ANALYSIS AND RECOMMENDATIONS WITH RESPECT TO GENERAL CONTROL SECTIONS

The so-called "control sections" included in the 1987 Budget Bill set forth general policy guidelines governing the use of state funds. These sections place limitations on the expenditure of certain appropriations, extend or terminate the availability of certain other appropriations, establish procedures for the expenditure and control of funds appropriated by the Budget Act and contain the traditional constitutional severability and urgency clauses.

The control sections proposed for 1987–88 may be found in Section 3.00 through Section 36.00 of Senate Bill No. 152 (Alquist) and Assembly Bill No. 224 (Vasconcellos). In many instances, the numbering of these sections is not consecutive, as the section numbers in the 1987 Budget Bill have been designed to correspond with the equivalent or similar sections in the 1986 Budget Act.

In addition, the Budget Bill includes Sections 1.00, 1.50, 99.00 and 99.50. These are technical provisions relating to the coding, indexing and referencing of the various items in the bill.

Sections Which We Recommend Be Approved

The following sections are virtually identical to the sections in the 1986 Budget Act. *We recommend approval because they are in accordance with previous legislative policy.*

Section	*Subject Area*
3.00	Budget Act Definitions and Statutory Salaries
3.50	Employee Benefits
3.70	Recapture of Telephone Rental Costs
5.00	Attorney Fees—State Courts
5.50	Oversight of Consultant Contracts
6.50	Transfer of Amounts Within Schedules
7.50	Accounting of Procedures for Statewide Appropriations
8.50	Appropriation and Control of Federal Funds
8.51	Federal Trust Fund Account Numbers
9.00	Supplemental Report of the 1987 Budget Act
9.20	Administrative Costs for Property Acquisition
11.51	Energy and Resources Fund
12.50	Special Fund Reserves
13.00	Legislative Counsel Bureau
18.10	Department of Parks and Recreation Contract Agreements
21.00	Federal Block Grant Audit Plans
24.00	State School Fund
24.10	Driver Training
26.00	Funding of Costs Due to Executive Orders
27.00	Authorization to Incur Deficiencies
28.00	Authorizations for Adjustments in Spending Authority
29.00	Personnel-Years Reporting
29.50	Reports on Proposed Personal Service Contracts
31.00	Administrative and Accounting Procedures
32.00	Expenditures in Excess of Amounts Appropriated
33.00	Governor's Vetoes
34.00	Severability of Budget Act Provisions
35.00	Budget Act to Take Immediate Effect
36.00	Urgency Clause

Sections Which We Recommend Be Modified

We recommend various actions on the following sections:

SECTION 3.60

RECAPTURE OF PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS) CONTRIBUTIONS

ANALYSIS AND RECOMMENDATIONS

We recommend approval of the section in a modified form, in order to reflect PERS-approved employer contribution rates.

This section, first included in the 1986 Budget Act, authorizes the Department of Finance (DOF) to recapture any *excess* funds provided in state agencies' budgets for PERS employer contributions.

Section Used to Reduce Current-Year Contributions by $76 Million. In the current year, the PERS changed its actuarial assumptions, which resulted in *lowered* 1986–87 contribution rates for state agencies. However, because these changes were made after the 1986–87 budget was prepared, state agencies' budgets included funds to cover the higher contribution levels. To recapture the overbudgeted funds, the Legislature adopted Section 3.60 in the 1986 Budget Act. Using this authority, 1986–87 agency appropriations were reduced by an estimated $75.7 million ($49.2 million from the General Fund). The section also would have been used to recapture savings from two other PERS-related proposals (relating to the "reserve for deficiencies" and "IDDA"). These proposals required implementing legislation, which was not passed. (Please see *The 1987–88 Budget: Perspectives and Issues,* for a discussion of these issues.)

Section Needed Again in Budget Year. A similar overbudgeting problem exists in the budget year. When the 1987–88 budget was prepared, PERS employer contribution rates had not been set. So for budgeting purposes, the DOF directed state agencies to assume that their budget-year contribution rates would be the same as in the current year. As a result, each agency's budget appropriation was prepared to reflect staff-benefit appropriations calculated using the 1986–87 contribution rates.

Just before the budget was published, however, the DOF learned of probable PERS 1987–88 rate reductions, so it once again included Section 3.60 in the Budget Bill. In addition to the general language authorizing it to recapture any savings, the department also proposed to put specific PERS rates in the section. (Historically, the annual rates have been approved in separate legislation.) The rates proposed in the 1987 Budget Bill—DOF's "best guesses" at the time—would generate savings of about $46.3 million ($30.2 million General Fund) in 1987–88.

Since the release of the budget, the PERS has taken final action on 1987–88 contribution rates. These rates, which are different from the preliminary estimates by DOF, are all *lower* than current-year rates. They have fallen primarily because the system has changed the method by which retirement fund assets are calculated. The new method results in increased assets, which in turn reduce the system's funding needs.

Table 1 compares the current-year state PERS rates with the final PERS-approved rates. It indicates that the lower rates will reduce state PERS contributions by $39.6 million ($26.5 million General Fund).

Table 1
State PERS Contributions
Impact of Reduced 1987-88 Rates
(dollars in millions)

	Rates				*Savings Resulting from 1987-88 Rate Reduction*		
	1986-87 Actual Rate	*1987-88 Approved Rate*	*Change*	*Estimated Salaries 1987-88*	*General Fund*	*Other Funds*	*Total*
State Miscellaneous:							
First Tier	15.450%	15.202%	0.248%	$3,859.3	$4.9	$4.7	$9.6
Second Tier	15.450	15.038	0.412	344.6	0.7	0.7	1.4
Industrial	16.638	15.332	1.306	117.2	0.8	0.7	1.5
Police Officer/Firefighter	20.578	17.171	3.407	621.3	18.4	2.8	21.2
Safety	22.522	19.229	3.293	101.8	1.7	1.6	3.3
Highway Patrol	22.150	20.859	1.291	200.0	0	2.6	2.6
Totals					$26.5	$13.1	$39.6

The Proposed Control Section Does Not Reflect Budget-Year Rates. Because of the timing problems noted above, the DOF was unable to put the final, PERS-approved rates in Section 3.60. Accordingly, we recommend the section be amended to include these rates. We understand that the DOF will soon issue a Finance letter to incorporate these final rates in the section.

The Proposed Section Does Not Capture State Savings From Reduced School Costs. Virtually all nonteaching school employees are members of PERS. The contribution rate for these members will also fall in 1987-88 (from 11.015 percent to 10.064 percent of salary) because of the asset valuation change, reducing 1987-88 school district retirement costs by about $29 million. Because schools receive state appropriations to meet funding needs in excess of their local resources, the lower school costs will reduce the needed level of budget-year state school assistance.

Section 3.60, however, does not provide a mechanism for reducing apportionments. To recapture these savings, we recommend in our analysis of the K-12 and community college budgets that the reduced retirement costs be reflected in reduced school apportionments, for a General Fund savings of $29 million. (Please see our analysis of Items 6100 and 6870.)

SECTION 4.00
HEALTH INSURANCE PREMIUMS

ANALYSIS AND RECOMMENDATIONS

We withhold recommendation on the monthly state contribution rates for employee health insurance specified in this section, pending final determination of the actual increase in health insurance premiums.

This control section, which is identical to Section 4.00 of the 1986 Budget Act, specifies the monthly amounts which the state contributes toward the cost of its employees' and retirees' health insurance. The section provides for state monthly contributions of: (1) $88 for the employee (or annuitant) only, (2) $163 for an employee and one dependent, and (3) $219 for an employee and two or more dependents.

Government Code Section 22825.1: (1) expresses legislative intent that the state pay 100 percent of the *average* premium cost for coverage of employees and annuitants, and 90 percent of the cost for coverage of dependents; and (2) specifies that the state's contribution toward employee health insurance shall be adjusted in the annual Budget Act. While this code section is "supercedable" under collective bargaining, the Legislature must still approve any change—such as increases in the state's monthly contribution rates—which would result in increased costs during 1987–88.

Changes in the coverage of and premiums for state employee health insurance result from negotiations between Public Employees' Retirement System (PERS) staff and the insurance carriers. These negotiations typically are completed late in May. Any changes agreed to must be approved by the PERS board.

At the time this analysis was prepared, there was no basis for determining whether the contribution rates proposed in this section—that is, the current-year rates—are appropriate for the budget year. Accordingly, we withhold recommendation on this section, pending determination of (1) the actual increase in health insurance premiums and (2) rate changes, if any, negotiated under collective bargaining or proposed for non-represented employees.

SECTION 4.20
CONTRIBUTIONS TO THE PUBLIC EMPLOYEES' CONTINGENCY RESERVE FUND (PECRF)

ANALYSIS AND RECOMMENDATIONS

We recommend that the administrative surcharge rate set in this section be changed to 0.45 percent of total health insurance premiums.

This section was first included in the 1984 Budget Act to provide a mechanism for (1) granting legislative approval of the surcharge rates that state agencies are required to pay (a) for the costs incurred by the Public Employees' Retirement System (PERS) in administering the health benefits program and (b) toward a special reserve in the PECRF; and (2) recapturing excess payments to the PECRF. (For background information on the need for this section, please see the *1984–85 Analysis,* pages 277–79, and the *1985–86 Analysis,* pages 224–27.)

This section, as proposed in the 1987 Budget Bill, is identical to the version included in the 1986 Budget Act. It proposes to set the administrative surcharge rate for 1987–88 at 0.1 percent of total health insurance premiums and the special reserve rate at 0 percent. The current-year administrative surcharge rate was set at the relatively low 0.1 percent level in order to draw down a surplus which had built up in the PECRF.

Our analysis of the PECRF's fund condition indicates that the administrative surcharge rate should be set at 0.45 percent in 1987–88. This rate would generate enough revenue—when combined with the remaining surplus in the fund—to finance PERS' budget-year administrative costs. Accordingly, we recommend that the section be approved setting the administrative surcharge rate at 0.45 percent and the special reserve rate at 0 percent.

SECTION 6.00

STATE BUILDING ALTERATIONS

ANALYSIS AND RECOMMENDATIONS

We recommend that the administration's proposed change to this section be modified to reflect inflationary increases in the construction industry.

This section, which is a long standing section in the Budget Act, establishes certain limits on the use of support budget funds for alterations of state buildings. Since 1980, this section provided that departments could not undertake building alterations using support budget funds which cost more than $10,000 unless the Director of Finance determined that the proposed alteration is critical. "Critical" projects may not exceed $200,000, and the Department of Finance's determination must be reported to the Chairperson of the Joint Legislative Budget Committee no less than 30 days prior to when bids for the project are requested. Alteration projects which cost less than $10,000 were not subject to any approval or reporting requirement.

This year, the administration is proposing to increase the lower limit by 150 percent to $25,000. The upper limit (which is comparable to the limit on minor capital outlay projects) remains unchanged.

The lower limit has not been changed since 1980. In the intervening time, construction costs have increased by about 45 percent as a result of inflation. Over the past two years, however, inflation in the construction industry has been only about 3 percent annually. On this basis, we recommend that the lower limit be increased to $15,000 rather than $25,000. This would recognize the inflationary increases and maintain the level of alterations effort originally established by the Legislature.

SECTION 7.20

COMMERCIAL INSURANCE POLICIES

ANALYSIS AND RECOMMENDATIONS

We recommend that the Legislature adopt supplemental report language requiring the Department of General Services to report on the state's purchases of commercial insurance policies.

In each of the past four Budget Acts, the Legislature adopted Section 7.20, which has limited the use of agencies' appropriations for purchasing commercial insurance policies. Under the language, the Department of General Services (DGS), which purchases the state's insurance policies, must provide 30-days' notification to the Joint Legislative Budget Committee prior to the purchase of a commercial insurance policy. This control language has been included to maximize the state's self-insurance of risk and minimize the purchase of commercial policies. The administration proposes to eliminate this section from the 1987 Budget Bill.

Our analysis indicates that the case-by-case legislative review provided by Section 7.20 is no longer needed, as the DGS has been self-insuring to the extent feasible. Some continued legislative oversight is appropriate, however, in order to determine whether the state is optimizing its use of self-insurance and purchasing private insurance in a cost-efficient manner. To provide this review, we recommend that the Legislature adopt the following supplemental report language under Item 1760-001-666, requiring the Director of General Services to report on all insurance policies purchased in 1987–88:

> The Director of General Services shall report to the Chairpersons of the fiscal committees in both houses and to the Joint Legislative Budget Committee, no later than June 30, 1988, the following details for each commercial insurance policy purchased by the state in 1987–88: (a) the agency (ies) covered by the policy, (b) the amount of the insurance, (c) the cost of the insurance, and (d) the reason why the state could not self-insure for the risk. The report shall provide sufficient information to sustain a thorough review of all commercial policies purchased by the state in 1987–88.

SECTION 8.60

SINGLE AUDIT REVIEW COSTS

ANALYSIS AND RECOMMENDATIONS

We recommend that the notification requirement in this section be deleted.

Pursuant to Section 20050 of the State Administrative Manual (SAM), state departments are required to issue contracts or agreements to govern the "pass-through" of federal funds to local governments. These contracts or agreements are required to provide for a "single audit" in accordance with the Federal Single Audit Act of 1984 (P.L. 98-502). Generally, the act provides for a consolidated approach to the audits of government programs required under separate provisions of federal law. The local governments contract with private accountants for the single audits, and the cost of these audits are paid for out of the federal funds. Section 20050 of the SAM also requires the State Controller to review the single audits for compliance with the Federal Single Audit Act. The cost of these reviews is paid for by federal funds withheld from the pass-through grants by the affected state agency.

This new section permits the State Controller to bill affected state departments for the cost of reviewing the audits of federal pass-through funds for compliance with the Federal Single Audit Act. The language proposed in this section would make the billings contingent upon the approval of the Director of Finance and the Chairman of the Joint Legislative Budget Committee. As this is primarily a matter of administrative control, we do not believe that any direct legislative oversight of these activities is necessary. Accordingly, we recommend modification of this section to delete the notification requirement pertaining to the Joint Legislative Budget Committee.

SECTION 11.50

DISTRIBUTION OF TIDELANDS OIL REVENUES

ANALYSIS AND RECOMMENDATIONS

We withhold recommendation on the proposed distribution of tidelands oil revenues, pending legislative action on the spending proposals contained in the Budget Bill.

This section would modify existing law governing the allocation of tidelands oil revenues for the budget year. Table 1 compares the allocation of these revenues under existing law with the allocations proposed in this section.

As Table 1 shows, Section 11.50 would distribute tidelands oil revenues in a manner that differs significantly from what current law specifies.

If the appropriations proposed in the Governor's Budget are approved by the Legislature, the COFPHE would be *underappropriated* by $108 million. The Housing Trust Fund and the SAFCO would be *overappropriated* by $10 million and $124 million, respectively.

Until the Legislature has determined how it wants to *spend* tidelands oil revenues, it would be premature to *allocate* these revenues through control Section 11.50. Once the spending decisions have been made, revenues should be allocated in a conforming manner.

We recommend, however, that the Legislature provide for a balance equal to no more than three percent of approved construction funding in the various funds that receive tidelands oil revenues. A three percent balance should be sufficient to provide any necessary augmentations during the budget year, given current projections of the inflation rate in the months ahead.

Table 1
Distribution of 1987–88 Tidelands Oil Revenues
Comparison of Current Law with Section 11.50
(dollars in thousands)

Fund	*Current Law*	*Section 11.50*
State Lands Commission	$11,936	$11,936
California Water Fund	25,000	3,640
Central Valley Project	5,000	—
Sea Grants	525	525
Capital Outlay Fund for Public Higher Education (COFPHE)	107,939	—
State School Building Lease/Purchase Fund	—	—
Energy Resources Fund	—	—
Housing Trust Fund	—	10,000
Special Account for Capital Outlay (SAFCO)	—	124,299
Total	$150,400	$150,400

SECTION 11.52

DISASTER RESPONSE-EMERGENCY OPERATIONS ACCOUNT

ANALYSIS AND RECOMMENDATIONS

We withhold recommendation on the proposed transfer of $3.4 million from the Special Account for Capital Outlay to the Disaster Response-Emergency Operations Account, pending receipt prior to budget hearings, of a report from the Department of Finance which explains the administration's plan for financing local disaster assistance expenditures in the budget year.

This section transfers $3.4 million from the Special Account for Capital Outlay (SAFCO) to the Disaster Response-Emergency Operations Account (an account within the Special Fund for Economic Uncertainties in the General Fund). Funds in the Disaster Response-Emergency Operations Account may be allocated by the Department of Finance (DOF) to state or local agencies for costs incurred in responding to disasters declared by the Governor. The budget indicates that the balance of funds in the account will total $1.6 million at the end of the current year. This section, together with the transfer of $5 million from the General Fund proposed by Control Section 11.60, would bring the balance in the Disaster Response-Emergency Operations Account to $10 million by the beginning of the budget year.

Disaster Assistance Funding in California. There currently are three primary sources for providing state disaster assistance funding to local governments. Two of these funding sources—the Public Facilities Account and the Street and Highway Account in the Natural Disaster Assistance Fund, provide funding to local governments for the *repair and restoration* of public real property, and streets, highways, and bridges. Allocation of funds from these two accounts are made by the Office of Emergency Services (OES), in accordance with statutory guidelines contained in various sections of the Government Code and in detailed OES guidelines. These two accounts have historically provided the majority of the state's disaster assistance to local governments.

The third, and more recent funding source—the Disaster Response-Emergency Operations Account—provides funding primarily for state and local costs which are incurred in *responding* to emergencies declared by the Governor. Such costs typically include personal services, travel, and subsistence, although restoration and repair work have also been financed from the account. Allocation of funds from this account are made by the DOF upon an order of the Governor. There are few statutory guidelines or criteria for allocating these funds, and no requirement that the DOF coordinate such allocations with OES.

No Additional Funding for Natural Disaster Assistance Fund Accounts. In our analysis of the OES (please see *Analysis* page 37), we conclude that (1) the budget overestimates the amount of funds in the Public Facilities Account reserve for economic uncertainties, and (2) there will be no funds in the account which are available for *new* disaster assistance expenditures in the budget year.

In addition, information recently provided by OES staff indicates that the budget also appears to overstate the balance of funds in the Street and Highway Account reserve for economic uncertainties. Although the Governor's Budget indicates that about $6.2 million will be available in the Street and Highway Account reserve at the beginning of the budget year, OES has recently revised these estimates and now indicates that less than $1 million will be available in the reserve to finance *new* disaster assistance expenditures in the budget year. The OES advises that an appropriation of $3 million should be provided to the Public Facilities Account and $2 million should be appropriated to the Street and Highway Accounts, in order to ensure the state's ability to provide disaster assistance to local public agencies in 1987–88.

We are concerned about the administration's approach to financing local government's disaster assistance needs in the budget year, because it appears to be a departure from the state's established system for providing disaster assistance. While the budget provides for a balance of $10 million in the Disaster Response-Emergency Operations Account, no additional funding is proposed for the Public Facilities and the Street and Highway Accounts to ensure that sufficient funds are available for *new* disaster assistance expenditures from these two accounts in the budget year.

Thus, the administration appears to place primary responsibility for disaster assistance decision-making in the budget year with the DOF rather than OES, the state agency responsible for coordinating emergency activities. Furthermore, disaster assistance funding would be allocated pursuant to guidelines established by the DOF, rather than those delineated in state statute and by OES guidelines.

Consequently, we withhold recommendation on this section pending receipt, prior to budget hearings, of a report from DOF which (1) provides a comprehensive analysis of the administration's plan for providing disaster assistance to local governments, (2) describes the role that each of the state's primary disaster assistance funding sources will have in this plan, (3) indicates the appropriate level of funding which should be provided for each of the disaster accounts in the budget year, and (4) evaluates the ability of the state to provide disaster assistance to local governments within the amounts budgeted for that purpose.

SECTION 11.60

DISASTER RESPONSE-EMERGENCY OPERATIONS ACCOUNT

ANALYSIS AND RECOMMENDATIONS

We withhold recommendation on the proposed transfer of $5 million from the General Fund to the Disaster Response-Emergency Operations Account, pending receipt prior to budget hearings of a report from the Department of Finance which explains the administration's plan for financing local disaster assistance expenditures in the budget year.

This section transfers $5 million from the General Fund to the Disaster Response-Emergency Operations Account within the Special Fund for Economic Uncertainties. Funds in the Disaster Response-Emergency Operations Account may be allocated by the Department of Finance (DOF) to state or local agencies for costs incurred in responding to disasters declared by the Governor. This section, together with section 11.52, will provide for a budget year balance of $10 million in the Disaster Response-Emergency Operations Account.

In our analysis of section 11.52, we indicate that the budget does not provide any additional funds for *new* disaster assistance expenditures from the Public Facilities Account or the Street and Highway Account, within the Natural Disaster Assistance Fund. We are concerned about the administration's approach to financing local government's disaster assistance needs in the budget year, because it appears to be a departure from the state's established system for providing disaster assistance.

Consistent with our recommendation regarding section 11.52, we withhold recommendation on the proposed transfer pending receipt, prior to budget hearings, of a report from the DOF. This report should (1) provide a comprehensive analysis of the administration's plan for providing disaster assistance to local governments, (2) describe the role that each of the state's primary disaster assistance funding sources will have in this plan, (3) indicate the appropriate level of funding which should be provided for each of the disaster accounts in the budget year, and (4) evaluate the ability of the state to provide disaster assistance to local governments within the amounts budgeted for that purpose.

SECTION 12.00

APPROPRIATIONS LIMIT FOR 1987–88

ANALYSIS AND RECOMMENDATIONS

We withhold recommendation on this section, pending the receipt of final data on the factors used to adjust the state's appropriations limit.

This section establishes the state's 1987–88 appropriations limit called for by Article XIII B of the State Constitution. It also sets a time limit on judicial challenges to the limit established by this section.

The budget proposes a 1987–88 limit of $25,273 million. This reflects only a preliminary estimate of the limit, however, as the final annual adjustment factors for inflation and population needed to establish the 1987–88 limit pursuant to the constitution will not be known until May.

When this data becomes available, we will report our recommendations on the state's appropriations limit to the Legislature.

Part Three of *The 1987–88 Budget: Perspectives and Issues* contains a discussion of the state's appropriations limit and the extent to which it is likely to constrain expenditures in the future.

SECTION 12.30

SPECIAL FUND FOR ECONOMIC UNCERTAINTIES

ANALYSIS AND RECOMMENDATIONS

We recommend that subsection (b) be deleted.

This section does two things.

First, it provides for an appropriation to the Special Fund for Economic Uncertainties. (Legislation enacted in 1985 established this fund to replace the General Fund's Reserve for Economic Uncertainties.) The budget proposes that an unspecified amount be appropriated to the fund on July 1, 1987. This amount would be determined after the 1987 Budget Act is enacted, and would be equal to the estimate of the reserve balance to be contained in the Final Change Book for the 1987–88 fiscal year. Using the revenue and expenditure estimates contained in the Governor's Budget, the appropriation proposed by this section would amount to $474 million.

The actual amount that will remain in the reserve on June 30, 1988 will be determined by the difference between actual General Fund revenues and actual General Fund expenditures between now and that date. Existing state law provides for an automatic appropriation of the difference (if positive) to this fund. If revenues are not sufficient to fund the actual level of expenditures, this section provides for the transfer of funds from the Special Fund for Economic Uncertainties to the General Fund to eliminate the deficit. As a result, the appropriation proposed by this section is not necessary, but it does not appear to create any problems.

Second, this section contains language which would deem the amounts appropriated in the Budget Bill to be the lesser of the following amounts:

a. the amounts stated in the Budget Bill, or

b. the amounts actually encumbered or expended as of June 30, 1987.

The purpose of this language, which was first adopted in the 1986 Budget Act, is to avoid having to count the appropriation of the same funds twice for purposes of the appropriations limit. In past years, it has not been unusual for state agencies to realize significant savings relative to the total amount of funds appropriated to them for expenditure in the Budget Bill. These savings automatically revert to the surplus in the General Fund as of the last day of the fiscal year, and they are then automatically reappropriated to the Special Fund for Economic Uncertainties.

The proposed language attempts to eliminate this double-counting by deeming the first appropriation to be the amount actually expended. As a result, the amount "saved" by an agency would then be considered as never having been appropriated, and only the appropriation of these funds to the Special Fund for Economic Uncertainties would be treated as an "appropriation subject to limitation."

On the basis of a new Legislative Counsel opinion, however, this language appears to be unnecessary. According to this opinion, the reappropriation of funds which have already been counted once for purposes of the appropriations limit does not constitute an additional "appropriation subject to limitation." Thus, although $474 million would be appropriated by this section to the reserve, that portion which represents the amount "saved" in individual agency budgets need not be counted as an appropriation subject to limitation. Because the language is not necessary to accomplish this objective, and may cause additional confusion, we recommend that it be deleted.

SECTION 12.31
GENERAL FUND FISCAL UPDATES

ANALYSIS AND RECOMMENDATIONS

We recommend that this section be deleted.

This section, first adopted in the 1986 Budget Act, requires the Department of Finance to provide the Legislature with monthly fiscal updates for the purpose of facilitating more accurate fiscal planning. These monthly reports are to specifically identify increases or decreases in General Fund revenues and expenditures, by category, and changes in the estimates of tidelands oil revenues. Finally, the reports must identify the major factors responsible for fiscal changes.

The monthly reports prepared by the department pursuant to this requirement have been of only limited usefulness. This is because most of the information they contain is available earlier from other sources, or is not helpful for an understanding of impending changes in the state's fiscal condition. Accordingly, we recommend that this section be deleted.

SECTION 22.00
UNALLOCATED APPROPRIATION FOR WELFARE EMPLOYMENT PROGRAMS

ANALYSIS AND RECOMMENDATIONS

We recommend adoption of Budget Bill language that would schedule the $40 million from the General Fund that is appropriated to the Department of Finance in Section 22.00 for the Greater Avenues for Independence (GAIN) program.

Section 22.00 of the Budget Bill appropriates $40 million from the General Fund to the Department of Finance (DOF) to support unspecified GAIN program costs. This is an increase of $30 million, or 300 percent, from the amount appropriated in Section 22.00 of the 1986 Budget Act.

Although the section is included among the control sections relating to education programs, the $40 million also could be allocated to the Department of Social Services (DSS) for the support of county welfare department costs. According to DOF, GAIN funding needs are too uncertain to appropriate these monies to specific programs. Instead, DOF believes that by appropriating $40 million of unallocated funds in the control section, the budget gives it the necessary flexibility to allocate funds to the departments as they demonstrate need for additional GAIN-related support.

We agree with Finance that it needs some flexibility over the use of these funds. We also believe, however, that clarifying the Legislature's expectations concerning how the funds may be spent will provide an important signal to some agencies to actively participate in the GAIN program. This is because, in some respects, monies that are available to *all* departments that serve GAIN participants are monies that are available to *no* specific agency. In other words, since all departments must compete for funds appropriated to Section 22.00, there is no guarantee that funds will be available to pay for expenses incurred by any specific program. Without a promise of at least partial payment for services rendered, many agencies may not participate to the maximum extent possible in the GAIN program.

For example, no new funds are appropriated to community colleges or the regional occupational program to support the education and training needs of GAIN clients. Thus, unless Budget Bill language identifies the amount included in Section 22.00 for the remedial education needs of GAIN participants, it may appear as if no new funds are available to the schools for this population and participation in serving GAIN clients may not reach desired levels. We believe that by scheduling the $40 million appropriation, the Legislature will give a clear signal that it desires the participation of public educational institutions in the GAIN program. In addition, we believe this scheduling can be accomplished without restricting DOF flexibility regarding the use of the funds.

Therefore, in order to encourage the participation of local educational agencies in delivering services to GAIN clients, we recommend adding the following language to Section 22.00:

"Schedule:

"(1) Community Colleges	$10,000,000
"(2) Adult Education	5,000,000
"(3) Regional Occupation Programs	5,000,000
"(4) Other	20,000,000

"The Department of Finance may transfer funds among categories in this schedule."

SECTION 24.60

LOTTERY REVENUES

ANALYSIS AND RECOMMENDATIONS

We recommend that the Legislature amend Budget Bill language in Section 24.60 to require the California State University to report to the Legislature prior to April 1, 1988 on how the system plans to allocate lottery revenues in the 1988–89 fiscal year.

This section requires the public education agencies and the Department of the Youth Authority to report to the Legislature by November 1, 1988 on how lottery funds were used in 1987–88, and how the agencies propose to use them in 1988–89. In order to improve legislative review of the state operations budgets of the higher education agencies, we recommend that the Legislature require these agencies to submit their lottery expenditure plans for 1988–89 prior to April 1, 1988.

Our recommendation is explained in detail in our analysis of the California State University (Item 6610-001-001).

SECTION 30.00

CONTINUOUS APPROPRIATIONS—EXTENSION OF THE SUNSET DATE

ANALYSIS AND RECOMMENDATIONS

We withhold recommendation on this section.

Section 13340 of the Government Code (as amended by Ch 186/86) provides that, effective July 1, 1987, all continuously appropriated funds must instead be appropriated in the annual Budget Act, unless expressly exempted by the Leislature.

This control section proposes to extend the sunset to July 1, 1988.

We have not as yet completed our analysis of this proposal. Consequently, we withhold recommendation on this section. We will report our recommendation to the Legislature in a supplemental analysis.