over from one year to the next.

Our analysis indicates that the program is likely to have an unobligated balance every year due to (1) spending delays, (2) statutory restrictions on funds for emergency response and victims' compensation, and (3) fluctuations in spending between years. It is also likely that the total amount of state monies needed to clean up hazardous waste sites may significantly exceed the $100 million potentially available under current law.

Recommendation:

We recommend enactment of legislation to alter the Superfund tax mechanism to allow collection of the full $10 million each year. We further recommend that the new mechanism be effective for taxes due July 1, 1984.
Fiscal Impact:

The amount of additional revenue available to the HSA during the next eight years as a result of this change will depend on the amount of annual underspending. If annual program underspending averages $1 million, then $8 million (eight years times $1 million) in additional HSA revenue would be generated.
Analysis:

The Other County Social Services (OCSS) program consists of child welfare services, information and referral services, adult protective services, and a variety of optional services. In addition, the OCSS program provides funds for the administration of the In-Home Supportive Services (IHSS) program. Chapter 978, Statutes of 1983 (SB 14) limited each county's share of the costs of the OCSS program to a specified dollar amount. Under prior law, counties were required to pay 25 percent of the costs of this program.

Our analysis indicates that the dollar limit on the county share of this program's costs:

1. Does Not Promote Sound Management of the OCSS Program. This is because, under the dollar limit, counties have no fiscal stake in controlling program costs. This is because any cost increases (other than cost-of-living increases) are borne entirely by the state and federal government. By making the state and federal governments responsible for funding the increased costs of the OCSS program, the dollar limit on the county share removes a major incentive for efficiency from the level of government--the counties--that has the greatest ability to control costs.

2. Creates Inequities in the Distribution of State and Federal Funds Among Counties. During 1983-84, 11 counties received state and federal funds sufficient to pay for 75 percent of the costs of their OCSS programs. The remaining counties, however, received state and federal funds totaling 78 percent of their costs with several counties receiving
state and federal funds equal to 80 percent of their costs. We know of no reason that the taxpayers of the 11 counties that were required to pay for 25 percent of program costs with local funds should be required to subsidize the taxpayers of the counties that paid for 20 percent to 22 percent of the costs with local funds.

Recommendation:

We recommend that the Legislature amend the companion bill to the 1984 Budget Bill to restore the requirement that all counties pay 25 percent of the costs of the OCSS program.

Fiscal Impact:

We estimate that this change would reduce the state General Fund costs of this program by $9.5 million, and would increase the county costs by a like amount. This recommendation would not affect the total amount of funding for the OCSS program.
Department of Social Services--Fees for
Community Care Licensing

Reference:

Analysis page 1190.

Analysis:

The 1983 Budget Act requires the Department of Social Services (DSS) to submit a report to the Legislature on fees for community care licensing. The department's report, submitted in December 1983, reviewed the following fee structures:

1. Fee System Recommended by the Legislative Analyst in the Analysis of the 1983 Budget Bill. Under this fee system, community care facilities would be charged an annual license fee based on (a) the total cost of licensing each facility and (b) the proportion of each facilities' clients whose care is paid from nongovernmental sources. For example, the department's report estimates that the cost of licensing an average large residential facility for adults is $800 per year. Under the Analyst's proposal, such a facility would pay a fee of $80 per year if 10 percent of its clients were "private pay."

2. Sliding Scale Fee System Recommended by the Department. Under this proposal, the amount of the license fee would depend on the capacity of the facility and would cover only specified costs of licensing each facility type. For example, under the department's proposal, a large residential facility for adults would pay a fee of $275 per year regardless of whether its clientele was entirely governmentally supported or entirely "private pay."

3. Flat Fee System. Under this system, all community care facilities would pay a license fee of $100 regardless of their size, type, or clientele.
Our review indicates that the fee system we recommended in our Analysis of the 1983 Budget Bill is preferable to the sliding scale fee and the flat fee for several reasons including the following:

- The fee system proposed by the department would result in private pay clients subsidizing some of the licensing costs attributable to publicly supported clients. This subsidization would not occur under our fee system.
- Some of the costs of the fee proposed by the department could be passed through to state, federal, and local governments in the form of increased rates for care provided to governmentally supported clients. This would not occur under the fee system we propose.
- To the extent that facility operators are not able to offset the costs of the fee proposed by the department by raising the rates they charge the government, they would have to absorb the costs of the fee or reduce services. Under our proposal, operators could charge a portion of the costs of the fee to their private pay clients.

Recommendation:

We recommend enactment of legislation requiring that community care facilities be charged a fee based on (1) the total costs of licensing each facility type and (2) the proportion of each facility's clients whose care is paid from nongovernmental sources.

Fiscal Impact:

Based on information provided by the department, we estimate that our fee proposal would reduce the General Fund costs of the Community Care Licensing program by $9,748,000. This represents approximately 34 percent of the total costs of this program.
Analysis:

Chapter 978, Statutes of 1982 (SB 14) made major changes in the Other County Social Services (OCSS) program. Specifically, SB 14 reformed the child welfare services components of the OCSS programs by (1) placing a greater emphasis on providing services to abused and neglected children (and their families) in order to reduce the number of these children who are separated from their families and placed into foster care, (2) increasing the effort to reunite children in foster care with their families, and (3) encouraging early permanent planning for children who cannot be reunited with their families (with adoption being the preferred permanent plan).

Our review indicates that the implementation of SB 14 to date has been incomplete. Many counties assert that the reason for the delay in implementing SB 14 is that the funding provided for child welfare services has been inadequate. The Department of Social Services (DSS), on the other hand, maintains that the funding provided in the current year and proposed in the budget for 1984-85 is adequate for the full implementation of SB 14.

Several factors may explain this discrepancy between the DSS' and the counties' estimates of the amount of funding needed to implement SB 14. In general, our analysis indicates that the department's estimate is correct and that the funding is adequate. One potential reason for the discrepancy between the DSS and the counties is that counties may use less of their total OCSS funding to pay for child welfare services than the department's estimate implies they should be using.
Recommendation:

We recommend enactment of legislation which would provide that funding for child welfare services be allocated to the counties separately from the rest of the OCSS funds.

Fiscal Impact:

None.
K-12 EDUCATION

Department of Education--
School Construction--Constitutional Amendment

Reference:
Analysis page 1568.

Analysis:

Proposition 13 effectively eliminated the ability of local school districts to levy additional special property tax rates to pay off new bonds or loans, and therefore severely limited the districts' access to funds needed for school building construction. Consequently, school districts now rely upon the State School Building Lease-Purchase program to finance virtually all of their capital outlay needs.

School districts frequently complain about various aspects of the Lease-Purchase program, including the amount of paperwork involved in filing an application and the restrictiveness of the program. More important, however, the current method of financing school construction (1) does not generate sufficient funding to meet district needs and (2) does not distribute the burden of paying for new school facilities in an equitable manner.

In view of these problems we believe that a new revenue source needs to be developed to finance school construction. Specifically, we believe that local school districts should be given the authority (subject to local voter approval) to assess a special property tax in order to fund bonded debt issued to finance school construction.

Recommendation:

We recommend that the Legislature enact legislation to place a constitutional amendment on the November 1984 election ballot authorizing
local voters to assess special property tax rates to fund debt service for local school construction bonds.

Fiscal Impact:

Unknown potential increase in local revenues for construction of school facilities.
Analysis:

Senate Bill 813 significantly changes the method for computing cost-of-living adjustments for per-pupil revenue limits. Under prior law, school districts received an inflation adjustment on their per-pupil revenue limits based on a dollar amount specified in statute for the particular size and type of district. A district with a revenue limit above the statewide average generally received a smaller COLA than a district with a revenue limit below the statewide average.

Senate Bill 813 instead provides that all districts of the same type, and county offices of education, shall be granted the same dollar amount as a COLA. The COLA is to be determined by "the change in the Implicit Price Deflator for Government Goods and Services...for the prior fiscal year."

We recommend that four changes be made in the computation of inflation adjustments for revenue limits.

First, we recommend that the revenue limit COLA be tied to the percentage change (ratio between years) in the adopted inflation index rather than the absolute change in the index. This is merely a clarifying, technical change. It is proposed in the trailer bill to the budget and we recommend approval.

Second, we believe that the inflation index should be the Implicit Price Deflator for State and Local Government Purchases of Goods and
Services instead of the SB 813 Implicit Price Deflator for Government Goods and Services. The SB 813 index includes costs incurred by all levels of government, including the federal government. The Implicit Price Deflator for State and Local Government Purchases of Goods and Services is a more accurate measure of the change in costs faced by school districts because it measures costs faced by state and local governments only.

Third, we recommend that the statutory COLA for revenue limits be based on the ratio of the state and local government implicit price deflator for the latest available calendar year to that of the preceding calendar year. Because existing law requires the change in the index to be measured between the current and prior fiscal years, the exact magnitude of the required statutory COLA cannot be known until after the beginning of the budget year. By basing the statutory COLA on the change in the index between the most recent available calendar year and the prior calendar year, this problem would be eliminated.

Finally, we recommend that the computation be based on the ratio of the average annual implicit price deflators between calendar years, rather than on a point-to-point measurement. Using average annual values minimizes random fluctuations in the index values, thereby ensuring a more accurate measurement of the effects of inflation.

Adoption of this alternative index would result in a statutory COLA of 6.1 percent, as opposed to an estimated 5.5 percent COLA provided by law for 1984-85.

Recommendation:

We recommend that legislation be enacted which specifies that revenue limits for school districts and county offices of education shall
receive an annual inflation adjustment based on the ratio of the Implicit
Price Deflator for State and local Government Purchases, for the latest
available calendar year to that of the preceding calendar year, because the
current SB 813 index is vague and does not accurately reflect changes in
school district costs.
Fiscal Impact:
If this recommendation were adopted and fully funded, it would
result in General Fund costs of approximately $50 million above the amount
required under existing law in 1984-85 ($260 million above the Governor's
Budget proposal). In succeeding years, the alternative index would result
in funding requirements which are higher or lower than those of existing
law, depending on the relationship between this index and the one specified
in SB 813.
Analysis:

Senate Bill 813 (Ch 498/83) requires that any school district or county office of education receiving state transportation allowances in 1984-85 or thereafter establish a separate transportation fund. Two of the major reasons for requiring such a fund are (1) to assure that transportation allowances fund only approved transportation expenditures and (2) to protect accumulated savings for replacement and acquisition of buses. This requirement may, however, impose an administrative burden upon local school districts and may result in unnecessary delays when emergency expenditures are needed. For example, if major repairs are needed for a school bus, the repairs could be delayed because any expenditures from a district's transportation fund would require authorization by the school board.

Our review indicates that the objective of restricting the expenditure of transportation allowances to transportation operations and bus replacement could be served as effectively by requiring each district to establish a restricted account for transportation allowances and expenditures. At the same time, such an account would not present the same difficulties that a special transportation fund would present.

Recommendation:

We recommend that legislation be enacted to delete the requirement that school districts and county offices of education establish a separate
transportation fund, and instead require each school district or county superintendent receiving a transportation allowance in 1984-85 to establish a restricted account in its general fund for all transportation allowances received.

Fiscal Impact:

Minor administrative cost savings to local school districts and county offices of education.
The Institute for Computer Technology (ICT) was established in 1982 by three school districts in Santa Clara County to provide education and training in computer technology for pupils in grades K-12 and adults. Authorizing legislation (Chapter 1528/82) provides that support for the institute shall be made from the appropriation for Regional Occupational Centers and Programs (ROC/Ps), for a maximum of 500 ADA. The Legislature, however, has funded the institute through separate appropriations rather than from the ROC/P appropriation.

In order to allow ICTs to be supported without using a separate state appropriation, we recommend legislation to permit ROC/Ps and adult schools to contract with ICTs to operate courses, and to allow school districts to claim ADA credit for ICT classes on the same basis as other elementary and secondary school classes. It is not clear whether this is permitted under current law.

Recommendation:

We recommend that legislation be enacted to clarify that Regional Occupational Centers and Programs (ROC/Ps) and adult schools may contract with Institutes for Computer Technology (ICTs) to operate classes, and that school districts may claim ADA credit for ICT classes on the same basis as other elementary and secondary school classes.

Fiscal Impact:

No direct fiscal impact.
University of California--Savings in Capital Outlay Appropriations

Reference:
Analysis page 1785.

Analysis:

Chapter 808, Statutes of 1982, revised procedures for Public Works Board review and approval of capital outlay projects. One aspect of the revisions specifies that for projects undertaken by the Office of State Architect, the amount of funds transferred for construction is to be limited to the amount needed based on receipt of competitive bids. Any unneeded funds remaining in the appropriation is to be reverted to the unappropriated surplus of the fund from which the appropriation was made. These funds would then be available to meet funding requirements identified by the Legislature.

The amount of funds transferred to the University of California for construction projects is based on an estimate, prepared prior to receipt of competitive bids. Thus, the funds which are not needed for construction, because the low bid is less than the amount transferred, accrue to the University of California, and are not reverted to the fund from which the appropriation was made. Section 92102 of the Education Code specifies that these funds may be allocated by the university to further the building and improvement program of the university.

Recommendation:

We recommend that Section 92102 of the Education Code be modified to require transfer of construction funds based on receipt of competitive bids. Any surplus funds shall be reverted to the fund from which the appropriation was made.
Fiscal Impact:

This measure would increase the amount of funds available for appropriation by the Legislature to the extent that savings are achieved in capital outlay appropriations for the University of California. It would also conform the fund transfer procedures applicable to the university with those currently in effect for the Office of State Architect.
California State University--Long-Term Fee Policy

Reference:

Analysis page 1832.

Analysis:

The Legislature has not adopted a standard fee-setting policy for California's public institutions of higher education. As a result, the fees charged students at these institutions have fluctuated, particularly in the last several years, with no rational basis for these fluctuations. This, we believe, highlights the need for a long-term policy covering fee levels in all segments of higher education within the state.

In partial recognition of the need for a long-term policy toward fees, the Legislature enacted and the Governor signed AB 1251 in September, 1983. Assembly Bill 1251 put in place a long-term fee policy, based on recommendations made by the California Postsecondary Education Commission (CPEC). This policy, however, applies only to the CSU system. We believe that a comprehensive fee policy covering all of higher education is needed. Accordingly, we recommend that the Legislature adopt a long-term policy on student fees for all segments of higher education.

In our judgment, any comprehensive long-term fee policy adopted by the Legislature should be based on the following principles:

- Student fee levels should recognize the private, as well as the societal, benefits from higher education;
- Fee levels should be calculated based on each segment's (or college's) level of expenditures (that is, the "cost of education");
the revenues from fees should be budgeted as offsets to state appropriations, rather than to support specific programs; and adequate financial aid should be made available to needy students so as to preserve access to higher education for state residents.

Recommendation:

To implement this policy for CSU, we recommend enactment of legislation establishing a long-term fee policy for CSU to specify that:

- student fees at CSU in 1984-85 shall be set at a specified percentage of the 1983-84 cost of education (state appropriations plus free revenue), per student,
- student fees shall be adjusted annually to reflect the average change in the cost of education per student for the prior three years,
- student fees shall be assessed on a differential basis so that part-time students pay less than full-time students, and
- revenue from student fees shall be counted as an offset to state appropriations.
Workers' Compensation Benefits for Subsequent Injuries--Local Mandate Funding

Reference:

Analysis page 2034.

Analysis:

Chapter 1568, Statutes of 1982 (AB 3011), requires the Workers' Compensation Appeals Board, when resolving workers' compensation benefit disputes, to presume that certain forms of cancer contracted by fire fighters are caused by employment-related conditions unless the employer proves otherwise. Prior to this measure, a firefighter, in order to receive such benefits, was required to prove that his/her cancer was caused by employment-related conditions.

The act did not appropriate funds to pay local agencies for additional benefit costs, but instead recognized that agencies could seek reimbursement through the Board of Control. The act requires that all reimbursements to a local agency or school district or any state agency be paid from the General Fund appropriation to the subsequent injury program.

Our analysis indicates that it is more appropriate to fund these reimbursements out of the state mandated local program (Item 9580), rather than from the subsequent injury appropriation (Item 8450), for several reasons. First, payments to local governments for "cancer presumption" workers' compensation benefits have nothing to do with the subsequent injuries program. Second, repeal of the language would allow the Ch 1568/82 claims to be administered by the Board of Control and the Controller's Office, and to be paid for out of the mandate item, in the same manner that most other local mandate claims are handled. Third, funding under the mandate item would preclude the disruption of subsequent
injury benefit payments in situations where available funds are not sufficient to cover both these benefits and the costs of Ch 1586/82 reimbursement claims.

Recommendation:

We recommend that legislation be enacted to repeal the provision of Ch 1568/82 which requires that costs of the measure to state and local agencies be paid from the subsequent injury program.

Fiscal Impact:

Enactment of the recommended legislation would result in annual savings to the General Fund of $55,000 because one attorney position requested by the DIR for administration of the program would be unnecessary, as the program would be administered instead by existing staff of the Board of Control and the Controller's Office.
Chapter 1148, Statutes of 1980, created the current Cal Expo organizational structure. In doing so, the Legislature expressed its intent that Cal Expo (1) "shall have sufficient autonomy for efficient operation balanced by appropriate state oversight," and (2) "shall work towards a goal of fiscal independence from state General Fund support."

The General Fund operating subsidy for Cal Expo has been decreasing both in absolute terms and as a percentage of total Cal Expo operating resources from 1980-81 ($2,280,000, or 28 percent) to 1983-84 (estimated $393,000, or 4 percent).

Cal Expo has an ambiguous status in state government. On one hand, the budget treats Cal Expo as a business, in that it can spend only as much of its General Fund support appropriation as it receives in revenues. If Cal Expo's revenue exceeds the appropriated amount, on the other hand, Cal Expo is treated as a state agency and the surplus is retained by the General Fund.

Because Cal Expo's General Fund appropriation in the past has been based on its revenue estimate, it has had an incentive to overestimate revenues in order to ensure that it would keep all of its revenue. Once established, however, an unrealistic revenue estimate tends to become the basis for an unrealistic expenditure plan and this has resulted in a deficit at Cal Expo in the current year.

If Cal Expo were allowed to carry over excess revenues into subsequent years, it would not have an incentive to overestimate revenues.
Furthermore, separating Cal Expo's operating budget from the General Fund will require it to respond prudently and rapidly to changes in its financial condition.

**Recommendation:**

*We recommend the enactment of legislation creating a Cal Expo Enterprise Fund, into which all Cal Expo revenues would be deposited, and from which funds would be appropriated to Cal Expo on a continuous basis.*

**Fiscal Impact:**

By tying Cal Expo's expenditure authority directly to the revenues it produces, Cal Expo would have a greater incentive to make prudent business decisions and the General Fund operating subsidy to Cal Expo (now at approximately $393,000) could be eliminated.
Public Utilities Commission--Authorizing Electronic Recording at Hearings

Reference:

Analysis page 2080.

Analysis:

As part of the overall process of regulating public utilities, the Public Utilities Commission (PUC) conducts public hearings to provide a forum for the presentation of evidence by PUC staff, the affected parties, and any other intervenors. Existing law requires the PUC to use certified hearing reporters to record the actions contained in commission hearings. The commission's staff of hearing transcribers prepares written transcripts on a same-day basis for sale to any interested parties, but these reports are used primarily by the regulated utilities who apparently require the transcripts in order to prepare testimony and cross-examination materials for the following day.

Our review of various studies analyzing the use of hearing reporters in administrative hearings indicates that the use of electronic recording devices is substantially less expensive and no less effective than reporters. Based on these studies and on the experience of other state agencies using electronic recording devices, we believe that the commission should be authorized to use electronic recording at commission hearings.

Recommendation:

We recommend the enactment of legislation which would delete the statutory requirement that PUC proceedings must be reported by a certified hearing reporter.

Fiscal Impact:

Unknown, but potentially significant, annual savings (various special funds) from reduced personnel and operating expenses relating to
the use of hearing reporters. The PUC would incur one-time, probably moderate equipment costs to purchase electronic recording devices.
MISCELLANEOUS

Payment of Interest on General Fund Loans

Reference:

Analysis page 2141.

Analysis:

Ch 10x/83 (AB 28x) allows the Pooled Money Investment Account board to authorize the treasurer to secure short-term external loans, and provides a continuing appropriation to finance the new borrowing authority. The General Fund can use this external borrowing authority to borrow monies in the short-term to cover its monthly cash obligations. This form of borrowing provides the General Fund with lowest possible rates of interest. In 1984-85, we estimate that this form of borrowing can result in a net gain to the General Fund of $55 million.

This borrowing authority, expires on June 30, 1985. We believe, however, that this external borrowing mechanism should be permanently available to help the state meet its short-term borrowing requirements.

Recommendation:

We recommend that the Legislature amend the Government Code permanently extend the temporary borrowing authorization provided under Ch 10x/83.

Fiscal Impact:

Probable major annual gains to the General Fund.
Augmentation for Employee Compensation--Statutory Health Benefit Formula

Reference:

Analysis page 2166.

Analysis:

Government Code Section 22825.1 specifies a formula for state health benefit contributions whereby the state pays an average of 100 percent of health insurance costs for active employees and annuitants and 90 percent of health insurance costs for their dependents. The law also provides that this provision can be superseded by the provisions of memoranda of understanding (MOU). Our analysis indicates that this statute (1) constrains collective bargaining negotiations over health benefit coverage and (2) hinders the Legislature's ability to implement certain health care cost containment features.

Recommendation:

We recommend that the Legislature amend Government Code Section 22825.1 to remove references to a formula upon which state contributions for health insurance premiums are determined.

Fiscal Impact:

Indeterminable fiscal effect on various state funds, depending on collective bargaining negotiations and legislative approval of employee compensation provisions.
Since 1975-76 the Department of Finance has provided a brief presentation on tax expenditure programs in the introductory (or 'A') pages to the Governor's Budget. This presentation has included background information on, and a fiscal summary of, the major identifiable tax expenditures. Pursuant to Ch 575/76, the department also has included, on a biennial basis, a more detailed analysis of tax expenditures.

The Governor's Budget for 1984-85 contains no information at all on tax expenditures. Apparently, the Department of Finance believes that the Legislature does not have a need for annual information on these programs. Given the scope of revenue losses associated with these programs and the rate at which the revenue losses have grown in recent years, we believe instead that the Legislature's need for information has grown, not diminished.

Recommendation:

We recommend enactment of legislation requiring the Department of Finance to include a tax expenditure report in the Governor's Budget on an annual basis.

The report should include a comprehensive list of tax expenditures, more detailed information on individual tax expenditure programs than has been previously provided, including historical information, and a set of proposals to modify existing programs.
Fiscal Impact:

While this recommendation would improve the ability of the Legislature to evaluate tax expenditure programs, there would be no direct fiscal impact. The department should be able to provide an annual tax expenditure report using existing resources.
Analysis:

State hazardous substances control programs are currently administered by 12 different departments, boards, or offices. The budget proposes 776 personnel-years and $105.7 million from various funds in these programs. In April 1983, the Governor established the Hazardous Substances Task Force to formulate a comprehensive program for hazardous substances control and to coordinate related activities of the 12 agencies administering programs. The task force is currently chaired by the Secretary of Environmental Affairs.

Our analysis indicates that ongoing coordination is necessary to improve the operations of existing programs. The current task force, however, (1) has no statutory authority and is therefore not accountable to the Legislature, (2) is not charged with reviewing existing statutes or organizational structures, (3) does not review budget proposals to insure that they are consistent, (4) has no line authority to resolve conflicts or direct departments to take specific actions, and (5) is not required to report to the Legislature or the public.

Recommendation:

We recommend enactment of legislation to establish the Hazardous Substances Task Force on a permanent basis and expand its responsibilities to include (1) the development of recommendations for legislation and organizational changes, (2) oversight of budgetary decisions involving hazardous substances control, (3) the development of a comprehensive state plan, and (4) reporting to the Legislature on a regular basis.
Fiscal Impact:

The permanent establishment of the task force may result in minor additional administrative costs. Savings to various funds will occur to the extent that the task force eliminates duplication and improves program operations.
Trial Court Costs--Process Serving

Reference:

Perspectives and Issues page 201.

Analysis:

Counties generally must use sheriff's and marshal's officers to serve civil process (such as a notification of a pending court action against a person). Private firms may also serve process except in specified instances (they may not serve certain writs). State law limits the ability of counties to control costs for process serving by setting a maximum fee counties may charge for this service, and by restricting counties from contracting with private firms, in lieu of using more expensive county personnel, to serve process.

Specifically, under Section 26721 of the Government Code, when a person decides to use a sheriff or marshal to serve process, the county may not charge the individual more than $14 for the service. The counties' actual costs for performing these duties often are significantly higher than the maximum allowable fee. Los Angeles County estimates that its costs for process serving exceed fee revenues by about $9 million annually.

In addition, when individuals request counties to serve process for them, or when specified types of process must be served, the Government Code (Sections 26608, 71264, 71265) requires sheriff's or marshal's officers themselves to serve the process. As a result, a county generally may not contract with a private firm to serve process on the county's behalf, even where it would be cost-effective to do so. Because sheriff's and marshal's officers are trained and compensated as peace officers, a county's cost to serve process may be significantly higher than that of a...
private firm which does not use peace officer personnel for the task. San Diego County estimates that it could save $1 million annually by contracting with private firms for process serving.

Recommendation:

In order to increase county control over the costs of serving civil process, we recommend that legislation be enacted to permit counties to (1) assess fees to cover their actual costs of serving process and (2) contract with private firms to serve process.

Fiscal Impact:

Based on county estimates, modification of these statutes could result in unknown, but potentially major, savings and revenues to counties.
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Fiscal Impact:

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Trial Court Costs--Court Reporting

Reference:

Perspectives and Issues page 202.

Analysis:

Despite strong indications that electronic recording devices can be as accurate as--and often significantly less expensive than--shorthand reporters, state law generally prohibits trial courts from using these devices or even experimenting with them to determine their usefulness. The Code of Civil Procedure (Sections 269 and 274c) requires superior, municipal, and justice courts to use shorthand reporters for court proceedings. The only exception to this requirement is that municipal and justice courts may use electronic recording devices for certain proceedings, in accordance with Judicial Council rules, if no reporter is available. Municipal courts in several counties currently employ these devices successfully when no reporter is available.

The Los Angeles County Superior Court Executive Officer estimates that the use of electronic recording in the 5-10 percent of the proceedings where it would be most cost-effective (for example, in certain family law hearings), would save the county over $400,000 annually. If the Legislature modified current law to give the counties more flexibility to use electronic recording devices in the trial courts, counties could reduce trial court costs by utilizing electronic reporting in those proceedings where it would be appropriate and cost-effective.

Recommendation:

In order to increase county control over the costs of court proceedings, we recommend that the Legislature enact legislation to permit...
counties to use electronic recording as an alternative to shorthand reporting when they determine it would be appropriate and cost-effective.

Fiscal Impact:

Enactment of this legislation could result in unknown, but potentially major, savings to counties.
**Trial Court Costs--Fees for Civil Trials**

**Reference:**

*Perspectives and Issues* page 203.

**Analysis:**

The costs of conducting trials accounts for a significant portion of county court expenditures. Yet, in most counties, litigants must pay only a small share of county trial costs.

Counties currently have limited statutory authority to charge litigants for the costs of trials, which primarily result from the salaries and benefits of the court reporters, bailiffs, and clerks that attend trials. According to the Judicial Council, litigants in municipal and justice courts generally pay the full costs of court reporters. However, Government Code Section 269 prohibits superior courts from assessing litigants for a county's costs to retain a court reporter during a trial. The Legislature made an exception to this provision in nine counties where the courts may charge litigants requesting trials for the costs of court reporters.

Our review suggests that the policy of allowing counties to charge litigants requesting trials for the costs of court reporters should be extended to the superior courts in all 58 counties. By enacting legislation to give counties the flexibility to charge civil litigants for an increased share of the costs of trials, the Legislature could tie the costs borne by litigants more closely to the costs they impose on county governments.
Recommendation:

We recommend the enactment of legislation to authorize all counties to assess litigants for the costs of court reporters in civil trials.

Fiscal Impact:

Permitting all counties to charge fees to litigants for the costs of court reporters would result in an unknown, but potentially major, county revenue gain.
The Need for Better Budget Information

Reference:
Perspectives and Issues page 241.

Analysis:
It is important that the Legislature have on an ongoing basis the most current and accurate picture possible of the state's fiscal situation, in order to manage the budget in an effective manner. In last year's Perspectives and Issues (pages 204-206) we identified a number of deficiencies in the Department of Finance's current approach to fiscal forecasting, and recommended the enactment of legislation which would remove these deficiencies. These deficiencies involve the timing and frequency of fiscal updates, analyses of the causes for revisions in and the degree of uncertainty surrounding fiscal forecasts, the preparation of fiscal forecasts using alternative economic assumptions, and the development of long-term fiscal projections. To date, no action has been taken either by the Legislature or the department in response to the recommendations we made last year. Accordingly, we are again recommending the enactment of legislation to correct the department's deficiencies in the area of fiscal forecasting. We believe that addressing these deficiencies through the enactment of legislation is necessary to ensure that all of the deficiencies will be corrected on a continuing basis.

Recommendation:
We recommend that the enactment of legislation requiring the Department of Finance to include specific information in its fiscal forecasts and to present these forecasts at specified points in time during each fiscal year.
Specifically, the department should be required to:

1. Provide updated estimates of General Fund revenues, expenditures and surplus, and also of special fund revenue from major sources, five times each year (in January, March/April, May/June, August, and November).

2. Itemize all factors responsible for changing the fiscal forecasts at each update, including economic developments, enacted legislation, cash-flow factors, and court cases.

3. Indicate the degree of uncertainty surrounding fiscal estimates, due to both economic forecasting uncertainties and statistical estimating techniques.

4. Provide, along with its regular fiscal updates, fiscal forecasts using alternative economic scenarios which the economic forecasting community believes have a reasonable likelihood of occurring.

5. Publish, at least twice each year (in January and May), fiscal forecasts for four years beyond the budget year.

Fiscal Impact:

While this recommendation would improve the ability of the Legislature to do its fiscal planning, there would be no direct fiscal effects in terms of state costs or state revenues. The department should be able to remove the basic deficiencies in its fiscal forecasting process using existing resources.