

Highlights of the *Analysis and P & I*

STATE FISCAL PICTURE

Budget Summary

➤ **State Faces \$2 Billion Budget Gap in 1995-96**

- The two-year plan to balance the budget adopted last July has fallen out of balance. The state faces a budget gap of \$2 billion, consisting of a 1994-95 year-end budget deficit of \$740 million and an operating shortfall of \$1.2 billion in 1995-96.
- Underlying revenue and spending trends have improved somewhat compared with the July estimates, but commitments of federal immigrant funds have fallen far short of the July assumptions (*Perspectives and Issues*, page 4).

➤ **Governor's Budget Proposal Relies on Program Cuts and Funding Shifts**

- The Governor's Budget includes \$1.4 billion of spending cuts, mostly in welfare and health programs (including almost \$0.7 billion from welfare grant reductions).
- The budget also shifts \$0.9 billion of costs to the federal government and counties, primarily by assuming additional federal immigrant funds and through a state/county restructuring proposal for social services (*Perspectives and Issues*, page 7).

➤ **Budget Proposes Phased-In Tax Cut**

- The Governor proposes a phased-in 15 percent reduction in income tax rates, while leaving in place high-income tax brackets now scheduled to expire in 1996. The proposal would result in an estimated revenue loss of \$225 million in 1995-96 and a cumulative \$7.6 billion revenue loss over the next four years (*Perspectives and Issues*, page 12 and pages 111 through 132).

➤ **Major Risks Pose Threat to Budget**

- A variety of major risks could jeopardize achieving a balanced budget in 1995-96. These risks include pending budget-related litigation and reliance on future federal actions. The proposed budget reserve of less than \$100 million leaves little margin for error (*Perspectives and Issues*, page 15).

➤ **Future Looks Tight Even With Proposed Spending Cuts**

- Funding the Governor's spending priorities for education, corrections, and his proposed tax reductions over the next four years probably would require program cutbacks in the remaining 40 percent of the budget (*Perspectives and Issues*, page 17).

Economy and Revenues

➤ **Continued Moderate Economic Growth
For Both the Nation and California**

- The national economy performed very well during 1994, experiencing strong real growth and low inflation. Some slowing of growth is expected (*Perspectives and Issues*, page 23).
- California's post-recession recovery has lagged and been much weaker than the nation's. The economy recently has been firming up, however, and currently is in a sustained moderate recovery mode (*Perspectives and Issues*, page 27).

- The main risk to the economy is that expansion will be choked off by rising interest rates, caused either by an overheated economy or tight federal monetary policies (*Perspectives and Issues*, page 37).

➤ **Revenues May Be Stronger Than Forecast**

- The budget projects modest growth of 3.4 percent in 1995-96, excluding the revenue-related effects of major proposals by the Governor (*Perspectives and Issues*, page 47).
- Based on our forecast, revenues could be \$595 million higher in 1994-95 and 1995-96 than forecast by the administration (*Perspectives and Issues*, page 63).

P & I HIGHLIGHTS

The Governor's Tax Proposal

➤ **Benefits to Individuals Would Vary Widely**

- Over two-thirds of benefits would go to personal income taxpayers and the remainder to bank and corporation taxpayers (*Perspectives and Issues*, page 114).
- Low-income individuals will receive no benefits as they currently have no tax liability (*Perspectives and Issues*, page 116).
- High-income individuals will pay more taxes initially, but eventually will pay lower taxes (*Perspectives and Issues*, page 118).

➤ **Nearly One-Fourth of State Tax Savings Will Go to Federal Government**

- Because state income taxes can be claimed as a deduction for federal income tax purposes, federal taxable income and tax liabilities will rise (*Perspectives and Issues*, page 116).
- 24 percent of the state tax savings will go to the federal government as increased income tax revenues.

➤ **Personal Income Tax Structure Slightly More Progressive**

- When the tax reduction is fully phased-in, all taxpayers will have lower average tax rates (*Perspectives and Issues*, page 120).
- However, the percentage reduction in tax rates will be greater for lower-income than for higher-income taxpayers.

State-County Realignment

➤ **Governor's Realignment Proposal Should Be Adopted in Part**

- The Governor's Budget proposes a major shift of state costs for welfare and social services programs to the counties, with most of these costs paid for by a shift of state sales tax revenues and increased trial court funding support.
- We conclude that the proposed shift for the foster care, child welfare services, child abuse prevention, and adoptions programs to be offset by increased allocations of state sales tax to counties has merit. However, we recommend rejection of the proposed realignment of the AFDC and Trial Court Funding programs because this part of the proposal would exacerbate county fiscal pressures while giving counties few tools to control costs (*Perspectives and Issues*, page 133).

The State Civil Service System

➤ **System Needs a Fundamental Rethinking**

- Our review found a wide range of problems with the current state civil service system, including (1) departures from the system's original merit principles, (2) preoccupation with process over results, (3) impediments to effective conduct of state programs, and (4) barriers to personal and career development of employees.
- We believe the Legislature should begin a fundamental rethinking, or "reinvention," of the civil service system in order to make it

again serve the state, its employees, and the public. We recommend that the Legislature begin hearings to start the process of revamping the system and we offer a set of basic principles to assist the Legislature in this important effort (*Perspectives and Issues*, page 153).

PROGRAM HIGHLIGHTS

Transportation

➤ **Funding Shortfall Will Delay State's Transportation Program Beyond 2002-03**

- The state is now short at least \$5.9 billion to carry out all transportation projects programmed through 1998-99 and to fund all seismic retrofit work. This means that the projects scheduled in the 1992 State Transportation Improvement Program (through 1999) will be delivered over an 11-year, rather than a seven-year period (*Analysis*, pages A-12 through A-16).

➤ **State Could Run Out of Federal Funds by the End of 1995-96**

- In order to continue funding the capital outlay program in 1995-96, Caltrans will consume all remaining federal funds available to the state under the Intermodal Surface Transportation Efficiency Act (ISTEA). This means that in 1996-97—the last year of ISTEA—California will have no federal funds remaining for capital outlay expenditures, thereby resulting in a significant reduction in the state's construction program (*Analysis*, pages A-15 and A-23).

➤ **Caltrans Plans to Reduce Staff by 1,226**

- Caltrans proposes to reduce staff by 1,226 personnel-years (PYs) in 1995-96 including: (1) 252 PYs to accommodate expenditure reductions imposed on the current-year program, (2) 220 PYs to match support staffing to the smaller size of the fundable transportation capital improvement program, and (3) an

unallocated reduction of 716 PYs that Caltrans has not yet explained (*Analysis*, pages A-22 and A-33).

- As part of the smaller capital outlay support workload, the budget also includes a reduction of 353 personnel-year equivalents in work to be contracted out to private engineers (*Analysis*, pages A-33 through A-36).
- This staff reduction will free up funds so that more transportation projects can be constructed. Caltrans will also reduce some other expenditures in order to free up more funds for project construction (*Analysis*, pages A-22 through A-24).

➤ **Seismic Retrofit of Highways Will Continue Through 1997-98**

- About 1,295 highway bridges and structures that need to be retrofitted for seismic safety are still in the early engineering and design stages, and Caltrans does not yet have a design and construction schedule for each of these bridges.
- Caltrans also has no project schedule for retrofitting the state's toll bridges.
- While Caltrans has a target to complete all seismic retrofit work by the end of 1997, the department's staffing and delivery schedules are only preliminary estimates and will likely need to be revised (*Analysis*, page A-36).

➤ **Intercity Rail Service Expansion Deferred Again**

- For the third year in a row, Caltrans has not been able to expand its intercity rail service, as planned, mainly as a result of equipment and track improvement delays. At the same time, operating expenses for the service have been increasing, and Caltrans has redirected funds intended for the expansion of service to pay for these higher costs (*Analysis*, pages A-47 through A-50).

➤ **Budget Proposes Consolidation of the California Highway Patrol and the California State Police**

- The 1995-96 budget proposes to consolidate the California Highway Patrol and the California State Police. The consolidation proposal would provide more coordinated, and a higher level of,

service for state facilities and employees. Additionally, the consolidation proposal would result in annual savings of about \$835,000 due to economies of scale and more efficient use of resources (*Analysis*, page A-55).

Resources

➤ Reorganization of Resources Departments May Have Merit

- Reorganizing several resources and environmental protection departments, as proposed by the Governor's Budget, could produce savings and better program coordination.
- While the Governor has not yet submitted his reorganization plan to the Legislature for review, we offer some criteria for the Legislature to use when evaluating the proposal (*Analysis*, page B-13).

➤ Dwindling Funds Available for Resources Programs

- If the Legislature approves the Governor's spending proposals, there will be little money available in (1) special funds for legislative priorities and (2) park-related bond funds to start new park projects (*Analysis*, page B-26).
- As in past years, the Department of Parks and Recreation will continue to rely on special fund transfers—such as a proposed transfer in 1995-96 of \$19.4 million in beverage container recycling funds—to make up for reduced General Fund support (*Analysis*, page B-61).

➤ Large Revenue Declines Projected for Waste Board

- The California Integrated Waste Management Board projects that fee revenues in the Integrated Waste Management Account—the board's primary funding source—could decline by as much as 48 percent between 1995-96 and 2000-01.
- Such a revenue decrease would necessitate major program reductions and/or new funding sources in future years (*Analysis*, page B-74).

➤ **Water Control Board Begins Reducing Regulatory Program Backlogs**

- The State Water Resources Control Board has begun implementing a four-year plan to reduce backlogs which have developed over a number of years in the processing of waste discharge permits and water rights.
- The board's plan does not rely on increased funding (although it assumes current staffing levels will be maintained); rather, it includes initiatives such as the issuance of "general permits" to multiple dischargers of similar waste, instead of processing permits for each individual discharger (*Analysis*, page B-77).

➤ **Progress of Performance Budgeting to Date Is Mixed**

- The three resources and environmental protection departments participating in the performance budgeting pilot project have shown mixed progress, especially in the development of meaningful performance measures.
- We recommend that the Legislature provide the California Conservation Corps with substantial administrative flexibility in order to truly test the concept of performance budgeting (*Analysis*, page B-18).

Health & Social Services

➤ **Plan Needed for Closing State Hospital and Developmental Center Facilities**

- Because of declining patient populations, there is a significant amount of unused capacity in the state hospitals and developmental centers (exceeding 30 percent in a majority of the facilities). We recommend that the Departments of Mental Health and Developmental Services jointly develop a plan to close facilities in order to realize state savings by operating more efficiently and maximizing federal funds (*Analysis*, page C-19).

➤ **State Not Maximizing Federal Funds in Social Services Programs**

- We identify specific actions the state could take in order to maximize federal funds for various social services programs.
- The additional federal funds (in the tens of millions of dollars) could be used either to expand existing programs or reduce state expenditures (*Analysis*, pages C-19, 32, 94, 116, 146, and 147).

➤ **Federal Decision Jeopardizes State Savings and County Revenues**

- The federal government has told the state it intends to deny the counties' claims for various administrative activities related to the Medi-Cal Program.
- If these claims are rejected, the state could lose \$400 million that it was banking on to balance the budget by the end of 1995-96; and the counties could come up short \$2 billion in federal funds for their claims (*Analysis*, page C-49).

➤ **Medi-Cal Reimbursement Rates for Pharmacists Should Be Reduced**

- We recommend reducing reimbursement rates for pharmacists, for a General Fund savings of \$23 million, because current rates exceed the corresponding amounts paid by other large purchasers of drugs (for example, the Public Employees' Retirement System).
- This reduction would include (1) reducing the dispensing fee by \$1 (from \$3.55 to \$2.55) per prescription and (2) reducing the drug ingredient reimbursement rate by 5 percentage points below the existing benchmark (*Analysis*, pages C-53 and C-56).

➤ **Expansion of Medi-Cal Managed Care Should Include SSI/SSP Beneficiaries**

- Although SSI/SSP beneficiaries make up 21 percent of the Medi-Cal caseload, the administration has excluded them from participation in managed care, which is a system designed to control Medi-Cal costs.
- We recommend that SSI/SSP-linked beneficiaries be included in the expansion of managed care in the Medi-Cal Program, because

excluding them precludes significant potential savings (*Analysis*, page C-65).

➤ **Governor Proposes Significant Welfare Grant Reductions**

- The proposed reductions in the AFDC Program will increase the financial incentive for recipients to work. Nevertheless, many families may not be able to offset the grant reductions with additional earnings due to a variety of factors (*Analysis*, page C-106).
- The proposed SSI/SSP grant reduction for individual recipients would reduce the grants from 98 percent to 92 percent of the federal poverty level. The grants for couples, on the other hand, would be 21 percent above the poverty level after the proposed reduction. Implementation of these reductions would require federal legislation to permit the state to go below the federal maintenance of effort requirement (*Analysis*, page C-127).

➤ **Riverside's GAIN Employment Model
Is Cost Effective to State, But Not County**

- A three-year evaluation of the Greater Avenues for Independence (GAIN) Program shows that the employment-oriented approach used by Riverside County was the most cost effective, saving \$2.84 in public funds for every \$1 spent by *all* levels of government combined (for AFDC-Family Group participants).
- While these savings exceeded costs for the federal and state governments, the county did not recover its outlays on the program. This is significant because the county determines how much state and federal funds it will match, thereby in effect determining the total amount of funds that will be spent on the program (*Analysis*, page C-118).

Judiciary & Criminal Justice

➤ **State Should Monitor Implementation and
Impacts of "Three Strikes and You're Out" Law**

- This law is the most significant change to the state's criminal justice system in more than a generation.

- Given the potential fiscal and programmatic impacts of the law on the state and local governments, we recommend that the Legislature direct the Judicial Council and Board of Corrections to monitor its implementation and impacts (*Analysis*, page D-11 to D-17).

➤ **Federal Crime Bill Offers Opportunities for State**

- The Congress is currently considering major changes to the bill which would likely result in the state receiving significantly more monies than it would under the existing bill.
- We recommend enactment of legislation to establish a state policy direction for use of the funds (*Analysis*, pages D-18 to D-26).

➤ **Prison Inmate Population Continues to Grow, But at Lower Rate Than Expected**

- The administration projects that the prison population will increase at an average annual rate of 11 percent, reaching 230,000 inmates by 1999-2000.
- Although the growth is significant, it is considerably below the earlier forecasts.
- Even with the lower-than-expected growth, however, prison overcrowding will remain a serious problem (*Analysis*, page D-31).

➤ **Joint Venture Program Struggling**

- Although this program was supposed to provide jobs to thousands of inmates in private industries set up inside prisons, the program is losing money and employs fewer than 200 inmates.
- We recommend a number of changes to the program and offer options for the Legislature to improve the program's performance (*Analysis*, pages D-59 to D-65).

➤ **Youth Authority Should Take Steps to Reduce Overcrowding**

- Overcrowding in the Youth Authority is expected to reach 165 percent by 1998-99, which will make it difficult to provide rehabilitative services to wards and create a spiral effect that increases overcrowding even further.

- We recommend that the Youth Authority take steps to reduce overcrowding and offer a number of options to achieve this goal (*Analysis*, page D-84).

➤ **Improvements Needed in Trial Court Funding Program**

- The administration's proposal to increase state funding of trial courts as part of its state-county restructuring plan has merit. However, the lack of concrete performance measures needs to be addressed in order to ensure that the courts are meeting the Legislature's goals (*Analysis*, pages D-102 to D-108).

➤ **Budget Insufficient to Deal With Caseloads in Board of Prison Terms**

- The Board of Prison Terms is projected to have a three-year backlog of investigations for foreign inmates requesting transfers to their home countries, as well as a backlog of parole revocation cases.
- More expeditious processing of foreign transfers could save the state hundreds of thousands of dollars of incarceration costs (*Analysis*, Page D-76).

K-12 Education

➤ **Proposed Income Tax Cut Would Reduce School Funding**

- The proposed income tax cut would reduce the Proposition 98 minimum funding guarantee by \$136 million in 1995-96 and by a cumulative \$3.9 billion over the 1995-96 through 1998-99 period.
- Over the next four years, with the tax cut, Proposition 98 per-pupil funding would increase an average of 2.4 percent each year—less than the projected rate of inflation (*Analysis*, page E-18).

➤ **Budget Does Not Fully Reflect Legislature's K-12 Funding Priorities**

- To assist the Legislature in its deliberations, we present an alternative to the budget proposal for spending available Proposition 98 funds that attempts to address existing legislative priorities.

- Our alternative plan recognizes that the Legislature has given high priority to funding full cost-of-living adjustments for K-14 programs. It (1) provides an additional \$93 million for K-14 cost-of-living adjustments and (2) allocates \$37 million for education reform initiatives, substantially less than the \$148 million proposed by the Governor (*Analysis*, page E-15).

➤ **Legislature Should Restructure Categorical Program Mega-Item**

- The budget proposes a modest increase in local flexibility over the allocation of funds among programs funded in the categorical program mega-item.
- Our survey of school districts indicates that the existing mega-item flexibility has failed to help districts address high-priority categorical program funding needs. Consequently, we recommend that the Legislature break up the existing mega-item into four separate items. These clusters would increase local flexibility over funding among similar types of categorical programs (*Analysis*, page E-33).

➤ **New Funding Model for Special Education Needed**

- Together with the Departments of Education and Finance, we have issued a preliminary report that recommends a new funding model for special education.
- We recommend that the Legislature use the final report from the three agencies to enact a new funding model in the coming year. We also recommend that an additional \$20 million be set aside for special education to allow for the earliest possible phase-in of the new funding model (*Analysis*, page E-42).

➤ **School Safety Initiatives Fall Short**

- The budget proposes a General Fund increase of \$12.3 million to fund school safety initiatives, primarily new "zero-tolerance" mandatory expulsion policies.
- We recommend instead that the Legislature enact comprehensive reform of the state's school safety programs to (1) better control community school funding, (2) improve the performance of district

programs for at-risk students, and (3) increase school district flexibility to respond to local needs in a locally appropriate manner (*Analysis*, page E-54).

Higher Education

➤ Proposed Alternative Higher Education Budgets

- Again this year, the Governor's Budget is silent on many important points, such as enrollments and certain fee levels (*Analysis*, page F-13).
- Consequently, we developed alternative budget proposals for the University of California (UC) and California State University (CSU) and made recommendations for the California Community Colleges (CCC) to assist the Legislature in taking a balanced approach toward the twin goals of providing student access and maintaining program quality.

➤ Balance Fee Increases and Program Quality

- In our analysis of higher education issues, we have taken as a starting point the administration's total proposed funding levels. In this context, and recognizing the level of funding needed to address important instruction-related issues, we recommend undergraduate fee increases of 10 percent at the UC and the CSU, with higher fees for graduate students, and a \$2 per credit unit fee increase at the CCC. We also recommend providing related financial aid (*Analysis*, pages F-47, F-71, and F-86).
- To the extent the Legislature increases the overall level of support for higher education, moderating the fee increase may be a high legislative priority.

➤ Hold the Segments Accountable for Enrollments

- For the CSU, we recommend a 2,000 full-time-equivalent (FTE) student increase over the current year, based on recent participation rates and other factors (*Analysis*, page F-72).

- For the CCC, we recommend Budget Bill language that would require the Chancellor's Office to fund the level of actual FTE student enrollment assumed in the budget (*Analysis*, page F-82).

➤ **Focus on Higher Education Outcomes**

- We provide information on various legislatively specified outcome measures, such as graduation rates and degrees conferred in relation to (1) work-force needs and (2) statutory goals on racial and ethnic diversity (*Analysis* page F-28).
- We also recommend that the CCC Chancellor's Office propose outcome measures and performance standards that would permit it to allocate some state aid to the community colleges on a performance basis in 1996-97 (*Analysis* page F-89).

➤ **Avoid Debt Financing for Deferred Maintenance**

- We believe that proposed debt financing for deferred maintenance at UC and CSU is ill-advised because prudent budget policy calls for annual balancing of operating budgets.
- We have recommended alternatives to the use of debt, such as the redirection of federal overhead funds at UC and the targeted use of carryover funds at UC and CSU (*Analysis*, pages F-52 and F-74).

➤ **Higher Education Four-Year Plan**

- We recommend that the Legislature review the administration's proposed UC and CSU budget "compact," which would absorb an additional \$1.1 billion of General Fund resources on a cumulative basis over the next four years, in the context of its overall budget priorities. The Legislature needs to consider whether it wishes to "guarantee" a portion of the budget a specified rate of growth over a time period when the state's fiscal condition will be tight.
- With regard to other aspects of the proposed compact, we note that the Legislature has already acted to (1) allocate funding for specific enrollment increases, (2) require specific increases in productivity, and (3) ensure that four-year degree pledge programs and other programs designed to improve students' time to degree are established at all UC and CSU campuses (*Analysis*, page F-16).

Business & Labor

➤ Trade and Commerce Agency Requests Unsubstantiated

- The budget for the agency includes requests to increase General Fund appropriations by \$7.6 million and add 75 positions.
- In nearly every instance where the agency has requested these increases, the supporting documents fall far short of substantiating the need or benefit for the request (*Analysis*, pages G-46 through G-58).

➤ Consolidate the Duties of the Agricultural Labor Relations Board (ALRB) Under the Public Employment Relations Board (PERB)

- The ALRB's workload does not justify the expenditure of funds for a labor board dedicated solely to agriculture. The PERB has the capability to handle the ALRB workload (*Analysis*, page G-62).

➤ Labor Law Enforcement Program in Farm and Garment Industries Is Not Effective

- The Department of Industrial Relations (DIR) joint program with the U.S. Department of Labor—the Targeted Industries Partnership Program (TIPP)—for enforcing labor laws in the agricultural and garment industries has not been effective.
- We recommend that the DIR report to the Legislature on the cost-effectiveness of the program and on any changes in the law or administrative process that would improve its performance (*Analysis*, page G-66).

➤ Will the Blue Cross Restructuring Affect State and Local Expenditures on Public Health Programs?

- On September 15, 1994, Blue Cross of California submitted a plan to the Department of Corporations (DOC) which separated its nonprofit activities from its for-profit activities. In order to show that it is in compliance with nonprofit public benefit law, the plan

calls for Blue Cross to contribute its assets—currently valued at over \$2 billion—to a charitable trust.

- Given the magnitude of this proposal, the DOC should report to the Legislature on the specifics of the plan and its effects on state and local expenditures on public health programs (*Analysis*, page G-29).

➤ Workplace Safety Program Delayed

- The DIR's program for targeting high hazard employers and industries for workplace safety inspections and consultations has yet to be implemented due to issues concerning program funding and the targeting of employers and industries.
- We recommend that the DIR report to the Legislature on (1) the status of program funding, (2) the effect of the delay, and (3) whether its planned program is consistent with legislative intent (*Analysis*, page G-70).

State Administration

➤ Legislative Oversight of Collective Bargaining Agreements Needed

- Existing collective bargaining agreements for state employees expire June 30, 1995. We recommend that the Legislature adopt policies, and enact legislation, to assure that the Legislature has the opportunity to appropriately review the proposed new agreements as well as future agreements (*Analysis*, page H-30).

➤ Disappointing Results from Manager/Supervisor Reductions

- The administration's implementation of the 1994 proposal to reduce the number of managers and supervisors by a statewide average of 10 percent has not yielded the expected results. Savings from the reductions were estimated to be \$150 million (\$75 million General Fund) in the current year, but actual savings thus far have only been \$4 million (\$1 million General Fund) (*Analysis*, page H-34).

➤ **Plans for Restructuring State Information Technology Unclear**

- During the last nine months, three independent studies all concluded that the state's approach to information technology needs improvement.
- The administration has acknowledged the need for improvement. However, its plan for addressing the state's problems is still pending. Meanwhile, major problems identified in the three independent studies remain unresolved (*Analysis*, pages H-25 to H-28).
- A number of the state's information technology projects continue to experience various problems including projects at the Department of Motor Vehicles (*Analysis*, pages A-61 through A-63), Department of Social Services (*Analysis*, pages C-115 through C-116, C-137 through C-140, and C-142 through C-144), Department of Corrections (*Analysis*, pages D-72 through D-74), Board of Equalization (*Analysis*, pages H-46 through H-48), and Department of General Services (*Analysis*, pages H-70 to H-71).

➤ **Performance Budgeting Pilot Program Shows Few Results So Far**

- The five state departments participating in the pilot program are at various stages of implementation, and each has incurred substantial costs already.
- Although the program continues to present an opportunity to "reinvent" state government, few of its objectives have been realized.
- We recommend a number of actions to improve the program, including requiring pilot departments to commit to specific performance outcomes (*Analysis*, pages H-13 to H-24).

Capital Outlay

➤ **Comprehensive Statewide Capital Outlay Plan Needed**

- The state has multi-billion capital outlay needs, a relatively high debt burden, and dwindling resources to fund capital outlays.

- The Legislature should designate committees in each house to develop a multi-year financing strategy based on a statewide needs assessment and an evaluation of its funding priorities (*Analysis*, page I-13).

➤ **Significant Use of Lease-Payment Bonds Proposed**

- The budget proposes \$3.3 billion in new lease-payment bond authorizations for various capital outlay purposes, including \$2 billion for six new state prisons. Only \$525 million of this proposal is in the Budget Bill. The balance will be in separate legislation.
- The Legislature should consider these proposals in the context of a statewide capital outlay plan (*Analysis*, page I-19).

➤ **Policy Guidance Needed on Acquiring State Office Buildings**

- The administration is proposing \$560 million for five new office buildings through legislation separate from the Budget Bill.
- The Legislature should instead consider these proposals during the budget process in the context of the Legislature's statewide capital outlay priorities and other program expenditures (*Analysis*, page I-20).

➤ **Legislature Should Amend Proposed Seismic Upgrading of State Buildings**

- The budget proposes \$165 million from earthquake safety bonds for seismic retrofit of state buildings.
- The Legislature should appropriate \$12 million to fund those buildings with the highest seismic safety risk and to provide only those funds that can be spent in the budget year (*Analysis*, page I-30).

➤ **Legislature Needs More Information On Emergency Housing Proposal**

- The budget proposes \$168 million to add over 20,000 beds to existing prisons for male inmates.

- The Legislature should withhold approval of this request pending updated population projections that will be available in the spring.
- The need for these beds also could be affected by policy changes the Legislature may wish to adopt to reduce prison costs (*Analysis*, page I-45).

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