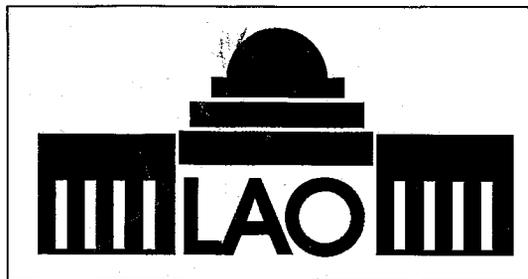


Analysis of the 1989-90 Budget Bill

Summary of Findings and Recommendations

LEGISLATIVE ANALYST'S OFFICE



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INTRODUCTION

In the *Analysis of the 1989-90 Budget Bill*, we report the results of our detailed examination of the Governor's departmental spending proposals for the coming fiscal year. By contrast, *The 1989-90 Budget: Perspectives and Issues* provides an overall perspective on the state's revenues and expenditures for the budget year. It also looks to the future in an effort to focus on some of the challenges facing California in the years ahead. This document summarizes, by program area, the principal findings and recommendations set forth in the *Analysis* and the *Perspectives and Issues*. It also shows how approval of these recommendations would affect the state's fiscal condition.

Impact of Recommendations-- General Fund and Special Funds

Table 1 shows the net effect of our recommended changes to the expenditures proposed in the Governor's Budget. As the table shows, approval of these recommendations would increase the amount of General Fund and special fund monies available for appropriation by the Legislature by a total of \$244 million. The total reflects:

- \$191 million in recommended *expenditure reductions*;
- \$37 million in recommended *expenditure augmentations*; and

- \$89 million in recommended *transfers, reversions, and funding source changes*.

In addition, we have recommended reductions in K-14 education totaling \$138.5 million. Adoption of these recommendations would make a like amount of funds available, which, under the provisions of Proposition 98, can only be used for K-14 education purposes. We have recommended that these funds be transferred to the "Proposition 98 Reserve" from which these funds could be appropriated by the Legislature for its priorities.

Table 1

Impact of Legislative Analyst's Recommendations on General Fund and Special Funds

1989-90
(dollars in millions)

Nature of Recommendation	General Fund	Special Funds	Totals
Reductions	-\$48.9	-\$141.9	-\$190.8
Proposition 98--Transfer to Reserves	(138.5)	(--)	(138.5)
Augmentations	36.3	0.3	36.6
Transfers, Reversions, and Funding Source Changes ^a	-73.8	-15.5	-89.3
Totals^b	-\$86.4	-\$157.1	-\$243.5

^aAssumes transfers of \$43.7 million from the State Water Project to the California Water Fund for appropriation for General Fund purposes.

^bTotals do not include recommended reductions in K-14. We have recommended that these funds be transferred to the Proposition 98 Reserve.

BUDGET OVERVIEW

Our review of the proposed budget for 1989-90 resulted in the following significant findings:

\$1.6 Billion Funding Gap Requires Reductions in Current Service Levels

The General Fund cost of maintaining current levels of state services, including restoring the reserve to the 3 percent of expenditures level, would amount to \$4.5 billion in 1989-90. Because General Fund revenues are only expected to total \$2.9 billion, this leaves a funding gap of \$1.6 billion.

The budget proposes to cover this gap by (1) deferring state costs, (2) covering state costs with Proposition 99 revenues, (3) funding the reserve at less than 3 percent of expenditures, (4) reducing current services levels, and (5) shifting costs to counties. (*Perspectives and Issues*, page 12.)

Budget Proposes a High Priority for Reserve Funding

Of the \$2.9 billion in revenue growth, \$870 million (30 percent) is proposed to be allocated to the Special Fund for Economic Uncertainties. This leaves \$2.1 billion for expenditure growth. Of this amount, \$1.3 billion is for workload growth, \$0.9 billion is for cost-of-

living adjustments, and \$0.6 billion is for all other expenditure adjustments. These increases are offset by net expenditure reductions proposed in the budget of approximately \$700 million. (*Perspectives and Issues*, page 9.)

Budget's Revenue Estimates Are Reasonable, Though With Some Upward Potential

The budget's revenue estimates are based on a forecast of continued moderate growth in the state's economy. This forecast is generally in line with that of other forecasters, though slightly less optimistic for California. The revenue estimates themselves are generally reasonable for the Legislature's initial planning purposes. The estimates, however,

do have some upward potential based on recent economic trends and revenue collections data. Because some of the uncertainties in the forecast may be clarified with the filing of tax returns in April, it is possible that the revenue forecast could be significantly changed in the May revision. (*Perspectives and Issues*, page 49.)

State's Appropriations Limit Should Be Repealed

Our analysis indicates that the limit has a number of serious defects. The limit does not allow sufficient growth in spending authority to maintain current service levels or to keep pace with the state's economy, and it tends to distort government decision-making. In the long run, it will hamper the state's ability to provide the services needed to keep the

state's economy functioning efficiently. As a result, we recommend that the Legislature place on the ballot a constitutional amendment calling for the repeal of the limit. *If the Legislature chooses to replace the limit with a different type of limit*, several considerations should be carefully addressed in determining how it should operate. (*Perspectives and Issues*, page 140.)

BUDGET OVERVIEW

State Actions Needed To Accommodate California's Growth

California's population is expected to grow by roughly one-third in the next twenty years. Because the state is having difficulty accommodating its current population, we recommend that the Legislature consider various options to enhance the coordination

of local government land use decisions with the state's transportation, air quality and affordable housing objectives. These actions are necessary to ensure that the health of the state's economy and its quality of life are maintained in the future. (*Perspectives and Issues*, page 97.)

Budget Accounting Changes Reduce Accuracy of State's Financial Condition

Two changes in the traditional method of accounting are reflected in the Governor's Budget. First, certain transactions that have traditionally been recorded as expenditures are instead reflected as "reserves" in the General Fund. Second, no provision is made to reserve funds for outstanding, but unspent appropriations. These

changes have the effect of increasing the amount that the budget indicates is available for appropriation. Our review indicates that these changes do not improve the accuracy of the state's reported financial condition, and raise concerns about how changes to the state's accounting and budget systems should be made. (*Perspectives and Issues*, page 375.)

JUDICIARY AND CRIMINAL JUSTICE

Our review of the proposed budget for 1989-90 resulted in the following significant findings:

Proposed Reduction in the County Justice System Subvention Programs (CJSSP) Could Lead to Increased State Costs

The budget proposes a \$37 million reduction (55 percent) in the CJSSP. Such a reduction will likely result in increased state costs due to increased commitments to the Youth Authority and placements in the AFDC-Foster Care program. This is because the counties that operate juvenile ranches and camps indicate that they will absorb the loss of funds by

eliminating some or all of their camp beds. The wards in these beds will likely be placed in the Youth Authority or the AFDC-Foster Care program. Counties also indicate that services for adults who are at risk of commitment to the Department of Corrections will be reduced. This could lead to an increase in the number of adults sentenced to state prison. (*Analysis*, page 682.)

Administration Intentionally Delays Activation of Two New Prisons

The delayed occupancy of Pelican Bay State Prison (Del Norte County) and the women's prison in Madera County is not the result of any delays in construction, but rather a strategy to reduce operating costs. This strategy is a departure from the administration's prior state-

ments and actions regarding capital outlay funding for new prisons whereby construction was expedited in order to alleviate overcrowding. These planned delays will intensify overcrowding at existing facilities. (*Analysis*, page 654.)

Alternatives for Improving the Treatment of Juvenile Offenders and Reducing State Costs for Treatment Services

Probation departments and the juvenile courts currently have rather limited options for the treatment of wards. The current funding arrangements provide fiscal incentives for counties to place wards in particular facilities based on the state and county share of costs, rather than on the treatment needs of the wards and the total cost of the placements.

The Legislature can address these problems through development of treatment alternatives (such as placement prevention services, special foster family homes, and day treatment programs), and changes in the existing funding arrangements for treatment services. (*Perspectives and Issues*, page 319.)

Budget Provides Full Funding for the Trial Court Funding Program

The Trial Court Funding Program will "free up" \$400 million in revenues currently used by counties for the trial courts. A portion of these revenues are expected to be used by counties to increase expenditures on the trial courts, and the remainder will be available

for use in other program areas. In the long run, however, the fiscal relief provided by trial court funding will erode, because the increase in costs for state-required programs will outpace the increase in funding to be provided under the program. (*Perspectives and Issues*, page 337.)

JUDICIARY AND CRIMINAL JUSTICE

Time to Reexamine the Role of the State Public Defender in Defending Indigent Criminal Appellants

The State Public Defender (SPD) is accepting a decreasing share of an increasing criminal appellate caseload and is not fulfilling its mission to accept death penalty appeals. In addition, the court-appointed counsel program within the Judiciary has assumed the primary role within the indigent

criminal appellate defense system and provides representation at a much lower cost than the SPD. As a result, we recommend that the Legislature reexamine its current policy of providing for the defense of indigent criminal appellants through the SPD. (*Analysis*, page 889.)

BUSINESS AND TRANSPORTATION

Our review of the proposed budget for 1989-90 resulted in the following significant findings:

Proposition 103--How Regulatory Decisions Are Made is Crucial

Only after Proposition 103 is implemented fully will the state know its effects on insurance rates, availability of insurance and the ability of insurance companies to operate profitably in California. It is clear, however, that these issues will be significantly affected by how the new regulatory process functions.

The extent to which the insurance industry exhibits competitive performance will largely determine whether rate rollbacks are sustained and whether rate regulation will improve industry performance. Our analysis was unable to determine whether industry profits are excessive. Other data, however, suggest that the industry exhibits competitive elements.

Much of the industry's current problems appear to be related to the underlying costs of providing insurance coverage. Costs of settling claims have been increasing and premiums generally appear to follow those costs. Proposition 103 does not address this issue.

The actual history of rate regulation in industries with competitive characteristics is not very impressive. It is imperative, therefore, that both the rate rollbacks and the ensuing rate regulation focus on the underlying economic realities of the insurance industry and maintain a neutral ground between consumers and the industry. (*Perspectives and Issues*, page 289.)

Gas Tax Increase Recommended to Address Long Term Funding Shortfall

Based on the requirements of current law, it is estimated that there is a funding shortfall of \$4.5 billion in the state's highway program during the next five years (1989-90 through 1993-94). In order to address this shortfall, we recommend that the Legislature increase the state's gas tax and other highway user fees. We also recommend that

the Legislature provide for future increases in these sources based on an index of highway construction and operation costs. The amount of increase needed in highway user fees would depend on the extent to which a "pay-as-you-go" system or bond financing is used. (*Perspectives and Issues*, page 161.)

Budget-Year Funding Shortfall Means High- way Project Deferrals

The administration indicates that \$600 million in highway capital outlay projects will be deferred to address a funding shortfall in the budget year. The budget assumes that additional transportation revenues will be available to the State Highway Account by 1990-91. If new revenues are not available, the

shortfall in the 1990-91 budget is likely to be on the order of \$500 million. *If additional revenues are not available by late 1989, the Department of Transportation would need to further reduce 1989-90 expenditures in order to develop a balanced budget for 1990-91.* (*Analysis*, page 218.)

BUSINESS AND TRANSPORTATION

Budget Proposal May Be Inconsistent With Legislative Priorities

The Department of Transportation has not provided a list of the \$600 million in highway projects that it plans to defer, but indicates that, except for safety projects, all other projects would be funded on a first-come first-served basis. Such

a procedure could result in the deferral of some high priority projects. Therefore, we recommend that the department identify for the Legislature the projects to be funded and to be deferred. (*Analysis*, page 231.)

Virtually No Preventive Maintenance Will Be Done for Two Years

The Department of Transportation proposes to defer virtually all preventive maintenance for two years while increasing roadside maintenance, such as litter pickup. Preventive maintenance, which costs about \$5,000 per lane-mile, forestalls rehabilitative work which costs about \$100,000 per lane-mile.

Consequently, these activities should have higher priority than litter pickup. Therefore, we recommend that \$1.3 million proposed for roadside maintenance be deleted and the Legislature consider directing these resources to higher priority activities such as preventive maintenance. (*Analysis*, page 238.)

NATURAL RESOURCES

Our review of the proposed budget for 1989-90 resulted in the following significant findings:

State Water Project Has Excess Reserves That Can Support General Fund Programs

Our review of funding for the State Water Project (SWP) has identified several concerns. First, the budget proposes to transfer \$12 million in SWP revenues to the California Water Fund (CWF) to support the Delta Flood Protection Program in the budget year. However, our review found that an additional \$44 million can be transferred from the SWP to the CWF while maintaining a reasonable SWP operating reserve. These funds would be available for appropriation by the Legislature for any General Fund purpose.

Second, the administration proposes to cancel--interest free--approximately \$186 million of the SWP's debt to the CWF, and to reduce the General Fund debt to the SWP by the same amount. Because CWF revenues are interchangeable with the General Fund, interest-free cancellation of the SWP's debt limits the funds available to the Legislature for appropriation for legislative program priorities. (*Analysis*, pages 363-367.)

Budget Lacks Funding for Continued Drought

Our review of the Department of Water Resources's budget indicates that no funding is proposed for (1) continuation of the department's Drought Center in 1989-90 or (2) drought assistance programs. As a result, the Drought Center would be shut down in the budget year even though the state currently

is in the second year of a drought and the probability of a third year of drought conditions are increasing. If the drought continues into an unprecedented third year, drought-related costs could be significant and warrant the Legislature's attention. (*Analysis*, page 369.)

California Still Has Adequate Landfill Space

Our review indicates that California is not presently facing a waste management crisis. The overall cost of waste disposal in California is relatively low and not likely to increase substantially in the near future. Most counties have adequate disposal capacity, and there is little evidence at present of significant environmental damage caused by currently operating waste disposal facilities. There are, how-

ever, problems with the state's existing solid waste management system: (1) in many areas, waste disposal services are not realistically priced; (2) some local governments have difficulty gaining public approval to locate new disposal facilities; and (3) without preventive measures, household hazardous waste can present a threat to the environment. (*Perspectives and Issues*, page 127.)

NATURAL RESOURCES

Local Planning Process Lacks the Coordination Necessary to Ensure Achievement of Air Quality Goals

In our review of the implementation of the California Clean Air Act (CCAA) we point out that, despite having one of the most stringent air pollution control programs in the country, California still has the country's worst air quality. The CCAA establishes a 20-year horizon for cleaning up the state's dirty air by (1) establishing a district-level planning process overseen by the state Air Resources Board and (2) increasing both state and air district regulatory authority.

Despite this new authority, however, the ability of the CCAA to actually accomplish its goal will be limited to the extent that air district goals may be in conflict with other local land use and transportation planning goals. We recommend that the Legislature expand the role of air districts in local land use and transportation planning in order to enhance the coordination necessary to achieve the CCAA's air quality objectives. (*Perspectives and Issues*, page 111.)

Poor Budget Information Limits Legislative Oversight

The budget proposal for the Department of Fish and Game does not provide adequate information for the Legislature to review the department's budget request, set program and policy priorities, and oversee program implementation. This is because the budget information submitted by the department

is untimely, filled with errors, and incomplete. As a result, we (1) withheld recommendation on many of the department's proposals and (2) recommended that the department submit to the Legislature a plan for improving departmental fiscal operations. (*Analysis*, pages 322-328.)

Our review of the proposed budget for 1989-90 resulted in the following significant findings:

Proposal to Restructure Medically Indigent Services Funding Raises Policy Concerns

The administration proposes to reduce funding for the Medically Indigent Services program (MISP) by \$359 million, or 73 percent. This reduction would be offset by increases in allocations of State Legalization Impact Grant (SLIAG) funds to the MISP (\$108 million) and creation of a new California Health Care for Indigents program (CHIP) using Cigarette and Tobacco Products Surtax (Proposition 99--C&T) funds (\$331 million). We have the following concerns regarding this proposal:

- SLIAG funds may not materialize because counties may not be able to use these funds to the extent anticipated by the Department of Health Services (DHS). Consequently, the portion of the MISP reduction (\$100 million) related to the increase in SLIAG funds may not be justified.
- The administration's proposal for funding CHIP is question-

able for two reasons. First, the CHIP is likely to be used to supplant existing levels of services. Spending C&T funds in this manner is specifically prohibited by Proposition 99. Second, if the CHIP is *not* used to replace MISP funding, then the MISP reduction would leave an unfunded mandate.

- C&T and SLIAG funds will erode over time. C&T revenues are likely to experience the same declines as experienced by other tobacco products taxes. The SLIAG funds are provided to California by the federal government and will only be available for five years.
- The proposal will result in significant disruptions in funding for some counties. This is because the allocation methods for C&T and SLIAG funds would be different from the allocation method for MISP funds. (*Analysis*, page 433.)

Legislature Should Restore Funding for the Family Planning Program

The budget proposes to eliminate the Family Planning program, for a savings of \$36 million to the General Fund, "in order to fund higher priority General Fund programs." The department indicates that it will propose legislation to eliminate the program.

Our analysis indicates that eliminating the program may have several negative short- and long-term effects. Specifically, (1) family planning services appear to be cost-beneficial, (2) losing family planning funds may threaten the financial

stability of community clinics that provide primary health care services, and (3) eliminating family planning grants may reduce the effectiveness of other programs, such as the Adolescent Family Life program, which provides case management services to pregnant and parenting teenagers. We conclude that services provided by the Family Planning program are valuable and cost-beneficial. Accordingly, we recommend that the Legislature restore support for the program. (*Analysis*, page 454.)

HEALTH

Elimination of the Family Physician Training Program Could Reduce Access to Primary Health Care Services in Underserved Areas

The budget proposes to eliminate funding for the Family Physician Training Program, for a General Fund savings of \$2.9 million, "in order to fund other higher-priority General Fund programs." This program supports training for family physicians, family physician

assistants, and family nurse practitioners. Our review of two studies suggests that eliminating this program may reduce access to primary health care services for residents of medically underserved areas. (*Analysis*, page 389.)

The Legislature Has Several Options to Improve Access to HIV Testing Among Populations at High Risk of AIDS

We reviewed the Alternative Test Site (ATS) program to determine the accessibility of HIV testing services to high-risk individuals. We found that the Legislature can improve access to testing for intravenous drug users, minorities, and others at high risk who are hardest to reach, by (1) expanding outreach

to high-risk populations, (2) encouraging counties to expand confidential testing at sexually transmitted disease clinics, jails, and drug treatment centers, and (3) making expansion of confidential, rather than anonymous, testing a funding priority. (*Analysis*, page 442.)

Smoking Prevention Proposal is Hazy

The budget proposes to spend \$176 million from the C&T Fund to create a smoking prevention education program in the DHS. Proposition 99 allocates 20 percent of the revenues to the C&T Fund for this purpose. The funds would be used for a master contract with one organization and two administrative positions (one analyst and one clerical).

We identified two problems with the proposal. First, there is little information regarding what the pro-

gram will accomplish, the types of agencies that would receive funds and for what purpose, and the data collection and evaluation activities that would be conducted. Second, the department's proposal to administer the funds through one master contract is inconsistent with its staffing proposal. We believe it is ludicrous to expect that one analyst can direct and monitor a contract of this magnitude. (*Analysis*, page 455.)

Funding Shortfall in the Site Mitigation Program

The budget shows expenditures of \$67 million from a new Site Mitigation Fund to be established in proposed legislation. The new fund is proposed because the \$100 million in bond funds that have supported the program since 1985-86 will be exhausted in the current year. According to draft legislation, the new fund would be supported from a combination of existing and new fees.

There are two problems with the current-year funding for the pro-

gram. First, our review indicates that the program has a \$19 million to \$35 million shortfall in the current year, not a reserve of \$8 million as shown in the budget. Second, the sale of the second \$50 million of the \$100 million in bonds authorized in 1984 is being held up pending review of the impact of an Internal Revenue Service ruling concerning the tax-exempt status of similar bonds. The impact of these problems on the Site Mitigation program is unknown. (*Analysis*, page 478.)

The Legislature Has Several Options for Improving Services to Pregnant Substance Abusers and Their Substance-Exposed Infants

The infants of women who abuse drugs and alcohol during pregnancy have a variety of medical and social problems. These problems result in costs to a number of state and local programs such as Medi-Cal and Child Welfare Services. There are no comprehensive data available regarding the prevalence of infant substance exposure; however, it appears to be increasing. We identified a number of issues raised by the current configuration of services. To address these issues, we recommend the Legislature take action to:

- Improve the information available regarding substance-abusing pregnant women and substance-exposed infants,
- Require the Department of Health Services (DHS) to develop model protocols for

prenatal screening and testing for substance use and exposure,

- Enact legislation to clarify whether substance exposure is a reportable condition that places an infant in danger of abuse and neglect, and
- Require drug and alcohol treatment providers to give priority to pregnant women. (*Perspectives and Issues*, page 250.)

The budget contains a total of \$8 million in three departments (Health Services, Social Services, and Alcohol and Drug Programs) for pilot projects in four counties for substance-abusing pregnant women and substance-exposed children. Generally, we recommend approval of these projects. (*Analysis*, pages 410, 450 and 617.)

Legislature Has Several Options for Improving Local Mental Health Services

Our review of California's current array of mental health programs indicates that for the most part, since 1968, these programs have been patched together in response to perceived service needs and availability of funding. This has resulted in a fragmented system. In addition, we conclude that there are significant problems with access to mental health services in some areas of the state. Finally, the data we examined suggest that General Fund appropriations for "Short-Doyle" services have not kept up with inflation and population growth since 1980-81.

There are no data available that allow review of whether counties use available funding in the most efficient and effective manner.

Categorical programs and pilot programs are two approaches the Legislature has used in the past for improving the local mental health system. The Legislature has a number of other options for restructuring the system. These options include:

- Providing consistent funding increases to account for population growth and inflation, while keeping the current system intact,
- Establishing a case management entitlement program, and
- Establishing an open-ended entitlement program.

These latter options are likely to be very expensive. In addition, they would limit the Legislature's fiscal flexibility in the annual budget process. (*Perspectives and Issues*, page 304.)

Our review of the proposed budget for 1989-90 resulted in the following significant findings:

Foster Care Group Home Costs Are Growing Rapidly

Even though group homes have not received a cost-of-living adjustment since 1985-86, their rates have been growing by an average annual rate of 11 percent in recent years. This will result in a \$36 million General Fund cost increase in 1989-90. This rapid growth in rates is the result of two factors:

1. *More children are being placed in higher service level, more expensive homes.* For example, 63 percent of the children who were placed in new foster care group homes in 1987 received care in psychiatric level group home facilities as compared to 23 percent in existing group homes.

2. *There has been an influx of newer, more expensive homes into the system in recent years.* The average monthly rate for new group homes in 1987 was 47 percent higher than the rate paid to homes that had opened prior to 1987.

We recommend that the Department of Social Services provide the Legislature with its analysis of (1) alternative group home rate-setting systems and (2) the potential for developing a system to assess which level of care each child in foster care actually needs. (*Analysis*, page 456.)

County Poor Performance in Collecting Child Support, Costs the State Millions of Dollars Each Year

Under the child support enforcement program, county district attorneys locate absent parents, establish paternity, and collect child support payments. Our review of county performance shows that Los Angeles County's poor performance costs the state millions of dollars each year. For example, in 1987-88, if Los Angeles County had collected as much child support as the average large county, the state would have received \$22 million more to offset Aid to Families with Dependent Children costs. More-

over, children in the county would have received \$25 million more in child support payments. The county's proposal to contract out its child support operation is one reason for its poor performance. Since making the contracting proposal, the county has lost 24 percent of its child support staff. We recommend that the state Department of Social Services develop a three-year plan to bring Los Angeles County's performance up to par. (*Analysis*, page 579.)

K-12 EDUCATION

Our review of the proposed budget for 1989-90 resulted in the following significant findings:

No Analytical Basis for Class Size Reduction Funding Level

The budget proposes \$110 million for a new program to reduce class sizes in grades 1-3 and 9-12. Our review of research indicates that there is no analytical basis for appropriating a specific level of funds for this purpose because--*within the amount of funds available*--any amount appropriated is likely to have minimal impact on student achievement. (We estimate that it would cost more than \$200 million--not counting capital outlay costs--to reduce the average class size in California by one student.)

The amount appropriated for this purpose--if any--should be determined in the context of overall legislative priorities. Accordingly, we recommend that the Legislature transfer the \$110 million proposed for class size reduction to the Proposition 98 reserve, where it may then be appropriated for designated, high-priority educational purposes (possibly including some amount for class size reduction). (*Analysis*, page 721.)

Size of Proposed Proposition 98 Reserve Exceeds Needs

The budget proposes to set aside \$220 million in a Proposition 98 reserve. At the end of the 1989-90 fiscal year, these funds would be used first to fund K-12 deficiencies (if any) and, second, to fund other--unspecified--K-12 programs. Our review indicates that the reserve is much higher than the likely size of K-12 deficiencies. Accordingly, we

recommend that the Legislature leave \$100 million for this purpose in the Proposition 98 reserve and, following the May Revision, appropriate the balance for designated, high-priority educational purposes. (*Analysis*, page 713; for further discussion of Proposition 98, please see *Perspectives and Issues*, page 367.)

Discretionary COLAs Should Be Based on Legislative Priorities

The budget proposes \$14.3 million to provide discretionary COLAs to only three programs: child development programs operated by local education agencies (3.0 percent), Regional Occupational Centers/Programs (3.1 percent), and Gifted and Talented Education (6 percent). We find no analytical basis for distinguishing the discretionary COLA needs of one program from another. Rather, we believe that the choices of whether to

provide such COLAs--and their respective funding levels--are decisions that only the Legislature can make in light of its overall priorities for the use of limited funds. Accordingly, we recommend that the Legislature transfer the amounts proposed for discretionary COLAs to the Proposition 98 reserve, for subsequent appropriation for high-priority educational purposes. (*Analysis*, pages 736, 743, and 760.)

K-12 EDUCATION

Year-Round Incentives Exceed Cost of Building New Schools

The Governor proposes \$37.3 million to provide incentive payments to school districts operating year-round schools to alleviate overcrowding. The Governor's proposal, however, would increase the year-round school incentive payment rate to a level that would *exceed* state taxpayers' costs of building new schools. Similar proposals were previously rejected by the Legislature in 1987 and 1988.

Accordingly, we recommend that the Legislature once again reject the Governor's proposal and instead substitute Budget Bill language that would effectively give school districts 100 percent of the state's avoided costs from not building new schools. (*Analysis*, page 753; for further discussion of year-round schools, please see *Perspectives and Issues*, page 170.)

State Can Serve More Children by Reducing Child Care Staff Ratios

We recommend the adoption of Budget Bill language to phase in a change in staff-to-child ratios for preschool-aged children served through subsidized child development programs from 1:8 to 1:10. The 1:10 ratio would maintain high-quality programs, while still providing a richer staff-to-child ratio than that required by the Department of

Social Services for nonsubsidized child care programs. When fully implemented, this change would result in annual savings of up to \$19 million, which could be used to serve up to 4,300 additional children. (*Analysis*, page 761; for further discussion of child care issues, please see *Perspectives and Issues*, page 228.)

Our review of the proposed budget for 1989-90 resulted in the following significant findings:

Campus Expansion Proposals Warrant Further Review

University of California. In October 1988, the university issued a new long-range enrollment plan through 2005-06. This plan included a proposal to start three new campuses in the late 1990s.

Our analysis indicates that changes in key academic and physical capacity assumptions could significantly decrease UC's projection for new campus headcount enrollment from 20,156 to 3,300. These considerations bring into question UC's projected need for three new campuses. Consequently, we withhold recommendation on \$500,000 requested for UC to begin site selection plans for one or more campuses, pending receipt of additional information. (*Analysis*, page 806.)

California State University. The budget proposes \$521,000 from the

General Fund to establish 14 new positions to form the initial cadre of administration for the proposed transition of the San Marcos off-campus center to a full service four-year campus. Currently, the center (operated by San Diego State University) serves only upper-division and graduate students. The new campus would admit its initial freshman class in 1995. Thus, the budget would result in a relatively long period of time between establishment of the initial cadre of administration and the conversion to a new campus. We have no analytical basis, however, for determining the appropriate time to establish the new positions. Consequently, we make no recommendation on this proposal. (*Analysis*, page 837.)

Diversion of State's Contribution for the University of California Retirement System

The budget proposes that the state's contribution of \$68 million to the University of California Retirement System (UCRS) be diverted to fund other UC base programs. In addition, the budget proposes that the actuarial equivalent of the amount not paid in 1989-90 be restored through supplemental appropriations over the next 30 years. With a June 1988 retirement fund

surplus of \$1.6 billion, the loss of the state's \$68 million contribution in 1989-90 will not weaken the fund to any great extent.

While we would not recommend this deferral under normal budget practice, we believe that the state's fiscal condition presents limited alternatives in 1989-90. (*Analysis*, page 819.)

State Savings For the UCRS Is Not Fully Reflected in the Budget

Based on a recent actuarial review, the state's *contribution rate* for the UCRS was reduced for an annual General Fund savings of \$30 million. The budget, however, reduces the General Fund by only \$15 million in 1989-90, one-half of the amount called for. This in effect allows UC

to retain the balance--\$15 million--for unspecified purposes. This is contrary to past budget practice. Because there is no analytical justification for UC to retain this savings, we recommend that the remaining \$15 million be deleted. (*Analysis*, page 819.)

GENERAL GOVERNMENT

Our review of the proposed budget for 1989-90 resulted in the following significant findings:

Restoration of Cal-OSHA Delayed

Proposition 97, enacted November 1988, required the Governor to restore the Cal-OSHA workplace safety program. The Governor provided \$8.4 million and 351 positions to restore the program beginning in December 1988. The budget proposes \$24.7 million and

381 positions for 1989-90. Due to various staffing problems, however, it is unlikely that the administration will be able to fully restore the program by the start of the budget year, as it had originally planned. (*Analysis*, page 916.)

State Teachers' Retirement Fund-- Initial Savings Result in Long Term Costs

The budget proposes to fund cost-of-living adjustments for retired teachers from the State Teachers' Retirement Fund (STRF), rather than the General Fund, in the budget year. Moreover, the Governor proposes to make this a *permanent state-funded* benefit for all current and future retired teachers through the enactment of legislation. While the budget proposal will avoid General Fund costs of \$163.5 million in 1989-90, it will *increase the unfun-*

ded liability in the STRF by a like amount. In addition, the Governor's legislative proposal will result in future statutory General Fund costs of about \$400 million annually. Because this benefit would become a "vested right", these costs would continue in perpetuity. (*Analysis*, page 157.) We discuss in greater detail the general issue of providing Retirees' COLA in the *Perspectives and Issues*, (page 382).

Proposed Elimination of Career Opportunities Development Program Leaves Many Questions Unanswered

The budget proposes to eliminate the Career Opportunities Development (COD) program for a General Fund savings of \$9 million. This program provides on-the-job training for disabled individuals, welfare recipients, and other disadvantaged persons. We find that the proposal leaves many program and

fiscal questions unanswered. For example, the proposal does not address (1) how the 700 individuals currently served by the program will be served in the future and (2) how the loss of \$8 million in related federal reimbursements will affect the state's ability to serve disabled persons. (*Analysis*, page 146.)

Budget Reduction May Impair State Personnel Board's Ability to Address Legislative Priorities

The budget proposes to reduce the State Personnel Board's budget by \$2.6 million and over 60 positions, about 20 percent, over a two-year period beginning in 1989-90. Given the magnitude of the reductions, it

is unlikely that the SPB will be able to address legislative priorities--such as, overseeing departments' affirmative action efforts. (*Analysis*, page 148.)

Fee-For-Service Health Plan for State Employees Faces Uncertain Future

The Public Employees' Retirement System (PERS) offers health care coverage to 660,000 employees of the state and various local public agencies. Total premium costs were \$578 million in 1987-88. In recent years, the premium costs for the program's fee-for-service plans has increased at three times the rate of its other plans—primarily health maintenance organizations (HMO). While PERS has adopted various cost containment measures, fee-

for-service plans intrinsically are more costly than HMO plans, and thus, it is uncertain whether fee-for-service will be an affordable health plan option in the future. Consequently, we recommend that the Legislature enact legislation requiring PERS to develop a management information system to monitor the progress of its cost containment efforts. (*Perspectives and Issues*, page 403.)

CAPITAL OUTLAY

Our review of the proposed budget for 1989-90 resulted in the following significant findings:

State Needs Comprehensive Capital Outlay Plan

The Governor's Budget includes \$715 million for capital outlay, excluding highways and the State Water Project. The estimated future cost to complete this proposal totals nearly \$1 billion. The Governor's Budget does not present a plan to finance this future cost nor does it include plans to address other major capital outlay issues. For example:

- The Governor's Budget does not propose a plan to finance the completion of \$750 million in capital projects proposed for 1989-90. (*Analysis*, page 1084.)
- The Governor's Budget does not propose a plan to fund \$180 million in state office

construction in Sacramento previously approved by the Legislature. In addition, it contains no plan for funding new buildings in the future. (*Analysis*, page 1006.)

Currently, the process for planning and financing the state's capital improvement needs is in a state of disarray resulting in a haphazard and ineffective process. The state's planning process needs to look forward, beyond the budget year, in a more comprehensive manner to determine current and future needs, set priorities for development and identify a financing plan for priority projects. (*Analysis*, page 999.)

Legislature Needs More Information on Expanding Prison System

The Legislature has yet to receive a 1989-90 funding request for any new facilities from the Department of Corrections. This has occurred despite the fact that California's state prison population is expected to reach 110,000 inmates by mid-1994. Based on the Department of Correction's current overcrowding policy, the state will need to spend another \$1.6 billion to \$2.0 billion to construct additional prisons between now and 1994-95 to accommodate this level of growth. (*Analysis*, page 1057.)

Moreover, the *annual* cost of operating the expanded prison system will increase from \$1.6 billion to \$3.1 billion between now and 1994-95. The Legislature has several options to significantly reduce the additional costs of constructing and operating an expanded prison system. We recommend the Legislature consider all options to minimize these costs before appropriating funds for more prisons. We also recommend the Legislature direct the Department of Corrections to improve its Facility Master Plan to better assist the Legislature in this process. (*Perspectives and Issues*, page 203.)

CAPITAL OUTLAY

Funding Proposed for Asbestos Abatement Not Justified Based on Health Risk Standard

The best available information from the federal Environmental Protection Agency and other sources indicates that concentrations of airborne asbestos in most buildings which contain asbestos building materials are *well below* levels for which there is any conclusive evidence of a health hazard. The pressure to remove asbestos in buildings should be weighed against the potential for leaving workplaces and schools in *worse condition* as a result of abatement projects. Conse-

quently, we recommend that the Legislature fund asbestos abatement only when airborne concentrations meet a specified health risk standard. None of the \$17.6 million of asbestos abatement projects--in UC, CSU, community colleges and the Departments of General Services and Motor Vehicles--in the budget meet this standard and we therefore recommend they be deleted. (*Perspectives and Issues*, page 184; *Analysis*, page 127.)

Capital Outlay Project Delivery System Needs Revision

Currently, the state suffers the administrative inefficiencies of two offices within the Department of General Services attempting to act as the state's capital outlay project manager. The Office of Project Development and Management (OPDM) should manage all projects. The Office of the State Architect,

however, in spite of legislative intent and administrative reorganization, still manages most projects. Consequently, we recommend various changes to enable OPDM to take full responsibility for managing the state's capital outlay program. (*Analysis*, page 123.)

Bonds--Are We Issuing Too Many?

Over \$5 billion in new bond authorizations were approved in 1988 by the voters. However, less than 2 percent of General Fund expenditures are used to pay off bonds and this ratio will remain relatively modest--at about 3 percent--even after the 1988 bonds are sold. Additional bond authori-

zations would raise the debt burden further and thus future use of bonds must be closely monitored. The best way to do this is to adopt a comprehensive multi-year capital outlay and bond financing planning process. (*Perspectives and Issues*, page 151.)