GENERAL GOVERNMENT

Overview of General Government

General government expenditures are proposed to decline in the budget year due to proposed reductions in spending for tax relief.

Expenditures for general government programs are proposed to total $4.1 billion, which is about 7 percent of all state funds and about 1.6 percent of General Fund expenditures proposed in the Governor's Budget for 1992-93. This level of expenditure is a decrease of $102 million, or 2.4 percent, from estimated expenditures for the current year.

Chart 1 shows that general government expenditures from all state funds have remained relatively constant between 1985-86 and 1992-93. The chart shows that, when adjusted for inflation, these expenditures have declined at an average annual rate of 3.5 percent since 1985-86. General Fund expenditures have declined at an average annual rate of 15 percent over the eight-year period when adjusted for inflation.

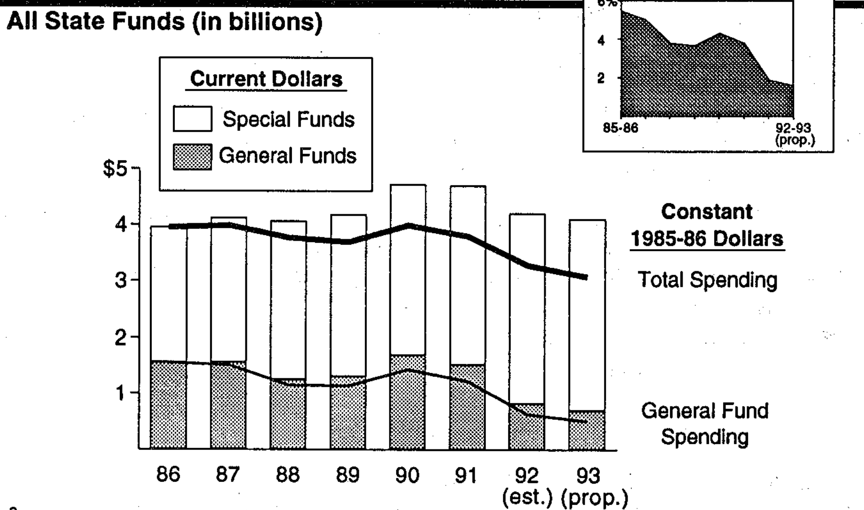
Spending by Major Programs

Chart 2 shows total state expenditures for four major general government programs from 1989-90 through 1992-93. The largest general government program is the shared revenues program, which distributes state-collected motor-vehicle-related and other revenue sources to local government agencies. The largest component of shared revenues is motor vehicle license fee (VLF) revenue, which is apportioned to cities and counties primarily according to population. The amounts reflected in the budget for shared revenues do not include the recent increase in this revenue source to fund the 1991 "program realignment" legislation, which is included in the Health and Welfare section of the budget. The increase in spending for the shared revenues program in 1992-93 primarily reflects anticipated growth of 3.6 percent in VLF receipts available for distribution.

The decline in spending for the tax relief program reflects the proposed complete elimination of funding for the Renters' Tax Credit program, following last year's action to restrict the availability of these credits to lower-income individuals. The chart also indicates that funding for general administration programs is proposed to decline slightly. This is largely due to a reduction in revenues available to support the Victims of Crime program administered by the State Board of Control, but also reflects minor funding reductions spread amongst the 34 separate departmental budgets that make up this category.

Chart 1

General Government Expenditures Current and Constant Dollars 1985-86 through 1992-93[a]



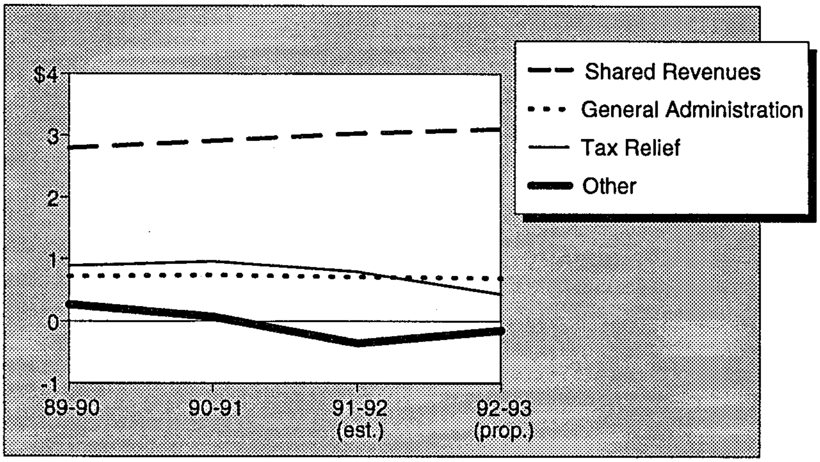
[a] Data are for fiscal years ending in years shown.

The "other" programs category reflects the net effect of certain statewide costs and some specific savings proposals that are budgeted in the general government category, but which will ultimately be reflected in all of the individual department expenditure totals after the fiscal year is completed. For example, this category reflects the savings that the administration anticipates will be received in the current and budget years from 1991 legislation directing that certain Public Employees' Retirement System (PERS) assets be used to cover the state's normal contribution to PERS in 1991-92 and 1992-93. It also reflects savings from the administration's 1992-93 budget proposals to reduce state employee salaries, refinance existing state lease-payment bonds and reorganize state government. This category also contains certain statewide expenditures that will not be attributed to other departmental budgets, such as the cost for annuitant health benefits and interest expenses to pay for the state's cash flow financing requirements. As the chart shows, the level of savings anticipated for 1992-93 is less than the level anticipated for the current year, primarily because of a reduced level projected for the PERS-related savings discussed above.

Chart 2

General Government Expenditures By Major Program 1989-90 through 1992-93

All State Funds (in billions)



Factors Driving Program Costs

This section examines the specific factors responsible for increases in general government program costs in recent years, which also are likely to drive expenditures for the next several years. These include:

Demographic Changes. The state's increasing population is the primary driver of general government program costs. Cost increases in the state's tax relief programs, for example, are driven by increases in the number of homeowners and renters who are eligible to receive these benefits. Shared revenue program costs, whose primary funding source is the vehicle license fees paid on each car in the state, are also driven primarily by population increases.

Inflation. General Fund costs for annuitant health benefit premiums are expected to increase by $114 million between 1990-91 and 1992-93, which amounts to an average annual increase of 22 percent. Most of the increase is attributable to the rise in premium costs, reflecting the high rates of inflation in the health care industry. The remainder is due to increasing numbers of state retirees.

Major Budget Changes

The Governor's Budget generally proposes to maintain existing levels of expenditure for most *general administration* and *shared revenue* departments and budgets, makes significant reductions in *tax relief* program costs, and contains several statewide savings proposals with significant fiscal impacts in the *other* area of program costs. Table 1 summarizes the major general government budget proposals.

Table 1

General Government Programs
Proposed Major Changes for 1992-93

General Administration	Requested:	$699 million	
	Decrease:	$16 million	(-2.3%)

- − $15 million cut in victims of crime program due to revenue losses

Shared Revenues	Requested:	$3.1 billion	
	Increase:	$70 million	(+2.3%)

- − $26 million due to elimination of cigarette tax subventions
- + $96 million due to normal revenue growth

Tax Relief	Requested:	$432 million	
	Decrease:	$367 million	(-46%)

- − $376 million due to elimination of renters' tax credit

Other	Requested:	-$148 million	
	Increase:	$210 million	(+59%)

- − $318 million savings from salary reductions (2 years)
- − $60 million from refinancing lease-payment bond debt (2 years)
- − $25 million for Reorganizing/Downsizing State Government
- + $61 million for annuitant health benefit cost increases
- + $240 million due to reduced retirement savings

LAO Assessment of Major Budget Issues

In this section, we identify some of the major issues in the Governor's Budget. A fuller discussion of these issues is contained in our analysis of the affected department or program which follows this overview.

- ***Victims of Crime Program.*** Expenditures for this program are outpacing revenues available to support the program, resulting in a shortfall of $22 million in the current year and $50 million in the budget year. The administration is reviewing a number of options for controlling expenditures and increasing revenues in order to address the shortfall. (See Item 8700, Board of Control.)
- ***Renter's Tax Credit.*** The Governor's Budget ignores the historical linkage of the homeowners' and renters' tax relief programs, which were enacted *in tandem* to provide property tax relief to *both* homeowners and renters. Given that the need for these programs has diminished since passage of Proposition 13, we recommend that the Legislature take action to concurrently eliminate both of them. (See Item 9100, Tax Relief.)
- ***Salary Reductions.*** The budget anticipates savings of $106 million in 1991-92 and $212 million in 1992-93, which are attributable to reductions in existing levels of state employee salaries. These savings are based upon the assumption that salary reductions would affect paychecks beginning in January 1992. The budget states that it will continue to "seek the participation of represented employees in these cost containment activities." In order to realize these savings, either the civil service bargaining units will have to agree to participate in the salary reductions, or legislation mandating the reductions will have to be enacted. (See Item 8380, Department of Personnel Administration.)

Office of Criminal Justice Planning
Item 8100

Expenditures

Requested 1992-93	$126,650,000
Estimated 1991-92	136,195,000
Actual 1990-91	123,782,000
Requested decrease $9,545,000 (-7 percent)	

Fiscal Recommendations

Total recommended reduction	None

Findings and Recommendations

Analysis Page

1. **Penalty Assessment Revenue Likely to Decline.** Recommend the Department of Finance report at budget hearings on the revised penalty assessment revenue projections in the May revision. 10

General Program Statement

The Office of Criminal Justice Planning (OCJP) serves as the staff arm of the California Council on Criminal Justice. The office provides financial and technical assistance to state and local governments and the private sector for criminal justice programs, such as crime prevention, victim services, law enforcement, and juvenile justice. The OCJP is administered by an executive director, appointed by the Governor.

Overview of the Budget Request

The budget proposes a reduction in funding for the OCJP due primarily to reductions in federal funds, one-time costs, and resources in the Victim/Witness Assistance Fund.

The budget proposes expenditures of $126.7 million for the OCJP in 1992-93. This is $9.5 million, or 7 percent, less than estimated current-year revenues. The 1992-93 budget for the OCJP proposes changes in the following major areas:

- $2.3 million decrease in local assistance expenditures from Victim/Witness Assistance Fund.

- $1.3 million decrease in reimbursements from the Department of Alcohol and Drug Programs.
- $5 million decrease in federal funds for anti-drug abuse programs.

This office, along with many other departments, has been subject to a variety of reductions over the past several years. Among these is an unallocated reduction of 5.7 percent from the General Fund in 1991-92 (this reduction is 1.2 percent of the department's total budget from all funds). This reduction is proposed to be carried over in 1992-93. In our companion document, *The 1992-93 Budget: Perspectives and Issues,* we discuss the impact of these reductions on various departments.

Analysis and Recommendations

Penalty Assessment Revenue Projections May Be Lower Than Projected

We recommend the Department of Finance (DOF) report at budget hearings on the penalty assessment revenue projections contained in the May revision and the basis for the projections.

The Governor's Budget estimates that in the current year, state penalty assessment revenues will be $190 million, which is an increase of $8 million over 1990-91 revenues. For 1992-93, the Governor's Budget estimates revenues will be $250 million, an increase of $60 million over current-year revenues. Table 1 shows the penalty assessment revenues for the three-year period from 1990-91 to 1992-93. According to the DOF, the revenue projections for the current and budget years are preliminary and will be revised in May, based on more recent revenue information in the current year.

Background. Penalty assessments are imposed on persons who violate criminal and traffic laws. Funds are collected by the courts and transmitted to the State Treasurer. Chapter 189, Statutes of 1991 (AB 544, Isenberg), as part of trial court realignment, revised the allocation of penalty assessment revenues and increased the penalty assessment rate. Prior to Chapter 189, all revenues were deposited in the state Penalty Fund (referred to in the Governor's Budget as the "Assessment Fund"). Revenues are now divided between the General Fund (30 percent) and the Penalty Fund (70 percent). Chapter 189 also increased the penalty assessment rate by 40 percent, from $7 to $10 for every $10 fine, penalty, or forfeiture imposed.

Table 1

Office of Criminal Justice Planning
Penalty Assessment Revenues and Distribution
1990-91 through 1992-93

(dollars in millions)

	Actual 1990-91	Estimated 1991-92	Projected 1992-93	Purpose
Total Revenue	$179.4	$190.0	$250.0	
Use of Funds				
State Controller	$0.6	$0.6	$0.9	Administrative costs
General Fund	--	56.8	74.7	Deposited in General Fund
Penalty Fund (distributed to following special funds):[a]	(179.4)	(133.5)	(175.6)	
Restitution	54.5	42.8	56.7	Victim restitution (Board of Control)
Peace Officers' Training	41.1	31.9	42.1	Training (Commission on POST)
Fish and Game Preservation	0.6	0.4	0.6	Training (Department of Fish and Game)
Corrections Training	14.9	10.5	13.8	Training (Board of Corrections)
Driver Training	50.8	34.2	45.7	Driver training (Department of Education)/transfer to General Fund
Local Public Prosecutors and Public Defenders Training[b]	0.9	0.9	0.9	Training (OCJP)
Victim/Witness Assistance	15.6	11.5	15.2	Victim assistance (OCJP)
Traumatic Brain Injury[c]	0.5	0.5	0.5	Demonstration projects (Department of Mental Health)

[a] Statutory allocation formula revised in 1991-92 and applies to annual revenue beginning in 1991-92.
[b] Funding level capped at $850,000. Revenue exceeding this amount is allocated to Restitution Fund.
[c] Funding level capped at $500,000. Revenue exceeding this amount is allocated to the other special funds based on the percentage share of total special funds.
Details do not add to totals due to rounding.

OFFICE OF CRIMINAL JUSTICE PLANNING—Continued

Impact of Chapter 189 on Penalty Fund. Penalty assessment revenues deposited in the Penalty Fund are divided among eight other special funds (as shown in Table 1), which support programs in seven different departments (including two programs in the OCJP). According to the DOF projections, it appears that the 40 percent penalty assessment rate increase will not generate sufficient revenue in the current or budget years to compensate for the 30 percent allocation of revenue to the General Fund. To address the revenue shortfall in the special funds in the current year, the larger of these special fund programs are either relying on prior-year reserves, or requesting General Fund support ($11.7 million for the Board of Control's Victims of Crime (VOC) Program and $3 million for the OCJP's victim assistance programs). Except for the VOC Program, the administration has not provided information regarding how a reduction in revenue will be addressed in these programs.

Penalty Assessment Revenue Projections. Historically, it has been difficult to project the revenues to the Penalty Fund. We believe there is considerable downside risk in the revenue projections for the current and budget years, for the following reasons: First, higher assessments combined with a forecast for a continued sluggish economy may result in persons who are required to pay fines instead "working off" their debt by spending time in county jail. Second, judges may compensate for the assessment rate increase by reducing fines, so the "total bill" (fines plus penalty assessments) for guilty parties remains constant (or does not increase as much as expected). Finally, it appears that the DOF may have made a technical error in their 1992-93 projections for the Penalty Fund that could result in the projections of revenue to that fund being overstated by approximately $23.6 million.

The implications of an error in the revenue projections for the Penalty Fund is more serious than in past years, because a small decline in projected revenue will, in many cases, result in a corresponding cut in the programs supported by the Penalty Fund. This is because the reserves are being used in the current year, thereby leaving little or no reserves to fall back on in the budget year in case of a decline in revenues. In past years, most funds receiving penalty assessment revenue had large reserves.

Due to the strong reliance of several programs on penalty assessment revenues and the lack of funding reserves, we believe it is important that the Legislature be informed of any revised revenue projections. The DOF will revise their projections of penalty assessment revenue for the May revision of the Governor's Budget. Consequently, we recommend the DOF report at budget hearings on the revenue projections contained in the May revision and the basis for those projections.

Commission on Peace Officer Standards and Training
Item 8120

Expenditures

Requested 1992-93	$42,947,000
Estimated 1991-92	38,766,000
Actual 1990-91	44,713,000
Requested increase $4,181,000 (+10.8 percent)	

Fiscal Recommendations

Total recommended reduction	None

Findings and Recommendations

Analysis Page

1. **Peace Officers' Training Fund Condition.** Penalty assessment revenues to the commission may be significantly lower than the Governor's Budget projects for the current and budget years. 14

General Program Statement

The Commission on Peace Officer Standards and Training (POST) is responsible for raising the level of professional competence of local law enforcement agencies. It does so by establishing minimum recruitment and training standards, and by providing management counseling to local law enforcement agencies. The commission reimburses local agencies for costs they incur when their employees participate in POST-approved training courses.

Overview of the Budget Request

The budget for POST is essentially a workload budget.

The budget proposes expenditures of $43 million from the Peace Officers' Training Fund (POTF) in 1992-93. This is about $4 million, or 11 percent, more than estimated current-year expenditures. This increase in expenditures is due primarily to an increase in reimbursements to local governments for peace officers' training.

Analysis and Recommendations

Penalty Assessment Revenues May Be Lower Than Projected

The commission's penalty assessment revenues may be significantly lower than the Governor's Budget projects for the current and budget year.

Background. The commission's only source of funding in the current and budget years is the POTF. The primary source of revenue for the POTF is from penalty assessments that are imposed on persons who violate criminal and traffic laws. In 1991, the penalty assessment rate was increased from $7 to $10 for every $10 fine, penalty, or forfeiture imposed. Revenues are collected by the courts and transmitted to the State Treasurer for deposit into the General Fund (30 percent) and the Penalty Fund (70 percent). The POTF is one of eight funds supported by the Penalty Fund (referred to in the Governor's Budget as the "Assessment Fund"), and the POTF receives approximately 24 percent of the Penalty Fund revenues.

Penalty Assessment Revenue Projections. In the current year, penalty assessment revenues to the POTF are projected to be $32 million. This is approximately $9 million, or 22 percent, less than prior-year revenues. In the budget year, however, revenues to the fund are projected to be $42 million, which is an increase of $10 million, or 31 percent, over the current year.

Historically, it has been difficult to project the revenues to the Penalty Fund. We believe there is considerable downside risk in the revenue projections for the current and budget years for the following reasons: First, higher assessments combined with a forecast for a continued sluggish economy may result in persons who are required to pay fines instead "working off" their debt by spending time in county jail. Second, judges may compensate for assessment rate increases by reducing fines, so the "total bill" (fines plus penalty assessments) for guilty parties remains constant (or does not increase as much as expected). Finally, it appears that the Department of Finance (DOF) may have made a technical error in their 1992-93 projections for the Penalty Fund that could result in the projections of revenue to that fund being overstated by approximately $23.6 million. Since the POTF receives approximately 24 percent of the revenue from the Penalty Fund, its revenue projections could be overstated by $5.7 million, or 13.5 percent, in 1992-93.

The implications of an error in the revenue projections are more serious than in past years, because any decline in projected revenues will result in a corresponding program cut. This is because the 1992-93 Governor's Budget allocates *all* available resources and leaves *no* reserve in the POTF at the end of the current and budget years. In past years, the POTF had a sufficient reserve to fall back on in case of a decline in revenues. The commission has not provided information regarding how a funding shortfall will be addressed.

In our analysis of the Office of Criminal Justice Planning (OCJP — please see Item 8100), we discuss the penalty assessment revenue projections for all eight special fund programs, including the commission. We also recommend that the DOF report at the OCJP budget hearings on the revenue projections contained in the May revision and the basis for those projections.

State Public Defender
Item 8140

Expenditures

Requested 1992-93	$9,721,000
Estimated 1991-92	9,439,000
Actual 1990-91	10,170,000
Requested increase $282,000 (+3 percent)	

Fiscal Recommendations

Total recommended reduction	None

General Program Statement

The Office of the State Public Defender (SPD) provides legal representation for indigents before the Supreme Court and courts of appeal, either upon appointment by the court or at the request of an indigent defendant. These same services also may be provided by the private attorneys appointed by the court. The SPD also operates a brief bank (a library of appellate briefs involving various issues the office has raised in the past) and responds to requests for assistance from private counsel to the extent that resources are available.

The SPD has offices in Los Angeles, Sacramento, and San Francisco.

Overview of the Budget Request

The budget essentially proposes funding for the SPD at the current-year level with an increase for facilities operations.

The budget proposes expenditures of $9.7 million for the SPD in 1992-93. This is $282,000, or 3 percent, more than current-year expenditures. This increase reflects the full-year costs for newly leased office space for the Sacramento office.

STATE PUBLIC DEFENDER—Continued

This office, along with many other departments, has been subject to a variety of reductions over the past several years. Among these is an unallocated reduction of 16 percent from the General Fund in 1991-92. This reduction is proposed to be carried over into 1992-93. In our companion document, *The 1992-93 Budget: Perspectives and Issues,* we discuss the impact of these reductions on various departments.

Payment to Counties for Costs of Homicide Trials
Item 8180

Expenditures

Requested 1992-93	$4,000,000
Estimated 1991-92	3,719,000
Actual 1990-91	1,682,000
Requested increase $281,000 (+7.6 percent)	

Fiscal Recommendations

Total recommended reduction	None

General Program Statement

The state reimburses counties for 80 percent to 100 percent of the costs attributable to homicide trials once trial costs reach a specified percentage of countywide property tax revenues. This percentage varies between counties, depending on county population. The purpose of this financial assistance is to ensure that counties are able to conduct trials and carry out the prosecution of homicide cases without seriously impairing their finances. The program is administered by the State Controller's Office.

Overview of the Budget Request

The proposed budget to reimburse counties for the costs of homicide trials is essentially a workload budget.

The budget proposes an appropriation of $4 million from the General Fund for this program in 1992-93. This is $281,000, or 7.6 percent, more than estimated current-year expenditures. According to the Department of Finance, this increase is proposed primarily because of expected costs resulting from a major homicide trial in Calaveras County.

In the current year, the program was subject to an unallocated reduction of $155,000, or 4 percent. The reduction was not carried over into 1992-93. In our companion document, *The 1992-93 Budget: Perspectives and Issues,* we discuss the impact of unallocated reductions on various departments.

Commission for Economic Development
Item 8200

Expenditures

Requested 1992-93	$544,000
Estimated 1991-92	544,000
Actual 1990-91	608,000

Fiscal Recommendations

Total recommended reduction	None

General Program Statement

The Commission for Economic Development (CED), chaired by the Lieutenant Governor, was established to provide guidance on statewide economic development. The commission provides a forum for the discussion and study of economic development issues affecting the state, and makes policy recommendations.

Overview of the Budget Request

The budget proposes to provide the same funding for the CED in 1992-93 as was provided in the current year.

The budget proposes expenditures of $544,000 in 1992-93.
This commission, along with many other departments, has been subject to a variety of reductions over the past several years. Among these is an unallocated reduction of 12 percent from the General Fund in 1991-92 (the commission's budget is funded almost entirely from the General Fund). This reduction is proposed to be carried over in 1992-93. In our companion document, *The 1992-93 Budget: Perspectives and Issues,* we discuss the impact of these reductions on various departments.

California Arts Council
Item 8260

Expenditures

Requested 1992-93	$15,985,000
Estimated 1991-92	15,985,000
Actual 1990-91	16,752,000

Fiscal Recommendations

Total recommended reduction	None

General Program Statement

The California Arts Council's enabling legislation directs it to (1) encourage artistic awareness and expression, (2) assist local groups in the development of arts programs, (3) promote the employment of artists in both the public and private sectors, (4) provide for the exhibition of artworks in public buildings, and (5) ensure the fullest expression of artistic potential. In carrying out this mandate, the Arts Council has focused its efforts on the development of grant programs to support artists and organizations in various disciplines.

Overview of the Budget Request

The budget proposes funding the California Arts Council at the current-year level.

The budget proposes total expenditures of $16 million for the Arts Council ($14.9 million General Fund and $1.1 million federal funds) in 1992-93. This is the same amount as estimated expenditures for the current year.

This budget, along with many other departments and agencies, has been subject to a variety of reductions over the past several years. Among these is an unallocated reduction of 6.4 percent from the General Fund in 1991-92. (This reduction is 6 percent of the council's total budget from all funds.) This reduction is proposed to be carried over in 1992-93. In our companion document, *The 1992-93 Budget: Perspectives and Issues,* we discuss the impact of these reductions on various departments.

Native American Heritage Commission
Item 8280

Expenditures

Requested 1992-93	$285,000
Estimated 1991-92	285,000
Actual 1990-91	287,000

Fiscal Recommendations

Total recommended reduction	None

General Program Statement

The Native American Heritage Commission is responsible for identifying, cataloging, and preserving places of special religious or social significance to Native Americans, in order to ensure the expression of Native American religion. In addition, the commission is authorized to mediate disagreements between Native Americans and landowners, developers, or public agencies in order to mitigate any adverse impact to sacred sites.

Support services are provided to the commission by the State Lands Commission.

Overview of the Budget Request

The budget proposes no workload or program changes for the commission.

The budget proposes total expenditures of $285,000 from the General Fund for support of the commission in 1992-93. This amount is the same as the estimated expenditures for 1991-92.

The commission, along with many other departments, has been subject to an unallocated reduction — of about 12 percent — in its General Fund support in 1991-92. This reduction is proposed to be carried over into 1992-93. In our companion document, *The 1992-93 Budget: Perspectives and Issues,* we discuss the impact of these reductions on various departments.

Agricultural Labor Relations Board
Item 8300

Expenditures

Requested 1992-93	$5,669,000
Estimated 1991-92	5,669,000
Actual 1990-91	6,211,000

Fiscal Recommendations

Total recommended reduction	None

General Program Statement

The Agricultural Labor Relations Board (ALRB) protects the rights of agricultural workers to join employee unions, bargain collectively with their employers, and engage in activities through labor organizations of their own choosing. In order to accomplish its work, the agency is split into two divisions: (1) the General Counsel, whose employees run elections and investigate charges of unfair labor practices, and (2) the board, which certifies elections.

Overview of the Budget Request

The budget proposes funding the ALRB at the same level as in the current year.

The budget proposes expenditures of $5.7 million from the General Fund by the ALRB in 1992-93. This represents no change over estimated current-year expenditures.

This board, along with many other departments, has been subject to a variety of reductions over the past several years. Among these is an unallocated reduction of 17 percent from the General Fund in 1991-92. This reduction is proposed to be carried over in 1992-93. In our companion document, *The 1992-93 Budget: Perspectives and Issues,* we discuss the impact of these reductions on various departments.

Public Employment Relations Board
Item 8320

Expenditures

Requested 1992-93	$5,337,000
Estimated 1991-92	5,337,000
Actual 1990-91	6,398,000

Fiscal Recommendations

Total recommended reduction	None

General Program Statement

The Public Employment Relations Board (PERB) guarantees to public education and state employees the right to join employee organizations and engage in collective negotiations with their employers regarding salaries, wages, and working conditions. It does so by administering three state laws: (1) the Education Employment Relations Act (EERA), which affects public education employees (K-14); (2) the State Employer-Employee Relations Act (SEERA), which affects state civil-service employees; and (3) the Higher Education Employer-Employee Relations Act (HEERA), which affects University of California and California State University employees.

Overview of the Budget Request

The budget proposes no workload or program changes for the board.

The budget proposes an appropriation of $5.3 million from the General Fund to support the board in 1992-93. This represents no net increase above current-year expenditures.

The board, along with many other departments, has been subject to a variety of reductions over the past several years. Among these is an unallocated reduction of about 17 percent from the General Fund in 1991-92. This reduction is proposed to be carried over into 1992-93. In our companion document, *The 1992-93 Budget: Perspectives and Issues,* we discuss the impact of these reductions on various departments.

Department of Industrial Relations
Item 8350

Expenditures

Requested 1992-93	$168,950,000
Estimated 1991-92	171,986,000
Actual 1990-91	169,168,000
Requested decrease $3,036,000 (-1.8 percent)	

Fiscal Recommendations

Total recommended reduction	None

Findings and Recommendations

Analysis Page

1. **Workers' Compensation Reforms.** Studies are in progress to evaluate the reforms enacted in 1989. We will comment on the results of the first study during the budget hearings, as appropriate. 25

General Program Statement

The objective of the Department of Industrial Relations (DIR) is to protect the workforce of California, improve working conditions, and advance opportunities for profitable employment. These responsibilities are carried out through three major programs: the Adjudication of Workers' Compensation Disputes; the Prevention of Industrial Injuries and Deaths; and the Enforcement of Laws Relating to Wages, Hours, and Working Conditions. In addition, the department (1) regulates self-insured workers' compensation plans, (2) provides workers' compensation payments to injured workers of uninsured employers and other special categories of employees, (3) offers conciliation services in labor disputes, (4) promotes apprenticeship programs, and (5) conducts and disseminates labor force research.

Overview of the Budget Request

The proposed DIR budget is essentially a workload budget.

The budget proposes expenditures of $169 million by the DIR in 1992-93. This is $3 million, or 1.8 percent, less than estimated current-year expenditures. The General Fund portion of the request is $111 million, or 7.2 percent,

Table 1

Department of Industrial Relations Budget Summary 1990-91 through 1992-93

(dollars in thousands)

	Actual 1990-91	Estimated 1991-92	Proposed 1992-93	Percent Change From 1991-92
Regulation of workers' compensation self-insurance plan	$1,410	$2,242	$2,253	0.5%
Conciliation of labor disputes	2,001	1,829	1,834	0.3
Adjudication of workers' compensation disputes	68,859	76,096	74,397	-2.2
Prevention of industrial injuries and deaths	43,955	46,053	45,933	-0.3
Enforcement of laws relating to wages, hours, and working conditions	25,144	21,715	21,821	0.5
Apprenticeship and other on-the-job training	5,300	3,602	2,274	-36.9
Labor force research and data dissemination	3,004	2,945	2,934	-0.4
Payment of wages, claims, and contingencies	19,433	17,504	17,504	—
Administrative support services (distributed)	(12,618)	(12,769)	(12,769)	—
Loan repayment (Ch 893/89 — SB 47, Lockyer)	62	—	—	—
Totals	**$169,168**	**$171,986**	**$168,950**	**-1.8%**
General Fund	$127,242	$119,875	$111,260	-7.2%
Workers' Compensation Administration Revolving Fund	11,406	14,866	14,527	-2.3
Loan repayment to the General Fund	-62	—	—	—
Self-Insurance Plans Fund	1,258	2,048	2,058	0.5
Elevator Safety Inspection Account	3,725	3,834	3,903	1.8
Pressure Vessel Inspection Account	2,645	3,841	3,862	0.5
Uninsured Employers' Fund, Employees' Account	-535	3,372	10,447	209.8
Federal Trust Fund	18,906	18,892	18,924	0.2
Reimbursements	1,233	2,505	2,509	0.2
Other special funds	3,288	2,753	1,460	-47.0
Personnel-Years	**2,234.4**	**2,427.6**	**2,361.6**	**-2.7%**

under current-year expenditures. The proposed General Fund change is primarily due to a $7.1 million reduction in the transfer of funds from the General Fund to the Uninsured Employers' Fund, which is used to pay workers' compensation benefits in cases where employers do not have insurance. (Funds are transferred annually in order to supplement employer fines and penalties deposited into the Uninsured Employers' Fund.) The budget also proposes an increase of $348,000 from the General Fund for 4.5 positions in the Division of Workers' Compensation to collect employee death benefits from employers. Table 1 displays the expenditures and staffing levels for the department from 1990-91 through 1992-93. Table 2 shows the department's proposed budget changes in 1992-93.

This department, along with many other departments, has been subject to a variety of reductions over the past several years. Among these is an unallocated reduction of 13 percent from the General Fund in 1991-92. (This reduction is 8.8 percent of the department's total budget from all funds.) This reduction is proposed to be carried over into 1992-93. In our companion document, *The 1992-93 Budget: Perspectives and Issues,* we discuss the impact of these reduction on various departments.

Table 2

Department of Industrial Relations
Proposed 1992-93 Budget Changes

(dollars in thousands)

	General Fund	All Funds
1991-92 Expenditures (revised)	$119,875	$171,986
Baseline adjustments		
Limited-term positions	-$653	-$816
Equipment — one-time costs	-658	-823
Change in General Fund transfer to the Uninsured Employers' Fund	-7,083	—
Board of Control claims	16	16
Carry-over appropriation expense	-45	-45
Adjustment for price increase	282	398
Sunset of funding for the Division of Apprenticeship Standards	—	-1,300
Subtotals, baseline adjustments	(-$8,141)	(-$2,570)

Continued

	General Fund	All Funds
Workload changes		
Division of Labor Standards Enforcement workload reduction	-$282	-$282
Increase for pro rata overhead	—	1,502
Salary reductions	-85	-121
Workers' Compensation Appeals Board on-line system	-509	-54
Executive order adjustment	54	54
Reduction in special fund appropriation for workers' compensation administration	—	-1,913
Subtotals, workload changes	(-$822)	(-$814)
Program changes		
Collection of employee death benefits	$348	$348
Subtotals, program changes	($348)	($348)
1992-93 Expenditures (proposed)	**$111,260**	**$168,950**
Change from 1991-92		
Amount	-$8,615	-$3,036
Percent	-7.2%	-1.8%

Analysis and Recommendations

Workers' Compensation Reform Update

Studies are in progress to evaluate the reforms enacted in 1989. We will comment on the results of the first study during budget hearings, as appropriate.

Over the last two years the Legislature has enacted several major bills that have made significant changes to the workers' compensation system, including the Margolin-Bill Greene Workers' Compensation Reform Act [Ch 892/89 (AB 276, Margolin) and Ch 893/89 (SB 47, Lockyer), and Ch 116/91 (SB 1218, Presley)]. Generally, the reforms were intended to improve the benefits to the worker, improve efficiency, and reduce the costs of the system.

Evaluation Studies In Progress. The Legislature authorized two studies to evaluate the impacts of the reforms on the system. One of the studies, conducted by the Workers' Compensation Rate Study Commission, is evaluating the state's process for establishing the rates paid by employers for workers' compensation insurance and comparing the relative effectiveness of rate-making systems among the states. Subsequent to the legislation authorizing this study, Ch 115/91 (AB 971, Peace) modified the study by requiring the commission to analyze several issues, including the extent to which the rate-making system (1) fosters or discourages competition, (2) provides appropriate and expeditious claim services to injured workers, and (3) provides the lowest net cost to insured employers. The study is scheduled to be completed by March 1, 1992.

In the second study, the Workers' Compensation Insurance Rating Bureau is required to monitor and measure cost changes to the various components of the workers' compensation system that were or may be affected by the 1989 reforms. Specifically, the rating organization is required to review changes in costs of (1) medical treatment, (2) temporary and permanent disability benefits, (3) vocational rehabilitation services, and (4) providing compensation for psychiatric injuries. The bureau is required to submit its first report, which will encompass 1990 case data, by January 1, 1993. Subsequent reports are required annually through 1998.

Anti-Fraud Efforts Just Getting Underway. Chapter 116, Statutes of 1991 (SB 1218, Presley), implemented several provisions to reduce and control workers' compensation fraud. This measure (1) established fines and penalties for specified illegal workers' compensation activities, (2) created the Workers' Compensation Insurance Fraud Reporting Act to facilitate the exchange of information, and (3) mandated fraud reporting from both insurers and self-insured employers.

At the time this analysis was prepared, the Department of Insurance (the responsible department in this area) was still developing many of its anti-fraud activities. For example, the department is developing referral guidelines for dissemination of fraud information and has a budget-year proposal to increase the Bureau of Fraudulent Claims staff by 22 positions to investigate and process more fraud cases.

Qualified Medical Examiners (QME) System Not Fully Implemented. The reform act created the Industrial Medical Council (IMC) to facilitate disputed resolutions of medical cases and recruit and certify QME and Independent Medical Evaluators to provide medical consultation to injured workers. These reforms were intended to reduce the cost of medical evaluations and treatment. Due to hiring and policy implementation delays, however, this system has not been fully implemented. According to the department, the IMC has qualified approximately 10,700 physicians and expects to have up to 20,000 physicians participating in the system at the end of the budget year.

According to departmental staff, the initial medical consultation and treatment fee schedule proposed by the IMC is scheduled to be completed in February 1992. The department expects to schedule public hearings shortly thereafter to hear testimony on the proposed fees.

Vocational Rehabilitation Incentives. The Margolin-Bill Greene Workers' Compensation Reform Act also included several provisions to improve performance and discourage delays in rehabilitation. These provisions include (1) requiring insurers to provide a rehabilitation "dividend" to an employer who modifies a job or finds alternative employment for an injured worker, (2) encouraging early participation in rehabilitation by paying the worker who begins rehabilitation during the temporary disability period the full disability payment, instead of the lower maintenance allowance (which is limited to $90 a week), and (3) encouraging early participation in rehabilitation by providing that an employer's liability terminates if an eligible worker does not accept vocational rehabilitation services within 90 days.

Conclusion. There are currently underway two studies that will provide the Legislature with the data necessary to make an assessment of the effect of the workers' compensation reforms of 1989. Until those studies are available, it is difficult to evaluate the impact of the reforms on the system. Similarly, because the QME system and the anti-fraud programs are not fully implemented, evaluating their full impact on reducing costs will not be possible for at least two years.

Department of Personnel Administration
Item 8380

Expenditures

Requested 1992-93	$13,494,000
Estimated 1991-92	12,219,000
Actual 1990-91	13,754,000
Requested increase $1,275,000 (+10.4 percent)	

Fiscal Recommendations

Total recommended reduction	None

MAJOR ISSUES

- **Tenuous General Fund Savings.** The Governor's Budget assumes salary and benefit savings totaling $267 million (General Fund) — $74 million in the current year and $193 million in the budget year — that are dependent upon the collective bargaining process or enactment of legislation.

Findings and Recommendations

	Analysis Page
1. **Unallocated Reductions Not Fully Implemented.** The Department of Finance (DOF) has required unallocated reductions from departments that totaled approximately $270 million, rather than the $388 million assumed by the 1991 Budget Act. We recommend that the DOF report to the Legislature at budget hearings on its plan for achieving the employee compensation savings assumed in the 1991 Budget Act.	32
2. **Status of Layoffs.** Based on experience to date, it is unclear if additional layoffs will be necessary. We recommend that the administration report at budget hearings on the status of and the need for layoffs in the current and budget years.	32
3. **Salary Reduction for Represented Employees.** The salary reduction savings of $74 million (General Fund) anticipated in the current year will not be fully realized and may not occur at all.	33
4. **Anticipated Salary and Benefit Savings May Not Occur.** The salary and benefit savings of $193 million (General Fund) anticipated in the Governor's Budget will not be realized unless the administration successfully negotiates the reductions through the collective bargaining process or legislation is adopted to implement the reductions.	34

General Program Statement

The Department of Personnel Administration (DPA) manages the *nonmerit* aspects of the state's personnel system. The State Employer-Employee Relations Act (SEERA) provides for collective bargaining for most state civil service employees. Under SEERA, the DPA, in cooperation with other state departments, is responsible for (1) reviewing existing terms and conditions of employment subject to negotiation, (2) developing management's negotiating positions, (3) representing management in collective bargaining negotiations, and (4) administering negotiated memoranda of understanding (MOUs). The DPA is also responsible for providing for the compensation, terms, and conditions of employment of managers and other state employees who are not represented in the collective bargaining process.

Overview of the Budget Request

Departmental Support

The proposed Department of Personnel Administration budget is essentially a workload budget, except for the increase needed to fund the implementation of a new retirement program, pursuant to Ch 83/91 (AB 702, Frizzelle).

The budget proposes total expenditures of $13.5 million for support of the department in 1992-93. The proposed expenditures consist of an appropriation of $7.1 million from the General Fund, $1.4 million from the Deferred Compensation Plan Fund, $712,000 from the FlexElect Benefit Fund, and $4.3 million in reimbursements. This is $1.3 million, or 10 percent, more than estimated current-year expenditures.

The proposed General Fund appropriation represents no net change from the current-year expenditures. Reimbursements are expected to increase by $1.1 million, or 33 percent, above estimated current-year amounts. This increase in reimbursements includes $968,000 and 5.7 personnel-years to implement the Part-time, Seasonal, and Temporary Employees (PST) Retirement Plan, and $88,000 in spending authority to fund increased benefits administration costs. The remaining $219,000 of the overall increase provides for adjustments in the pro rata assessment, price increases, and other miscellaneous baseline adjustments. The budget proposes to fund these baseline changes through the Deferred Compensation Plan Fund ($127,000) and the FlexElect Benefit Fund ($76,000).

This department, along with many other departments, has been subject to a variety of reductions over the past several years. Among these is an unallocated reduction of about 16 percent from the General Fund in 1991-92. (This reduction is 13 percent of the department's total budget from all funds.) This reduction is proposed to be carried over into 1992-93. In our companion document, *The 1992-93 Budget: Perspectives and Issues,* we discuss the impact of these reductions on various departments.

Employee Compensation

The budget does not fund increases in employee compensation in 1992-93.

The Governor's Budget does not propose any funding for employee salary increases or premium rate increases in existing health, dental or vision benefits in 1992-93. Instead, the budget proposes to:

- Reduce state employee salaries by 5 percent (effective January 1, 1992).
- Reduce the state's payment for health insurance premiums to the 1990-91 level.
- Maintain the state's payment for dental/vision premiums at the 1991-92 level.

The administration estimates that these actions would result in General Fund savings of $193 million. This proposal does not include employees of the University of California, the California State University and Hastings College of the Law. The budget, however, proposes no increase in compensation for these employees.

Analysis and Recommendations

The Current Collective Bargaining Process Has Stalled

In 1988-89, 20 employee bargaining units entered into Memoranda of Understanding (MOUs) with the state. These MOUs specify the conditions of state employment for each bargaining unit. The collective bargaining agreements expired as of June 30, 1991. Negotiations for new MOUs began in March 1991 and according to a timetable established by the DPA, should have concluded with new agreements by August 1991. However, the administration and employee organizations were unable to reach agreement. Once negotiations failed to produce a new agreement, impasse was declared by the Public Employment Relations Board and a mediator was appointed. When mediation failed to produce agreements, the administration sought to unilaterally implement changes in certain terms and conditions of employment as discussed in more detail below.

Only three of the state's 21 bargaining units are still negotiating. (The additional bargaining unit was established in March 1990 when certain members separated from bargaining unit 3 to form bargaining unit 21.) Of the three units that are still negotiating, two (units 9 and 12) have filed for impasse.

Most of the state's 21 bargaining units have completed mediation. The state has unilaterally established new terms and conditions of employment for 7 of the 15 units that have completed mediation without reaching agreement. New terms and conditions of employment have not yet been determined for the remaining eight units.

Given the state's current fiscal situation, the administration sought to unilaterally implement its last best offer once mediation failed. This offer included a 5 percent salary reduction as well as a reduction in the employer contribution toward health and dental benefits for represented employees. The employee organizations filed suit and the issue was resolved in court.

The Superior Court of Sacramento ruled that, absent any action by the Legislature, the administration could not implement the 5 percent salary reduction or reduce the employer contribution toward health and dental benefits for represented employees. The court also ruled that economic benefits (such as holiday, vacation, and sick leave) could not be reduced below levels established in statute or by Department of Personnel Administration rule. The ruling reflects the court's belief that the SEERA does not authorize the administration to make unilateral changes in salary or health benefits without legislative approval. Absent concessions in the collective bargaining process or legislative action, these reductions will not be implemented. As a result, the state will lose approximately $16 million per month in potential General Fund savings.

Current-Year Employee Compensation Program

The 1991 Budget Act did not contain funding for an employee salary increase or health benefit premium increases. However, the Budget Act did appropriate funds to continue health benefit premiums at the 1990-91 level and finance premium rate increases in employee dental and vision benefits.

Finally, two Control Sections in the 1991 Budget Act required a total of $388 million in unallocated General Fund reductions from employee compensation (Control Section 1.20 - $37 million and Control Section 3.90 - $351 million).

Department of Finance Has Not Fully Implemented Unallocated Reductions

We find that the DOF has required unallocated reductions in the current year from departments that total approximately $270 million, rather than the $388 million reduction required by Control Sections 1.20 and 3.90 in the 1991 Budget Act. We recommend that the DOF report to the Legislature at budget hearings on its plan for obtaining the full amount of unallocated reductions.

In June 1991, the DOF notified all state departments that reductions totaling $388 million would be required pursuant to the provisions of Control Sections 1.20 and 3.90. In general, the DOF allocated the reductions among the departments based on their share of total General Fund expenditures for the state.

In July 1991, the DOF notified the departments that reductions totaling $341 million would be required rather than $388 million. The July notification was superseded by two Executive Orders released in August 1991 and October 1991. These orders required total unallocated reductions of $269.6 million from departments. This is $118.4 million less than the $388 million required by Control Sections 1.20 and 3.90 of the 1991 Budget Act. Recently, the DOF has indicated that the unallocated reductions may be reduced further. Thus, at the time this *Analysis* was prepared (February), the provisions of Control Sections 1.20 and 3.90 of the 1991 Budget Act had not been fully implemented. Therefore, we recommend that the DOF report at budget hearings on its plans for achieving the savings contemplated by Control Sections 1.20 and 3.90 of the 1991 Budget Act.

There Have Been Relatively Few Layoffs in State Service in 1991-92

Based on experience to date, it is unclear if additional layoffs will be necessary. Therefore, we recommend that the Department of Personnel Administration (DPA) and the State Personnel Board (SPB) report at budget hearings on the status of and the need for layoffs in the current and budget years.

The administration reported that perhaps as many as 3,000 state employees would be laid off in the current year. This has not happened. At the time this analysis was prepared (February), a total of 125 people in 10 departments had been laid off. Table 1 summarizes these layoffs.

Table 1

Department of Personnel Administration Number of Layoffs in State Service (As of January 17, 1992)

Department	Number Laid Off	Effective Dates
Education (Fresno School)	13	June 30, 1991
Fair Employment and Housing	9	November 21, 1991 and December 4, 1991
Forestry and Fire Protection	2	January 9, 1992
Industrial Relations	2	June 30, 1991
Military	67	October 1, 1991 and December 6, 1991
Office of Administrative Law	4	October 1, 1991
Secretary of State	1	January 1, 1992
State Fire Marshal	22	November 4, 1991 and January 1, 1992
State Personnel Board	3	June 30, 1991
State Teachers' Retirement System	2	June 30, 1991
Total	125	

The number of layoffs, however, does not adequately depict the changes that are occurring in the state workforce. In fact, these numbers reflect a relatively small portion of the total number of employees that have been affected by the state's layoff procedure through demotion, retirement, transfer to another state agency, or separation prior to layoff. For example, the DPA indicates that it has received requests to compute seniority scores (the first step of the layoff process) for 7,216 employees from 44 departments. It is unclear how many, if any, of the employees with calculated seniority scores will be laid off.

Given the uncertainty concerning the status of or need for layoffs, we recommend that the DPA and the SPB report to the Legislature during budget hearings on this issue

Savings From Salary Reductions Assumed in the Current Year May Not be Realized

The $74 million (General Fund) savings anticipated in the current year from salary reductions will not be fully realized and may not occur at all.

In the current year, the administration implemented a 5 percent salary reduction for *nonrepresented* employees (managers, supervisors, and exempt employees). The DOF estimates that this salary reduction will result in General Fund savings of $35 million in the current year. In addition to the salary reduction, the state contribution for health benefit premiums for non-represented employees was reduced to the 1990-91 level. The reduced state contribution will save the state's General Fund approximately $11.5 million in the current year.

As previously mentioned, the DPA sought to negotiate similar reductions for represented employees through the collective bargaining process. The DOF estimated that a 5 percent salary reduction for represented employees would result in General Fund savings of $73.7 million for six months. Believing that the health benefit contribution reductions could be implemented for the full year, DOF estimated annual General Fund savings of $46 million. Negotiations have failed to produce a new agreement and the Superior Court of Sacramento has barred implementation of the salary and benefit reductions without legislative approval.

The DOF acknowledges that the $46 million savings in health benefit premium contributions for represented employees will not be realized in the current year. The Governor's Budget, however, assumes a $73.7 million General Fund savings in the current year (from January through June 1992) from a 5 percent salary reduction that has not been implemented. At the time this *Analysis* was prepared, the unions had not agreed to the reductions nor had the Legislature authorized them.

Anticipated Budget-Year Salary and Benefit Savings May Not Occur

The Governor's Budget for 1992-93 assumes savings of $193 million (General Fund) due to proposed salary and benefit reductions. These savings will not be realized unless the administration successfully negotiates the reduction through the collective bargaining process or legislation is adopted to implement the reductions.

Salary Reductions for Represented Employees May Not Occur. The proposed 1992-93 budget assumes a 5 percent salary reduction for represented employees for a General Fund savings of $148 million. The administration was barred by a recent court decision from implementing this salary reduction in the current year. Based on this court action, the administration will not be able to reduce the salaries of represented employees in 1992-93 without concurrence in the collective bargaining process or legislative action.

Benefit Savings for Represented Employees May Not Occur. All benefit costs are expected to increase in the budget year. The Governor's Budget assumes the following premium increases: health benefits — 10 percent, dental benefits — 13 percent, and vision benefits — 15 percent. The cost of these increases would be approximately $56 million. As shown in Table 2, $11 million of this amount is for nonrepresented employees and $45 million is for represented employees. Vision premium increases account for $2 million of the $56 million benefit cost increases. These costs are not specifically funded in the budget. The remaining $54 million is due to health and dental premium increases. The budget assumes that employees would pay for the health and dental premium increases.

Table 2

Department of Personnel Administration
General Fund Cost of Benefit Increases 1992-93

(dollars in millions)

	Represented		Nonrepresented		Total
Benefit	Cost	Paid By:	Cost	Paid By:	Increase
Health	$32.0	Employee[a]	$8.0	Employee	$40.0
Dental	11.2	Employee[a]	2.8	Employee	$14.0
Vision	1.6	Department	0.4	Department	$2.0
Totals	$44.8		$11.2		$56.0

[a] Governor's Budget assumes employee will pay these increases. This requires either concurrence in the collective bargaining process or legislative action; otherwise this will create a budget hole.

The state's cost for health and dental benefits is affected by three factors: (1) normal premium increases, (2) employees opting for additional coverage, (such as moving from single coverage to employee plus one dependent or employee plus two dependents coverage), and (3) "cost creep." Cost creep occurs when premium costs rise above what the state was paying, but is still within the state's contribution limit. The total cost impact of these three factors could exceed the estimated $54 million premium cost increase for health and dental benefits.

Although benefit costs are anticipated to increase in the budget year, the Governor's Budget assumes that state contributions for *health* benefit premiums will be capped at the 1990-91 level. This cap is currently in place for nonrepresented employees and is proposed to continue in the budget year. Represented employees, however, continue to receive the higher 1991-92 employer contributions pursuant to court orders. If the state is unable to implement the reduced rates in 1992-93 for represented employees, through either collective bargaining or legislation, this would create a budget hole of $32 million (General Fund).

General Fund increases in the dental and vision premiums would total an additional $16 million in the budget year. The Governor's Budget, however, assumes that the state's contribution for these benefits will be held at the current year level. Of the $16 million increase, $2.8 million is expected to be paid by nonrepresented employees rather than the General Fund. The remaining costs for represented employees will create a $13.2 million (General Fund) budget hole, unless the state is able to implement the reduced state contribution rate.

In summary, the Governor's Budget assumes General Fund savings of approximately $193 million in employee compensation costs ($148 million in salaries and $45 million in benefits). These savings will not be realized unless the administration is able to implement the changes through collective bargaining or enactment of enabling legislation. Otherwise, the $193 million will need to be paid through either existing departmental resources or the General Fund reserve.

California Citizens Compensation Commission
Item 8385

Expenditures	
Requested 1992-93	$91,000
Estimated 1991-92	91,000
Actual 1990-91	NA
Fiscal Recommendations	
Total recommended reduction	None

General Program Statement

The California Citizens Compensation Commission is charged with the exclusive authority to set the annual salaries and benefits of Members of the Legislature, the Governor, Lieutenant Governor, Attorney General, Controller, Insurance Commissioner, Secretary of State, Superintendent of Public Instruction, Treasurer, and members of the Board of Equalization.

Overview of the Budget Request

The budget proposes no workload or program changes for the commission.

The budget proposes an appropriation of $91,000 from the General Fund to support the activities of the commission in 1992-93. This represents no net increase above current-year expenditures. This amount is composed primarily of per diem and travel costs for the seven commission members. Support services for the commission are provided by the Department of Personnel Administration.

The commission, along with many other departments, was subject to unallocated reductions in the current year. The reduction was about 11 percent of the commission's General Fund appropriation in 1991-92. This reduction is proposed to be carried over into 1992-93. In our companion document, *The 1992-93 Budget: Perspectives and Issues,* we discuss the impact of these reductions on various departments.

Workers' Compensation Benefits for Subsequent Injuries

Item 8450

Expenditures

Requested 1992-93	$6,787,000
Estimated 1991-92	5,720,000
Actual 1990-91	6,175,000
Requested increase $1,067,000 (+18.7 percent)	

Fiscal Recommendations

Total recommended reduction	None

General Program Statement

This program provides benefits to workers with a preexisting permanent disability who suffer a subsequent industrial injury resulting in a combined permanent disability of 70 percent or more. The employer is responsible only for that degree of permanent disability arising from the subsequent injury and the balance of the disability benefit is paid by the state.

Overview of the Budget Request

The proposed budget is essentially a workload budget, reflecting an estimated increase in subsequent injuries permanent disability claims.

The total 1992-93 budget proposed to fund workers' compensation benefits paid under the subsequent injury program is $6.8 million, including (1) $3.4 million from the General Fund and (2) $3.4 million from the Subsequent Injuries Moneys Account of the General Fund. This is an increase of $1.1 million, or 19 percent, above estimated current-year expenditures. This increase, funded by the Subsequent Injuries Moneys Account, primarily reflects an estimated increase in subsequent injury permanent disability claims for 1992-93.

Workers' Compensation Benefits for Disaster Service Workers

Item 8460

Expenditures

Requested 1992-93	$663,000
Estimated 1991-92	663,000
Actual 1990-91	430,000

Fiscal Recommendations

Total recommended reduction	None

General Program Statement

This program, administered by the State Compensation Insurance Fund, provides funds for the payment of workers' compensation benefits to volunteer personnel (or their dependents) who are injured or killed while providing community disaster relief services.

Overview of the Budget Request

The budget proposes for 1992-93 no change from current-year expenditures for this program.

The budget proposes $663,000 from the General Fund to support the Disaster Service Workers' Benefit Program in 1992-93. The budget-year request is identical to estimated current-year expenditures.

Board of Chiropractic Examiners

Item 8500

Expenditures

Requested 1992-93	$1,525,000
Estimated 1991-92	1,439,000
Actual 1990-91	1,158,000
Requested increase $86,000 (+6.0 percent)	

Fiscal Recommendations

Total recommended reduction	None

General Program Statement

The Board of Chiropractic Examiners licenses and regulates chiropractors practicing in California. The board's activities are supported by license fees and revenues.

Overview of the Budget Request

The budget proposes essentially a baseline expenditure level to support the board's activities in 1992-93, except for additional funding for contracted services and equipment.

The proposed expenditure of $1.5 million is $86,000, or 6.0 percent, above estimated expenditures in 1991-92. The increase consists of (1) $80,000 for contracted services for data processing for validation of the practical examination process and (2) funds to replace worn out office equipment.

Board of Osteopathic Examiners
Item 8510

Expenditures

Requested 1992-93	$543,000
Estimated 1991-92	472,000
Actual 1990-91	437,000

Requested increase $71,000 (+15 percent)

Fiscal Recommendations

Total recommended reduction	None

General Program Statement

The Board of Osteopathic Examiners licenses and regulates osteopaths in California. The board's activities are supported by regulatory fees and revenues on licensed osteopaths.

Overview of the Budget Request

The budget proposes to fund the board at essentially the current-year level, except for increased expenditures in the enforcement program.

The budget proposes total expenditures of $543,000 to support the board's activities in 1992-93. This is an increase of $71,000, or 15 percent, above estimated current-year expenditures. The increase is the result of (1) increased Attorney General's costs for enforcement activities and (2) higher pro rata charges.

Board of Pilot Commissioners for the Bays of San Francisco, San Pablo and Suisun
Item 8530

Expenditures

Requested 1992-93	$1,800,000
Estimated 1991-92	1,507,000
Actual 1990-91	972,000
Requested increase $293,000 (+19.4 percent)	

Fiscal Recommendations

Total recommended reduction	None

General Program Statement

The Board of Pilot Commissioners for the Bays of San Francisco, San Pablo and Suisun certifies pilots for vessels traveling those bays. The board also trains, licenses, and regulates pilots and acts on complaints. The board is supported by the Board of Pilot Commissioners' Special Fund which derives its revenues from pilotage fees. Additionally, a special surcharge on ship movements provides funds for pilot training.

Overview of the Budget Request

The budget proposes to expand the pilot training program in 1992-93.

The budget proposes total expenditures of $1.8 million for support of the board in 1992-93. This is $293,000 (19 percent) above estimated current-year expenditures and reflects proposed increases in the number of pilot trainees and in their monthly stipend. The increases will permit the board to attract qualified shipmasters to the trainee program and fill pilot vacancies in a more timely manner.

California Auctioneer Commission
Item 8540

Expenditures

Requested 1992-93	$371,000
Estimated 1991-92	336,000
Actual 1990-91	235,000
Requested increase $35,000 (+10.4 percent)	

Fiscal Recommendations

Total recommended reduction	None

General Program Statement

The Auctioneer Commission is responsible for licensing and regulating auctioneers and auction companies in California. The commission's activities are supported by license fees and revenues.

Overview of the Budget Request

The budget proposes essentially a workload budget, with increased funding for enforcement expenditures.

The budget proposes expenditures of $371,000 from the Auctioneer Commission Fund for support of the commission in 1992-93. This is an increase of $35,000, or 10 percent, above estimated current-year expenditures. The increase will cover additional investigative activities and higher rent costs.

California Horse Racing Board
Item 8550

Expenditures

Requested 1992-93	$8,742,000
Estimated 1991-92	8,748,000
Actual 1990-91	8,243,000
Requested decrease $6,000 (-0.1 percent)	

Fiscal Recommendations

Total recommended reduction	None

General Program Statement

The California Horse Racing Board (CHRB) regulates all horse racing meetings in the state that include pari-mutuel wagering. The board's responsibilities include (1) licensing participants in horse racing, (2) contracting to provide racing officials, (3) enforcing racing regulations, and (4) regulating wagering and maximizing the state's horse racing revenues.

Overview of the Budget Request

The proposed CHRB budget provides essentially the same amount of funding as in the current year.

The budget proposes total expenditures of $8.7 million from the Fair and Exposition Fund and the Racetrack Security Account to support the board's activities in 1992-93. This is a decrease of $6,000 — 0.1 percent — from current-year estimated spending.

The board's costs are paid from state horse racing receipts prior to their deposit in the General Fund. Consequently, the General Fund ultimately bears the board's costs. However, since the General Fund does not directly support it, the board was not subject to the unallocated reductions that were applied to General Fund-supported agencies in the current year.

California Exposition and State Fair
Item 8560

Expenditures

Requested 1992-93	$18,032,000
Estimated 1991-92	15,273,000
Actual 1990-91	15,057,000
Requested increase $2,759,000 (+18.1 percent)	

Fiscal Recommendations

Total recommended reduction	None

General Program Statement

The California Exposition and State Fair (Cal Expo) manages the state fair in Sacramento each summer and provides a site for various events during the remainder of the year.

Overview of the Budget Request

The proposed Cal Expo budget essentially is a workload budget and includes $1.9 million for various improvements and repairs.

The budget proposes total expenditures of $18 million for support of Cal Expo in 1992-93. This is an increase of $2.8 million, or 18 percent, above estimated current-year expenditures. The increase is primarily due to:

- An increase of $433,000 and 13 personnel-years for state fair workload and to manage year-round events.
- An increase of $637,000 for deferred maintenance and special repairs.
- An increase of $527,000 for various operational improvements at the fairgrounds.
- Appropriation of $785,000 for Cal Expo's portion of the costs for a new satellite wagering facility.

Capital Outlay

The Governor's Budget proposes an appropriation of $2.8 million in Item 8560-301 for capital outlay expenditures at Cal Expo. Please see our analysis of that item in the capital outlay section of this *Analysis* which is in the back portion of this document.

Department of Food and Agriculture
Item 8570

Expenditures

Requested 1992-93	$183,525,000
Estimated 1991-92	179,642,000
Actual 1990-91	204,352,000

Requested increase $3,883,000 (+2.2 percent)

Fiscal Recommendations

Total recommended reduction	None

General Program Statement

The Department of Food and Agriculture (DFA) promotes and protects the state's agricultural industry, develops California's agricultural policies, and assures true weights and measures in commerce.

The department's activities are broad in scope. They include: identifying and controlling agricultural pests; forecasting harvests; supervising and funding local fairs; enforcing quality, quantity, and safety standards for agricultural commodities; administering marketing orders; and enforcing weights and measures laws. The department also supervises the county agricultural commissioners and county sealers of weights and measures.

In accordance with the Governor's Reorganization Plan Number One, which established the California Environmental Protection Agency, the regulation of pesticides and their use has been transferred in the current year from the DFA to the newly formed Department of Pesticide Regulation (Item 3930).

Overview of the Budget Request

The proposed budget for the DFA includes several augmentations in various programs, resulting in a minor increase over the department's current-year funding level.

The budget requests $183.5 million (excluding marketing order expenditures) from the General Fund, various other state funds, federal funds, and reimbursements for support of the DFA and for local assistance in 1992-93. This is an increase of $3.9 million, or 2.2 percent, above estimated current-year expenditures. The budget proposes General Fund appropriations for support and local assistance totaling $56.5 million, which is virtually the same as estimated current-year General Fund expenditures.

The proposed increase in the DFA's expenditures from all funds is the net result of (1) augmentations totaling $4.7 million for various program, workload and administrative increases, and (2) net reductions totaling $774,000 from elimination of one-time costs and other administrative adjustments. The most significant program and workload augmentations are:

- $940,000 from the Unitary Fund for the Agricultural Export Program.
- $574,000 from the Outer Continental Shelf Lands Act, Section 8(g) Revenue Fund for health and safety repair projects at agricultural border inspection stations.
- $446,000 from the Agriculture Fund to continue implementation of the California Organic Foods Act (Ch 1262/90, AB 2012 — Farr).
- $400,000 from the Agriculture Fund for assistance in county programs to detect and trap exotic insect pests.

Table 1 shows the department's expenditures and staffing levels for the past, current, and budget years.

This department, along with many other departments, has been subject to a variety of reductions over the past several years. Among these is an unallocated reduction of 16 percent for support costs from the General Fund in 1991-92. (This reduction is 9 percent of the department's total support budget from all funds.) This reduction is proposed to be carried over into 1992-93. In our companion document, *The 1992-93 Budget: Perspectives and Issues,* we discuss the impact of these reductions on various departments.

Table 1

Department of Food and Agriculture Budget Summary 1990-91 through 1992-93

(dollars in thousands)

	Actual 1990-91	Estimated 1991-92	Proposed 1992-93	Percent Change From 1991-92
Expenditures				
Pesticide regulation	$40,872	—	—	—
Agricultural plant pest and disease prevention	51,888	$53,386	$52,888	-0.9%
Animal pest and disease prevention and inspection	23,467	23,051	23,228	0.8
Agricultural marketing services	13,552	13,863	13,893	0.2
Food and agricultural standards and inspection	21,681	28,303	29,036	2.6
Measurement standards	6,502	6,632	6,719	1.3
Assistance to local fairs	28,751	33,826	33,776	-0.1
Administration	11,978	12,077	12,170	0.8
Administration (distributed)	-10,791	-9,192	-9,238	-0.5
General agricultural activities and emergency funding	16,452	17,696	21,053	19.0
Totals	**$204,352**	**$179,642**	**$183,525**	**2.2%**
General Fund	*$85,643*	*$56,556*	*$56,506*	*-0.1%*
Agriculture Fund	*80,807*	*73,009*	*75,149*	*2.9*
Fair and Exposition Fund	*19,068*	*19,535*	*19,550*	*0.1*
Satellite Wagering Account	*9,079*	*13,720*	*13,720*	—
Other agriculture funds[a]	*2,274*	*4,648*	*4,673*	*0.5*
Other special funds[b]	*2,128*	*561*	*2,159*	*284.8*
Federal funds	*2,681*	*820*	*810*	*-1.2*
Reimbursements	*2,672*	*10,793*	*10,958*	*1.5*
Personnel-Years	**2,117**	**1,655**	**1,644**	**-0.6%**

[a] Includes: Agriculture Building Fund, Agricultural Pest Control Research Account, California Agricultural Export Promotion Account, and Food Safety Account.

[b] Includes: Special Account for Capital Outlay; Outer Continental Shelf Lands Act, Section 8(g) Revenue Fund; Unitary Fund; and Harbors and Watercraft Revolving Fund.

Capital Outlay

The Governor's Budget proposes appropriations totaling $16.9 million in Item 8570 for capital outlay expenditures by the Department of Food and Agriculture. Please see our analysis of that item in the capital outlay section of the *Analysis* which is in the back portion of this document.

Fair Political Practices Commission and Political Reform Act

Items 8620 and 8640

Expenditures

Requested 1992-93	$7,152,000
Estimated 1991-92	8,020,000
Actual 1990-91	7,955,000

Requested decrease $868,000 (-10.8 percent)

Fiscal Recommendations

Total recommended reduction	None

General Program Statement

The Political Reform Act (PRA) of 1974 was an omnibus measure designed to improve the elections process in California. The act (1) established guidelines for candidates seeking political office, (2) required state ballot pamphlets to have useful and understandable information, (3) established lobbyist activity disclosure regulations, and (4) created the Fair Political Practices Commission (FPPC) to implement and administer the act.

The provisions of the PRA are carried out by four state agencies: Secretary of State, Franchise Tax Board, Attorney General, and the FPPC. Funding for the FPPC is provided by both a continuous appropriation made in the PRA and by the Legislature through Item 8620. The other three agencies are funded by the Legislature through Item 8640 (the Secretary of State receives an additional $732,000 for administration of the act in the Secretary's support appropriation under Item 0890, which is not discussed here). All funding is from the General Fund.

Overview of the Budget Request

The budget proposes funding the Fair Political Practices Commission and Political Reform Act at the current-year level, less an unallocated reduction proposed in lieu of the trigger-related reduction.

The budget proposes a total of $7.2 million from the General Fund to carry out the provisions of the PRA in 1992-93. This is $868,000, or 11 percent, below estimated current-year expenditures. This decrease is due to (1) the unallocated reduction ($806,000), (2) managerial salary reduction ($37,000), and (3) the PERS rate reduction ($25,000).

The commission, along with many other departments, has been subject to a variety of reductions over the past several years. Among these is an unallocated reduction of about 19 percent from the General Fund in 1991-92. This reduction is proposed to be carried over into 1992-93. In our companion document, *The 1992-93 Budget: Perspectives and Issues*, we discuss the impact of these reductions on various departments.

Table 1 identifies the agencies that will spend the PRA funds and the function each agency performs. The estimated General Fund support provided to each agency during the prior, current and budget years is also shown in the table.

Table 1

Political Reform Act of 1974 General Fund Support 1990-91 through 1992-93

(dollars in thousands)

	Function	Actual 1990-91	Estimated 1991-92	Proposed 1992-93	Percent Change From 1991-92
Budget Bill Appropriations					
Secretary of State	Filing of documents	$706	$686	$686	—
Franchise Tax Board	Auditing statements	1,158	1,138	1,138	—
Attorney General	Criminal enforcement	224	219	219	—
Fair Political Practices Commission	Local enforcement/ support	2,899	2,902	2,034	-29.9%
Subtotals		($4,987)	($4,945)	($4,077)	(-17.6%)
Statutory Appropriation					
Fair Political Practices Commission	Administration of act	$2,968	$3,075	$3,075	—
Totals, Political Reform Act		**$7,955**	**$8,020**	**$7,152**	**-10.8%**

Public Utilities Commission
Item 8660

Expenditures

Requested 1992-93	$85,623,000
Estimated 1991-92	84,776,000
Actual 1990-91	77,207,000
Requested increase $847,000 (+1.0 percent)	

Fiscal Recommendations

Total recommended reduction	None

General Program Statement

The Public Utilities Commission (PUC) is responsible for the regulation of *privately owned* public utilities. The term "public utility" includes such entities as gas, electric, telephone, trucking, bus, and railroad corporations.

The commission's primary objective is to ensure adequate facilities and services for the public at reasonable and equitable rates, consistent with a fair return to the utility on its investment. It also is charged by state and federal statutes with promoting energy and resource conservation in its various regulatory decisions.

Overview of the Budget Request

The budget for the PUC includes various program and workload increases which are mostly offset by the elimination of one-time costs.

The budget proposes expenditures for the commission totaling $85.6 million from state special funds ($82.8 million) and federal funds and reimbursements ($2.8 million) in 1992-93. This is an increase of $847,000, or 1 percent, above estimated current-year expenditures. This increase is the result primarily of increases totaling $3.9 million to fund various program and workload changes, including (1) a net increase of $400,000 for the full-year costs of railroad safety legislation enacted in 1991, funded from fees on railroad corporations, and (2) an increase of $500,000 for consulting contracts to assist in ratepayer advocacy, funded from fees on utility corporations. The increases are offset by net reductions totaling $3.1 million from elimination of various one-time baseline costs and other administrative adjustments.

Board of Control
Item 8700

Expenditures

Requested 1992-93	$85,939,000
Estimated 1991-92	101,474,000
Actual 1990-91	97,259,000

Requested decrease $15,535,000 (-15.3 percent)

Fiscal Recommendations

Total recommended reduction	None

MAJOR ISSUES

- **Victims of Crime Program.** The program is experiencing a significant funding shortfall in the current and budget year.

Findings and Recommendations

	Analysis Page
1. **Victims of Crime Program Funding Shortfall.** Recommend board report prior to budget hearings on the status of the Restitution Fund and proposed changes to address projected funding shortfall.	53

General Program Statement

The Board of Control is a three-member body consisting of the Director of General Services, the State Controller, and a third member appointed by and serving at the pleasure of the Governor. The board oversees diverse activities, including state regulation and management of claims under the following programs: (1) Citizen Indemnification (also known as Victims of Crime), (2) Civil Claims Against the State, and (3) Hazardous Substance Claims.

Overview of the Budget Request

The budget proposes a significant reduction in funding for the board due to a reduction in funding for the Victims of Crime (VOC) Program.

The budget proposes expenditures of $85.9 million in 1992-93. This is about $15.5 million, or 15 percent, less than estimated current-year expenditures. This reduction is primarily due to a reduction of $11.7 million in one-time General Fund support proposed in the current year for the VOC Program. The VOC Program is discussed in more detail below. Table 1 displays the expenditures and staffing levels for the board from 1990-91 through 1992-93.

Table 1

**Board of Control
Program Summary
1990-91 through 1992-93**

(dollars in thousands)

	Actual 1990-91	Estimated 1991-92	Proposed 1992-93	Percent Change From 1991-92
Expenditures				
Citizen Indemnification	$95,558	$100,348	$84,904	-15.4%
Hazardous Substance Claims	18	20	20	—
Civil Claims Against the State	1,063	1,015	1,015	—
Earthquake Disaster Relief Program	620	91	—	NA
Administration (distributed)	(2,105)	(2,753)	(2,755)	0.1
Totals	**$97,259**	**$101,474**	**$85,939**	**-15.3%**
General Fund	*$785*	*$12,715*	*$1,015*	*-92.0%*
Restitution Fund	*80,114*	*72,838*	*69,094*	*-5.1*
Other funds	*16,360*	*15,921*	*15,830*	*-1.0*
Personnel-Years	**289**	**319.5**	**319.5**	**—**

This budget, along with many other departments, has been subject to a variety of reductions over the past several years. Among these is an unallocated reduction of 18 percent from the General Fund in 1991-92. (This reduction is less than 1 percent of the board's budget from all funds.) This reduction is proposed to be carried over in 1992-93. In our companion document, *The 1992-93 Budget: Perspectives and Issues,* we discuss the impact of these reductions on various departments.

Analysis and Recommendations

Significant Funding Shortfall for Victims of Crime Program

We recommend the board report prior to budget hearings on the status of the Restitution Fund and the program changes needed in the VOC Program to address the projected funding shortfall.

The budget proposes total expenditures of $84.9 million for support of the VOC Program in 1992-93. This amount primarily consists of funding from the Restitution Fund ($69.1 million) and federal funds ($15.8 million). This amount is $15.4 million, or 15 percent, less than current-year expenditures. Expenditures for this program include payment of victims' claims ($63 million), and administration of the program ($22 million). Funds for the payment of claims are continuously appropriated to the Board of Control, but administrative costs of the program are subject to review in the annual budget process.

Background. The VOC Program compensates those persons who (1) are injured and suffer financial hardship as a result of crimes of violence, (2) suffer financial hardship because a family member was injured as a result of crimes of violence, or (3) sustain damage or injury while performing acts that benefit the public. The cost of claims is primarily for noninsured medical expenses (45 percent) and noninsured mental health expenses (35 percent). The remaining costs are for wage loss, funeral expenses, and rehabilitation expenses (20 percent). As regards medical costs, there is a limit of $46,000 on the claims for primary victims and a $10,000 limit for secondary victims (such as family members). There is no limit on mental health reimbursements, although the board requires additional justification of mental health claims that exceed $5,000 for primary victims and $2,000 for secondary victims.

Funding Sources. The program is primarily funded by appropriations from the Restitution Fund, which receives revenues from (1) restitution fines and (2) penalty assessments. In 1992-93, revenue from restitution fines is projected to be $7 million, and revenue from penalty assessments is projected to be $57 million.

Restitution fines are imposed on convicted felons. Existing law requires courts to impose a fine of between $100 and $10,000 on all persons convicted of one or more felony offenses. Penalty assessments are imposed on persons who violate criminal or traffic laws. The penalty assessment rate is $10 for every $10 fine, penalty, or forfeiture imposed. This rate was enacted in 1991, as part of trial court "realignment" (Ch 189/91 — AB 544, Isenberg). In addition, Chapter 189 allocated 30 percent of the revenues to the General Fund and the remaining revenue to the Penalty Fund. Previously, all penalty assessment revenues were deposited in the Penalty Fund (referred to in the Governor's Budget as "Assessment Fund").

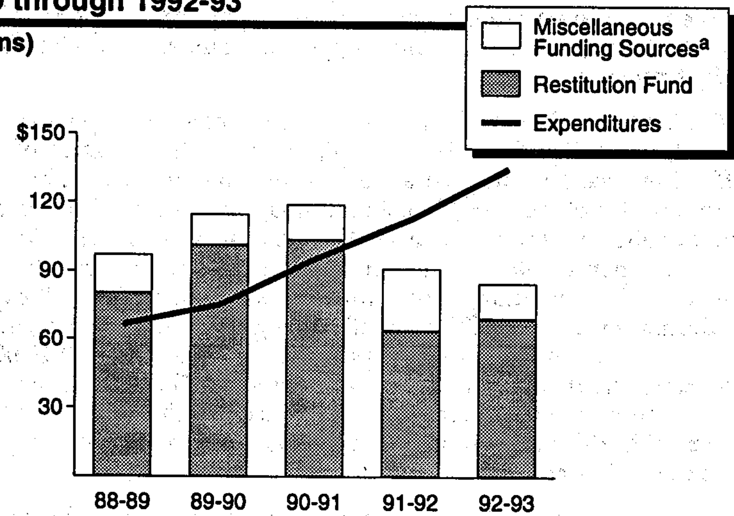
BOARD OF CONTROL—Continued

Claims Exceeding Resources. The number of claims filed with the VOC Program has increased annually at a rate of approximately 20 percent per year for the past four years; and, according to the board, this increase is expected to continue in 1992-93. The revenues for the program, however, are projected to decline, as shown in Chart 1.

Chart 1

Victims of Crime Program Revenues versus Expenditures 1988-89 through 1992-93

(in millions)



[a] Includes General Fund in 1991-92

In the current year, revenues from all sources for support of the program are expected to be approximately $91 million, and program costs are projected to be $113 million, resulting in a shortfall of $22 million in the current year. In 1992-93 the shortfall is projected to be approximately $50 million, based on a revenue projection of $85 million and program costs of $135 million. This shortfall may be significantly worse than projected, because it appears that the revenue projections from penalty assessments may be overly optimistic. (See our analysis of the Office of Criminal Justice Planning — Item 8100 — for a more detailed description of penalty assessment revenue projections).

Board Options to Address Shortfall. The board has been reviewing numerous short-term and long-term options for increasing revenues and reducing costs to avoid a funding shortfall in the current year and in future years. To reduce the projected $22 million shortfall in the current year, the board is proposing the following actions:

- Obtain a deficiency allocation of $11.7 million from the General Fund to support the program.
- Implement a medical fee schedule to pay approximately 75 percent to 80 percent, rather than 100 percent, of billed charges for medical cost claims. The fee schedule, which is based on rates used for workers' compensation claims, will be applied to all claims paid after April 1, 1992. The savings are estimated to be $2 million to $3 million in 1991-92, and $8 million to $10 million annually thereafter.

To address the projected funding shortfall of $50 million in the budget year, and possibly more in future years, the board is reviewing revenue enhancement and cost containment options and plans to propose legislation in February or March of this year. The options under consideration, and the board's estimate of their impact, are listed below.

Revenue Enhancement Options. As a means of increasing revenues to the Restitution Fund, the board is considering the following options:

- Impose a new restitution fine for misdemeanor offenses at a minimum of $100 ($4 million to $5 million).
- Increase minimum restitution fine for felony offenses from $100 to $200 ($3 million to $5 million).
- Provide an income tax donation check-off for victims' compensation ($1 million).
- Provide counties 10 percent of all revenue collected from restitution fines to provide an additional incentive to impose and collect the fines (net revenues of $3 million to $5 million).
- Increase the share of fine revenues allocated to the Restitution Fund from $20 to $50 for driving under the influence (DUI) offenses ($4 million to $5 million).

Cost Containment Options. The board is considering the following options to limit growth or reduce the costs of the program (the estimated annual savings shown are not additive because options are not mutually exclusive).

- Cap mental health expenses at $5,000 for primary victims and at $2,000 for secondary victims ($10 million to $15 million).
- Review mental health claims more closely to avoid payment of claims for treatment unrelated to crime (unknown savings).

BOARD OF CONTROL—Continued

- Eliminate coverage for victims of hit-and-run incidents who are driving without the required insurance ($6 million to $7 million).
- Reduce maximum benefits per individual from $46,000 to $23,000 ($4 million to $8 million).
- Adjust reimbursement rate for each claim by the amount of available revenue (savings varies).
- Limit program benefits to primary victims only, thereby eliminating coverage of family members ($10 million to $15 million).
- Pay claims for only two to three years. Currently there is no time limit (unknown savings).

Administrative Savings. There are several cost containment options listed above that will also result in administrative savings. According to the board, only those options which reduce the number of claims filed will reduce the board's staffing needs. None of these administrative savings have been calculated; and, consequently, they are not included in the savings estimated for each option. In addition, the board is evaluating several administrative changes that could increase program efficiency and provide minor savings.

Impact of Revenue Enhancements on Other Programs. Penalty assessment revenue is divided among eight special funds, one of which is the Restitution Fund that supports the VOC Program. The majority of the revenue enhancement options proposed by the board could reduce the revenue available to the seven other special fund programs that rely on penalty assessment revenue. This is because this revenue source may be approaching its maximum or peak revenue-generating capacity.

Although the board is proposing increases in restitution fines and not penalty assessments, both are imposed on the same persons and an increase in the restitution fines could result in reducing penalty assessment revenues, for the following reasons. First, there is an indication that judges may compensate for restitution fine increases by reducing the base fines, and consequently the penalty assessment, so that the "total bill" for guilty parties remains constant (or does not increase as much as expected). In addition, an increasing percentage of persons required by courts to pay base fines and assessments are "working off" their debt by spending time in county jail because of their inability or unwillingness to pay the base fines and assessments. Since payment of the restitution fine cannot be "worked off" through jail time, increasing the restitution fine may increase the incentive for persons to work off the base fines and assessments.

Analyst's Comments. Our analysis indicates that the Legislature should consider a combination of revenue enhancements and cost containment proposals to bring resources and expenditures for the VOC Program into line. However, given (1) the size of the potential shortfall ($50 million in the budget year, or 37 percent of anticipated expenditures) and (2) the interactive nature of many of the revenue enhancement options and the potential negative consequences that these options could have on revenues to other funds, we believe that the Legislature will have to rely primarily on cost containment options. Our preliminary assessment indicates that several of the options identified by the board have merit, such as the medical fee schedule, and could facilitate the administration of the program.

Due to the magnitude of the shortfall and the major changes to the program that will have to be considered by the board and the Legislature, we recommend that the board report prior to budget hearings on the status of the VOC Program. Specifically, the board should provide (1) the most recent revenue projections for the Restitution Fund, (2) an update on the funding shortfall for the current and budget years, (3) a status report on the adoption of a medical fee schedule, (4) the revenue and cost containment changes being considered to reduce or eliminate the funding shortfall, and (5) the impacts of these changes on victims of crime and on other special fund programs receiving penalty assessment revenue.

Commission on State Finance
Item 8730

Expenditures

Requested 1992-93	$843,000
Estimated 1991-92	843,000
Actual 1990-91	843,000

Fiscal Recommendations

Total recommended reduction	None

General Program Statement

The Commission on State Finance prepares various revenue, expenditure, and economic forecasts. These include quarterly forecasts of General Fund revenues, expenditures, and the surplus or deficit, and an annual long-term forecast of General Fund revenues and expenditures over a 10-year period.

Overview of the Budget Request

The budget proposes no workload or program changes for the commission.

The budget proposes an appropriation of $843,000 from the General Fund for support of the commission in 1992-93. This is the same amount as estimated current-year expenditures.

The commission, along with many other departments, has been subject to a variety of reductions over the last several years. Among these is an unallocated reduction of 11 percent from the General Fund in 1991-92. This reduction is proposed to be carried over into 1992-93. In our companion document, *The 1992-93 Budget: Perspectives and Issues,* we discuss the impact of these reductions on various departments.

Commission on California State Government Organization and Economy

Item 8780

Expenditures	
Requested 1992-93	$535,000
Estimated 1991-92	535,000
Actual 1990-91	571,000
Fiscal Recommendations	
Total recommended reduction	None

General Program Statement

The Commission on California State Government Organization and Economy conducts program reviews, holds hearings, and sponsors legislation to promote efficiency in state government.

Overview of the Budget Request

The budget proposes no workload or program changes for the commission.

The budget includes expenditures of $535,000 ($533,000 from the General Fund and $2,000 from reimbursements) for support of the commission in 1992-93. This represents no net increase above current-year expenditures.

The commission, along with many other departments, has been subject to a variety of reductions over the past several years. Among these is an unallocated reduction of 13 percent from the General Fund in 1991-92. This reduction is proposed to be carried over into 1992-93. In our companion document, *The 1992-93 Budget: Perspectives and Issues,* we discuss the impact of these reductions on various departments.

Memberships in Interstate Organizations
Item 8800

Expenditures

Requested 1992-93	$1,167,000
Estimated 1991-92	1,114,000
Actual 1990-91	1,074,000
Requested increase $53,000 (+4.8 percent)	

Fiscal Recommendations

Total recommended reduction	None

General Program Statement

The budget provides funding in this item for state membership in 11 interstate organizations. They are:

- Council of State Governments.
- National Conference of State Legislatures.
- Western States Legislative Forestry Task Force.
- Pacific Fisheries Legislative Task Force.
- Governmental Accounting Standards Board.
- State and Local Legal Center.
- National Governors' Association.
- Council of State Policy and Planning Agencies.
- Coastal States' Organization.
- Western Governors' Association.
- National Center for State Courts.

Overview of the Budget Request

The budget proposes funding this item at the current-year level, except for increased assessments for membership in various interstate organizations.

The budget proposes expenditures of $1.2 million from the General Fund for memberships in interstate organizations. This is about $53,000, or

MEMBERSHIPS IN INTERSTATE ORGANIZATIONS—Continued

4.8 percent, more than estimated current-year expenditures. The increase primarily results from increases in the state's assessments for memberships in several of the organizations, such as the Council of State Governments and the National Conference of State Legislatures.

Commission on the Status of Women
Item 8820

Expenditures

Requested 1992-93	$613,000
Estimated 1991-92	608,000
Actual 1990-91	716,000
Requested increase $5,000 (+0.8 percent)	

Fiscal Recommendations

Total recommended reduction	None

General Program Statement

The Commission on the Status of Women advises the Legislature and the Governor on matters that affect women. To do this, the commission: (1) examines all legislative bills introduced that affect women's rights or interests, (2) maintains an information center on the needs of women, (3) consults with organizations working to assist women, and (4) studies women's educational and employment opportunities, civil and political rights, and factors shaping the roles assumed by women in society. The commission also administers the Displaced Homemaker Emergency Loan Program, a $1 million loan guarantee program that provides temporary emergency assistance to individuals who have been widowed, divorced, abandoned by, or separated from their spouse.

Overview of the Budget Request

The proposed commission budget is essentially a workload budget.

The budget proposes spending $613,000 from the General Fund, the Displaced Homemaker Emergency Loan Fund, and reimbursements for the support of the commission in 1992-93. This is an increase of $5,000, or 0.8 percent, above estimated current-year expenditures. The proposed increase reflects anticipated reimbursements from the sale of several commission-sponsored publications.

The commission, along with many other departments, has been subject to a variety of reductions over the past several years. Among these is an unallocated reduction of 11 percent from the General Fund in 1991-92. (This reduction is 10 percent of the department's total budget from all funds.) This reduction is proposed to be carried over into 1992-93. In our companion document, *The 1992-93 Budget: Perspectives and Issues,* we discuss the impact of these reductions on various departments.

California Law Revision Commission
Item 8830

Expenditures

Requested 1992-93	$553,000
Estimated 1991-92	553,000
Actual 1990-91	628,000

Fiscal Recommendations

Total recommended reduction	None

General Program Statement

The California Law Revision Commission, which consists of 10 members, studies areas of statutory and decisional law that the Legislature, by concurrent resolution, requests the commission to review for the purpose of recommending substantive and procedural reforms.

Overview of the Budget Request

The budget proposes no workload or program changes for the commission.

The budget proposes expenditures of $553,000 from the General Fund by the commission in 1992-93, which is the same as the estimated expenditures for the current year. In 1992-93, the commission will continue to work on a revised state administrative procedures act, on probate law, and drafting a new Family Code.

In the current year, the commission's budget was subject to an unallocated reduction of $77,000, or approximately 12 percent. This reduction is proposed to be carried over into 1992-93. In our companion document, *The 1992-93 Budget: Perspectives and Issues,* we discuss the impact of unallocated reductions on various departments.

Commission on Uniform State Laws
Item 8840

Expenditures

Requested 1992-93	$107,000
Estimated 1991-92	129,000
Actual 1990-91	85,000
Requested decrease $22,000 (-17.1 percent)	

Fiscal Recommendations

Total recommended reduction	None

General Program Statement

The Commission on Uniform State Laws, which consists of 10 members, sponsors the adoption by California of uniform codes and statutes developed by the National Conference of Commissioners wherever compatibility with the laws of other jurisdictions is considered desirable.

Overview of the Budget Request

The budget proposes the same appropriation in the budget year as in the current year for this item.

The budget proposes expenditures of $107,000 by the commission in 1992-93. Although this is the same amount *appropriated* for the commission in the 1991 Budget Act, it reflects a $22,000, or 17 percent, decrease in total expenditures from 1991-92 due to the reappropriation in 1991-92 of $22,000 from the prior year.

Department of Finance
Item 8860

Expenditures

Requested 1992-93	$28,631,000
Estimated 1991-92	32,355,000
Actual 1990-91	28,479,000

Requested Decrease $3,724,000 (-11.5 percent)

Fiscal Recommendations

Total recommended reduction	None

MAJOR ISSUES

- The budget proposes to refinance $1.2 billion of lease-payment bonds to obtain a total of $190 million in General Fund savings in 1991-92 and 1992-93. In the long-term, however, this proposal could result in an average increase of about $20 million in annual General Fund debt service costs (beginning in 1994-95) and a net total cost to the state, over the 20-year period of the bonds, of more than $300 million.

Findings and Recommendations

Analysis Page

1. **Refinancing of $1.2 Billion of Lease-Payment Bonds.** Recommend that prior to budget hearings, the Department of Finance report to the Legislature on the status and financial details of the proposal to refinance $1.2 billion of lease-payment bonds. 64
2. **Information Needed on Lease-Payment Bond Costs.** Recommend that the department report to the Legislature during budget hearings on (1) why information on lease-payment bond costs requested by the Legislature in 1990-91 has not been incorporated into the Governor's Budget document and (2) the use of $9 million from the General Fund for administrative and insurance costs. 65

General Program Statement

The Department of Finance advises the Governor on the fiscal condition of the state, assists in developing the Governor's Budget and legislative programs, evaluates the operation of state programs, and provides economic, financial, and demographic information. In addition, the department oversees the operation of the state's accounting and reporting systems and coordinates the state's use of information technology.

Overview of the Budget Request

The proposed Department of Finance budget is essentially a workload budget.

The budget proposes expenditures of $28.6 million by the Department of Finance for 1992-93. This amount includes an appropriation of $24.9 million from the General Fund and $3.7 million in reimbursements from special funds or accounts. The proposed expenditures are $3.7 million, or 11.5 percent, less than estimated current-year expenditures primarily due to deletion of one-time costs associated with mandated audits of state and local programs.

This department, along with many other departments, has been subject to a variety of reductions over the past several years. Among these is an unallocated reduction of 13 percent from the General Fund in 1991-92. This reduction is proposed to be carried over into 1992-93. In our companion document, *The 1992-93 Budget: Perspectives and Issues,* we discuss the impact of these reductions on various departments.

Analysis and Recommendations

Refinancing of $1.2 Billion of Lease-Payment Bonds

We recommend that, prior to budget hearings, the Department of Finance report to the Legislature on the status and financial details of the proposal to refinance $1.2 billion of lease-payment bonds.

The Governor's Budget proposes to refinance $1.2 billion of outstanding lease-payment bonds (also referred to as lease-revenue bonds or Public Works Board bonds). The administration estimates that this will result in General Fund savings of $175 million in the current year and $15 million in the budget year. This refinancing proposal does not require legislative authorization. The refinancing entails issuing new lease-payment bonds in the current year and using the proceeds to pay off the debt service on the current outstanding lease-payment bonds. Upon refinancing, about $130 million held for a three-payment reserve for the current bonds would be transferred to the General Fund. The additional estimated General Fund savings of $45 million in the current year and $15 million in the budget year is the net result of eliminating debt payments on the current bonds and postponing debt payments on the new bonds into later years.

According to information from the State Treasurer's Office, this proposal would result in significant net costs to the state. The Treasurer's Office advises that the state's annual General Fund debt services costs would increase by an average of about $20 million beginning in 1994-95 and the net total cost to the state over the 20-year period of the bonds, would exceed $300 million. (In net present value terms (that is, 1992 dollars), the plan would cost the state nearly $18 million.) The actual cost incurred by the state is dependent upon the final terms of the refinancing package.

In our view, the proposal raises two major concerns. First, in effect the refinancing plan involves the use of long-term debt to pay part of the state's ongoing operating costs rather than capital outlay. The use of bond proceeds is an inappropriate source for financing the state's day-to-day operating costs. Second, the proposal would result in a substantial cost to the state. In view of these concerns, and because this refinancing does not require legislative authorization, we recommend that, prior to budget hearings, the Department of Finance report to the Legislature on the status and specific financial details of the proposal.

Information Needed on Lease-Payment Bond Costs

We recommend that the department report during budget hearings on (1) why it has not provided specified information about the costs of lease-payment bonds in the Governor's Budget and (2) the administrative and insurance costs associated with lease-payment bonds.

Lease-payment bonds are one of the two types of bonds used by the state to finance its infrastructure needs. This type of bond is not backed by the full faith and credit of the state as are general obligation bonds. As a result, lease-payment bonds generally are more costly than general obligation bonds due to slightly higher interest rates and additional costs such as insurance. The debt service (that is, principal and interest) for these bonds is paid from the General Fund (usually through annual lease payments made by the state agency using the facility).

DEPARTMENT OF FINANCE—Continued

In the *Supplemental Report of the 1990 Budget Act,* the Legislature stated its intent that the Department of Finance provide additional information in the Governor's Budget, beginning with the 1991-92 budget, on the state's costs associated with lease-payment bonds. The Legislature requested the department to do the following:

- Summarize, in table form, current-year and budget-year General Fund appropriations for lease-payments bonds, by department and by character of expenditure.
- In the same format, provide estimates of the General Fund payments anticipated in the current year, budget year, and three subsequent fiscal years for lease-payment bonds already authorized by the Legislature, and those proposed in the budget.

The Governor's Budget display for lease-revenue notes and bonds (page GG 170), however, remains unchanged and shows only a summary by department of current-year and budget-year lease payments for bonds that are outstanding or proposed in the budget.

Unspecified Administrative and Insurance Costs. In addition to the debt service costs, the budget display identifies $9.0 million in administrative and insurance costs associated with the lease-payment bonds. The department, however, has been unable to identify either the separate amounts attributable to administrative and insurance costs or what specific administrative functions would be financed with these funds.

In view of the prior legislative request and the lack of specificity for $9 million in General Fund expenditures, we recommend that the department report during budget hearings, on (1) why it has not provided the information requested by the Legislature and (2) the use of funds for administrative and insurance purposes.

Commission on State Mandates
Item 8885

Expenditures

Requested 1992-93	$312,393,000
Estimated 1991-92	312,371,000
Actual 1990-91	208,646,000
Requested increase $22,000 (+0.0 percent)	

Fiscal Recommendations

Total recommended reduction	None

General Program Statement

The Commission on State Mandates is responsible for determining whether local agency claims for reimbursements of state-mandated local costs should be paid by the state. If the commission determines that a statute or executive order contains a reimbursable mandate, the commission develops an estimate of the statewide cost of the mandated program and includes this estimate in a semiannual report. After receipt of this report, the Legislature appropriates funds in a claims bill to pay the newly approved mandates.

Overview of the Budget Request

The budget proposes to make local government compliance with 30 mandates optional in the budget year.

The budget proposes an appropriation of $312.3 million from the General Fund. This is an increase of $22,000 above estimated current-year expenditures. The increase is primarily the result of the budget's inclusion of $127.2 million in funding (to be appropriated in pending legislation) for mandates recently approved by the commission. The budget appropriation includes funds for both the 1992-93 costs of these mandates and for prior-year deficiencies. This proposed increase in payments for recently approved mandates is offset by (1) a proposal to make nine additional mandates optional for 1992-93, bringing the total number of optional mandates to 30, (2) completion of a three-year mandate payment obligation, set forth in the Governor's veto message of Chapter 1485/88 (AB 2763, Vasconcellos), and (3) various reductions in the cost of other mandates.

This commission, along with many other state agencies, has been subject to a variety of reductions over the past several years. Among these is an unallocated reduction of 12 percent from the commission's administrative budget in 1991-92. This reduction is proposed to be carried over into 1992-93. In our companion document, *The 1992-93 Budget: Perspectives and Issues,* we discuss the impact of these reductions on various departments.

Analysis and Recommendations

Review of Mandates Funded in the 1991 Claims Bill

Chapter 266, Statutes of 1991 (SB 174, Alquist), recognized new state funding obligations for seven statutes found by the commission to contain state-reimbursable local mandates. These mandates are identified in Table 1. Chapter 266 appropriated a total of $55.1 million for the 1991-92 costs of these mandates.

Chapter 1256, Statutes of 1980 (SB 90, Russell), requires the Legislative Analyst to report each year on any previously unfunded state mandates for which the Legislature appropriated funds during that fiscal year. This measure also requires the Analyst to make recommendations as to whether each of these mandates should be modified, repealed or made permissive. The criteria used in evaluating these mandates are:

- Has the statute resulted in a mandate by requiring local governments to establish a new program or provide an increased level of service?
- Does the mandate serve a statewide interest, as opposed to primarily a local interest that can be served through local action? For example, are the benefits of the program concentrated within a particular jurisdiction, or are the interests of state residents in general served by the mandate? Does the mandate address a problem of statewide magnitude?
- Has compliance with the mandate achieved results that are consistent with the Legislature's intent and expectations?
- Are the benefits produced by the mandate worth the cost?
- Can the goal of the mandate be achieved through less costly means?

Consistent with the requirements of Chapter 1256, we have reviewed the mandates identified in Chapter 266. The results of our review are summarized in Table 1.

Table 1

Legislative Analyst's Office (LAO) Recommendations on Claims Funded in 1991 Claims Bill 1992-93

(In thousands)

Mandates Funded in Claims Bill	1992-93 Full Funding Level[a]	LAO Recommendation	Rationale
1. Ch 1107/84—Removal of Chemicals	$3,000	Maintain	Statewide interest in promoting public safety.
2. Ch 1376/87—Credential Monitoring	630	Eliminate or modify by reducing frequency of credential reviews[b]	Statewide interest in ensuring that teachers are properly qualified.
3. Ch 980/84—Court Audits and Fine Proration	748	Maintain	Statewide interest in ensuring the collection and disbursement to the state and courts of certain revenues from fines and penalties.
4. Ch 1286/85—Homeless Mentally Ill	—	No Recommendation	One-time costs only. Requirements of mandate complete.
5. Ch 1327/84—Short-Doyle Targeted Supplemental Fund	—	No Recommendation	Mandate eliminated as part of realignment.
6. Ch 1393/78, Ch 328/82, Ch 1594/82, Ch 1327/84—Mental Health Quality Assurance	—	No Recommendation	Mandate eliminated as part of realignment.
7. Ch 1422/82—Permanent Absentee Voters	—[c]	Maintain	Statewide interest in voter participation.

[a] Source: Department of Finance.

[b] For a more complete discussion of this mandate and our recommendation, please see our analysis of Item 6360.

[c] Proposed for optional status in 1992-93, otherwise the Department of Finance projects costs to be $300,000.

As Table 1 shows, we recommend maintaining three of the mandates funded in 1991 because they serve a statewide interest and have reasonable costs. We also recommend either eliminating or modifying one additional mandate — credential monitoring. (For a discussion of this mandate, please see Item 6360.) Finally, we make no recommendation on the remaining three mandates because they were one-time in nature — or they were eliminated through legislation implementing the realignment of state and local responsibilities regarding community-based mental health and AB 8 county health services programs.

Budget Proposes to Make 30 Mandates Optional

The budget proposes to make a total of 30 previously funded mandates optional in 1992-93 — for a savings of $51.6 million. Nine of these 30 mandates were funded in the current year. The remaining 21 mandates were made optional in the current year, through provisions in the 1991 Budget Act. Our review of the 30 mandates proposed for optional status indicates that they represent a wide variety of programs — except K-14 education. Although over 80 percent of the commission's mandate claims are for educational programs, no education-related mandate (all of which count toward the Proposition 98 funding guarantee) is proposed for optional status.

We discuss the nine currently funded and 21 currently optional mandates separately below.

Nine New Optional Mandates. Table 2 identifies the nine mandates proposed for optional status in 1992-93 and summarizes our recommendations. As Table 2 indicates, our analysis indicates that four of the nine mandates serve a statewide interest and have reasonable costs. In addition, two other mandates — Voter Registration Procedures and Regional Housing Needs — serve statewide interests and could be funded at *reduced* levels without a diminution in statewide benefits.

While our analysis indicates that these six mandates merit retention, due to the state's fiscal condition, we do not recommend that this item be augmented to provide funding to make these mandates operational in the budget year. In addition to the nine mandates the Governor proposes to make optional, there are three *other* mandate programs which we have previously recommended for repeal which are not included in the Governor's proposal. These mandates and our rationale are identified in Table 3. Repealing these three mandates — or making them optional in the budget year — would result in $3.4 million in savings to the General Fund. These savings could be used to offset the cost of making some of the six mandates shown in Table 2 operational — or to fund high priority programs elsewhere in the budget.

Table 2

Legislative Analyst's Office (LAO) Recommendations on Governor's Mandate Proposal To Make Nine Additional Mandates Optional 1992-93

(in thousands)

Mandates Proposed for Defunding	Cost[a]	LAO Recommendation	Rationale
1. Ch 1399/76—Custody of Minors	$3,200	Maintain	Statewide interest in uniform enforcement of child custody orders.
2. Ch 913/79—Domestic Violence Diversion	1,000	Repeal or make optional	Compliance not achieving results Legislature intended.
3. Ch 1609/84—Domestic Violence	5,800	Repeal or make optional	High cost relative to statewide benefit.
4. Ch 704/75—Voter Registration Procedures	1,200	Maintain in part — fund at $720,000[b]	Statewide interest in uniform voter registration.
5. Ch 1422/82—Permanent Absentee Voters	300	Maintain	Statewide interest in voter participation.
6. Ch 1143/80—Regional Housing Needs	1,200	Maintain, but fund at $600,000[c]	Statewide interest in assuring adequate housing stock.
7. Ch 1330/76—Local Coastal Plans	1,100	Maintain	Statewide interest in coastal protection and preserving public access.
8. Ch 1131/75—Mineral Resource Policies	300	Maintain	Statewide interest in consistent and appropriate mineral resource conservation policies.
9. Ch 1123/77—Adult Felony Restitution	2,600	Repeal or make optional	Local governments likely to comply without mandate.
Total	$16,700		

[a] Source: Department of Finance.

[b] Repeal requirement for county outreach, as services are not uniform statewide. Savings from this repeal estimated to be about $480,000.

[c] Our analysis indicates that the cost of this mandate is cyclical, following a statutory five-year schedule of housing element due dates. Because the next group of housing elements is not due until July 1994, the cost of this mandate will be relatively low in 1992-93 — probably less than $600,000.

COMMISSION ON STATE MANDATES—Continued

Table 3

Legislative Analyst's Office (LAO) Options For Mandate Repeal

(in thousands)

Mandate	Cost	Rationale
1. Ch 77/78—Absentee Ballots	$3,163	High cost relative to benefit of voter convenience.
2. Ch 494/79—Handicapped Voter Access	227	Benefits limited given federal law requiring all voting places for federal elections be accessible to the handicapped.
3. Ch 845/78—Filipino Employee Surveys	13	Benefits limited. Need for survey unclear. Data over last decade indicate no under-representation of Filipinos in governmental workforce.
Total	$3,403	

Twenty-One Existing Optional Mandates. Most of the mandates in this category have been optional for two years now, having first been made optional by the 1990 Budget Act and related legislation (Ch 459/90). The budget proposes to *continue* the optional status of these mandates in 1992-93. Although our analysis indicates that several of these mandates serve statewide purposes and have reasonable costs (please see our discussions in the *Analysis of the 1990-91 Budget Bill*, pages 1161-1162, and the *Analysis of the 1991-92 Budget Bill*, page 1169), given the state's fiscal condition and the Legislature's actions over the past two years regarding these mandates, we do not recommend that this item be augmented to make these mandates operational. However, should the Legislature wish to have some of these mandates operational in the budget year, the Legislature could repeal — or make optional — the mandates identified in Table 3. The resulting savings could offset the cost of making other mandates operational.

Office of Administrative Law

Item 8910

Expenditures

Requested 1992-93	$2,754,000
Estimated 1991-92	2,754,000
Actual 1990-91	3,049,000

Fiscal Recommendations

Total recommended reduction	None

General Program Statement

The Office of Administrative Law provides executive branch review of all proposed regulations promulgated by state agencies in order to reduce the number and improve the quality of such regulations. The office carries out its responsibilities through four basic functions: (1) review of new regulations, (2) review of informal regulations (including administrative guidelines, rules, orders, bulletins, or standards), (3) publication of the California Regulatory Notice Register, and (4) maintenance of the California Code of Regulations.

Overview of the Budget Request

The budget proposes no workload or program changes for the office.

The budget proposes total expenditures of $2.8 million to support the activities of the office in 1992-93. The proposed expenditures include a $2.6 million appropriation from the General Fund and $200,000 in reimbursements. This represents no net increase above current-year expenditures.

This office, along with many other departments, has been subject to a variety of reductions over the past several years. Among these is an unallocated reduction of about 17 percent from the General Fund in 1991-92. This reduction is proposed to be carried over into 1992-93. In our companion document, *The 1992-93 Budget: Perspectives and Issues*, we discuss the impact of these reductions on various departments.

Department of Economic Opportunity
Item 8915

Expenditures

Requested 1992-93	$105,190,000
Estimated 1991-92	148,586,000
Actual 1990-91	118,792,000

Requested decrease $43,396,000 (-29.2 percent)

Fiscal Recommendations

Total recommended reduction	None

General Program Statement

The Department of Economic Opportunity (DEO) administers both the Low-Income Home Energy Assistance Program (LIHEAP) and the Community Services Block Grant (CSBG). The LIHEAP block grant provides cash grants and weatherization services that assist low-income persons in meeting their energy needs. The CSBG provides funds to community action agencies for programs intended to assist low-income households. In addition, the DEO plans, coordinates, and evaluates programs that provide services to the poor and advises the Governor on the needs of the poor.

Overview of the Budget Request

The budget proposes a significant reduction in funding for the DEO due to the completion of projects supported with federal funds and Petroleum Violation Escrow Account (PVEA) funds.

The budget proposes expenditures of $105.2 million from various funds ($76,000 from the General Fund) for programs administered by the department in 1992-93. This is a net decrease of $43.4 million, or 29 percent, below estimated current-year expenditures. This decrease is primarily due to the carry over of federal funds from the prior to the current year.

The department's proposed budget includes $966,000 from the PVEA for new LIHEAP weatherization projects and $1 million in reimbursements.

This department, along with many other departments, has been subject to a variety of reductions over the past several years. Among these is an unallocated reduction of 12 percent from the General Fund in 1991-92. (This reduction is 0.1 percent of the commission's total budget from all funds.) This reduction is proposed to be carried over in 1992-93. In our companion document, *The 1992-93 Budget: Perspectives and Issues*, we discuss the impact of these reductions on various departments.

Reappropriation

This item reappropriates LIHEA block grant, Department of Energy, CSBG, and PVEA local assistance funds. The item allows the DEO to carry forward into 1992-93 all local assistance funds for energy programs and CSBG programs that are unexpended in the current year. Without this language, the DEO would be required to notify the Legislature of its intent to carry over these funds through the process established by Section 28 of the Budget Bill.

In general, the department will use these funds for the same programs in 1992-93 that these funds support in the current year.

Military Department
Item 8940

Expenditures

Requested 1992-93	$403,883,000
Estimated 1991-92	377,009,000
Actual 1990-91	365,774,000
Requested increase $26,874,000 (+7.1 percent)	

Fiscal Recommendations

Total recommended reduction	None

General Program Statement

The functions of the Military Department are to: (1) protect the lives and property of the people of California during periods of natural disaster and civil disturbances, (2) perform other duties required by the California Military and Veterans Code, or as directed by the Governor, and (3) provide military units ready for federal mobilization. The department consists of three major units: the Army National Guard (22,347 authorized officers and enlisted personnel), the Air National Guard (5,723 authorized personnel), and the Office of the Adjutant General.

MILITARY DEPARTMENT—Continued

Overview of the Budget Request

The budget proposes no significant workload or program changes for the department.

The budget proposes the expenditure of $403.9 million for support of the department in 1992-93. The proposed 1992-93 budget is approximately $26.9 million, or 7.1 percent, more than the estimated current-year expenditures. This increase is primarily attributable to an increase in the federally administered portion of the Army and Air National Guard.

Table 1

Military Department Budget Summary 1990-91 through 1992-93

(dollars in thousands)

	Actual 1990-91	Estimated 1991-92	Proposed 1992-93	Percent Change From 1991-92
Expenditures				
Army National Guard	$241,618	$247,900	$270,446	9.1%
Air National Guard	115,892	121,048	125,855	4.0
Adjutant General				
undistributed	2,300	2,400	2,700	12.5
(distributed)	(5,921)	(5,747)	(5,401)	-6.0
Military support to civil authority	767	1,123	813	-27.6
Military retirement	2,312	2,590	2,557	-1.3
California Cadet Corps	415	205	198	-3.4
State Military Reserve	257	190	189	-0.5
Farm and Home Loan	24	18	18	—
IMPACT	2,189	1,535	1,107	-27.9
Totals	**$365,774**	**$377,009**	**$403,883**	**7.1%**
General Fund	*$22,133*	*$19,596*	*$19,281*	*-1.6%*
Army Discretionary Improvement Fund	*73*	*120*	*150*	*25.0*
Federal Trust Funds	*21,565*	*24,114*	*24,961*	*3.5*
Other Federal Funds	*319,500*	*331,200*	*357,763*	*8.0*
Reimbursements	*2,503*	*1,979*	*1,728*	*-12.7*
General Fund share of total	*6.1%*	*5.2%*	*4.8%*	—
Personnel-Years[a]	**638.9**	**556.3**	**505.7**	**-9.1%**

[a] State employees only.

The budget includes $382.7 million in federal funds for expenditure in 1992-93. Of this amount, only $24.9 million is appropriated through the Budget Bill. The remainder ($357.8 million) is administered directly by the federal government. Table 1 displays the expenditures and staffing levels (state employees only) for the department from 1990-91 through 1992-93. As the table shows, the General Fund share of the department's total expenditures is 4.8 percent in 1992-93.

This department, along with many other departments, has been subject to a variety of reductions over the past several years. Among these is an unallocated reduction of 15 percent from the General Fund in 1991-92, or about 1 percent of the department's total budget from all funds. The current-year reduction is proposed to be carried over into 1992-93. In our companion document, *The 1992-93 Budget: Perspectives and Issues,* we discuss the impact of these reductions on various departments.

Capital Outlay

The Governor's Budget proposes an appropriation of $3 million in Item 8940-301 for capital outlay expenditure in the Military Department. Please see our analysis of that item in the capital outlay section of this *Analysis,* which is in the back portion of this document.

Tax Relief
Item 9100

Expenditures

Requested 1992-93	$432,473,000
Estimated 1991-92	798,781,000
Actual 1990-91	959,908,000
Requested decrease $366,308,000 (-46 percent)	

Fiscal Recommendations

Total recommended reduction	None

MAJOR ISSUES

- **Homeowners' and Renters' Tax Relief.** Governor's proposal ignores historical linkage between homeowners' and renters' tax relief programs.

Findings and Recommendations

Analysis Page

1. **Eliminate Homeowners' and Renters' Tax Relief Programs.** Recommend that the Legislature place a constitutional amendment on the November 1992 ballot to eliminate the Homeowners' Exemption and enact legislation to eliminate the Renters' Credit, contingent upon passage of the ballot measure. 79

General Program Statement

The state provides local property tax relief, both as subventions to local governments and as direct payments to eligible taxpayers, through seven different programs. The two largest are the Homeowners' Property Tax Relief (Homeowners' Exemption) and Renters' Tax Relief (Renters' Credit) programs, accounting for 90 percent of expenditures on tax relief.

Overview of the Budget Request

The proposed budget for Tax Relief programs reflects the elimination of the Renters' Credit program.

The budget proposes expenditures of $432 million in 1992-93, which is about $366 million, or 46 percent, less than estimated current-year expenditures. The majority of this reduction is attributable to the elimination of the Renters' Credit program ($369 million). The budget proposes modest reductions in the Senior Citizens' Property Tax and Renters' Tax Assistance programs as well, corresponding to the declining levels of participation in these programs. Partially offsetting these decreases are modest increases in the Homeowners' Exemption program, the Senior Citizens' Property Tax Deferral program, and Subventions for Open Space. Table 1 summarizes, by program, the expenditures for Tax Relief from 1990-91 through 1992-93.

Table 1

Tax Relief
Budget Summary
1990-91 through 1992-93

(dollars in thousands)

	Actual 1990-91	Estimated 1991-92	Proposed 1992-93	Percent Change From 1991-92
Expenditures				
Senior Citizens' Property Tax Assistance	$3,252	$2,804	$2,278	-18.8%
Senior Citizens' Property Tax Deferral Program	9,115	10,080	12,000	19.0
Senior Citizen Renters' Tax Assistance	16,713	14,347	11,707	-18.4
Homeowners' Exemption	355,043	358,250	361,800	1.0
Subventions for Open Space	13,564	13,920	14,400	3.4
Renters' Credit	561,928	399,000	30,000	-92.5
Substandard Housing	293	380	288	-24.2
Totals	$959,908	$798,781	$432,473	-45.9%
General Fund	*$959,908*	*$798,781*	*$432,473*	*-45.9%*

Analysis and Recommendations

Homeowners' and Renters' Tax Relief No Longer Needed

We recommend that the Legislature place a constitutional amendment on the November 1992 ballot to eliminate the Homeowners' Exemption program, and enact legislation to eliminate the Renters' Credit, contingent upon passage of the ballot measure.

The Homeowners' Exemption program grants a $7,000 property tax exemption on the assessed value of owner-occupied dwellings, and requires the state to reimburse local governments for the resulting tax loss. The exemption reduces the typical homeowner's taxes by about $75 annually, which is the amount that otherwise would be owed on the $7,000 exemption at the statewide average property tax rate of 1.07 percent (including debt levies). The Governor's Budget proposes an expenditure of $362 million on this program in 1992-93.

TAX RELIEF—Continued

In its current form, the Renters' Credit program provides "refundable" tax credits to low- and moderate-income Californians who rent their principal place of residence for at least six months in a tax year. The credit is applied first to any income taxes due, with any balance paid directly to the renter. Persons with no income tax liability must file a return to receive the tax relief. The amount of the credit is $60 for single renters and $120 for married couples, heads of households, and surviving spouses. The annual budget appropriation for this program funds both the revenue loss due to the reduction of tax liability and the payments in excess of tax liability. The program is administered by the Franchise Tax Board (FTB).

Historical Background. The Homeowners' and Renters' Tax Relief programs were established to mitigate rapidly rising property taxes in the late 1960s and early 1970s. The Homeowners' Exemption program was established by Proposition 1A (SCA 1, Res. Ch 9, 1968 First Extraordinary Session) in 1968 to provide homeowners with direct property tax relief. Recognizing that renters also pay property taxes indirectly through their rental payments, the Legislature simultaneously passed companion legislation which extended tax relief primarily to renters. Specifically, this legislation, Ch 1/68 (SB 8, Miller), doubled the personal income tax standard deduction, which most renters used to calculate their income tax liabilities. This legislation was contingent upon the voters' passage of Proposition 1A, establishing the homeowners' exemption.

The modern Renters' Credit program was one element of a comprehensive property tax reform package, Ch 1406/72 (SB 90, Dills), passed by the Legislature in 1972. Among other changes, this legislation increased the Homeowners' Exemption to its current level ($7,000) and placed limits on property tax rates. It also created the Renters' Credit program by establishing specific credits which renters could use to reduce their income tax liability.

Eligibility for Renters' Credit Limited in 1991-92. As part of the 1991-92 budget agreement, eligibility for this program was limited to persons with incomes below certain levels. For renters whose filing status is joint, head of household, or surviving spouses, the annual income limit is $41,000. For single taxpayers, the income limit is $20,500. These income restrictions are indexed for inflation each year. This eligibility restriction is effective in the 1991 tax year and terminates on December 31, 1995. This restriction reduced the state's current-year expenditures on this program by an estimated $135 million.

Governor Proposes to Eliminate the Program. In his budget, the Governor proposes to eliminate the Renters' Credit program, beginning with the 1992 tax year. The proposal is contingent on the enactment of legislation which is needed to eliminate the program. The budget does not offer a policy rationale for this proposal, but rather justifies it "as a part of the Administration's plan to bridge the state budgetary funding gap." In order to pay outstanding claims for tax year 1991, the Governor's Budget requests an appropriation of $30 million in 1992-93. The Department of Finance projects that expenditures will not be required for this program after 1992-93.

Need for Any General Property Tax Relief Programs Has Diminished. Our analysis indicates that there are better reasons to eliminate both the Homeowners' and Renters' Tax Relief programs. These include:

- *The Relief Provided Has Diminished Over Time.* The $7,000 property tax exemption granted to homeowners provides significantly less property tax relief than in years past. The exemption reduced the property tax on a median-priced home in 1972 by over 24 percent. In contrast, for homes purchased since 1988, the exemption has reduced the property tax on median-priced homes by roughly 3.6 percent. The relative significance of the exemption is decreasing because home prices (and, therefore, property tax liabilities) have substantially increased in the past 20 years. Similarly, the Renters' Credit provides less property tax relief than in earlier years. Census data indicate that, in 1980, Renters' Credit reduced the median annual rent payment for singles by 2 percent and for married couples and heads of households by 4.5 percent. For tax year 1990, however, the Renters' Credit reduced the median annual rent payment by *less than* 1 percent for singles and by 1.8 percent for married couples and heads of households. Further, for tax year 1991, the Renters' Credit program does not provide any property tax relief to renters who are not qualified for the program under the new eligibility restrictions.
- *Proposition 13 Reduced Property Tax Levels and Limits Increases for Both Homeowners and Renters.* Another policy reason for eliminating both programs is that passage of Proposition 13 in 1978 provided massive tax relief for both homeowners and renters. Its tax rate limit and assessment cap features cut the property tax by over 50 percent. Proposition 13 also prevents the rapid rise in property taxes that provided the original rationale for establishing these tax relief programs. For example, the property tax of a homeowner who purchased the median-priced home in 1980 has increased at an annual rate of 2 percent, while the value of the home has increased at an average annual rate of 6.5 percent.

Governor's Proposal Unlinks the Two Programs. The Governor's proposal to eliminate the Renters' Credit program would eliminate tax relief benefits for renters while maintaining them for homeowners. The budget offers no policy justification for continuing to provide property tax relief to homeowners, many of whom receive substantial benefits from Proposition 13, while this same relief is taken away from renters.

Thus, we conclude that a better approach would be to seek the elimination of both programs. This action would free up funding now dedicated to these essentially obsolete programs that could then be targeted for higher priorities. In order to ensure that *both* programs are eliminated, we recommend that the Legislature place a proposition on the November ballot which eliminates the Homeowners' Exemption program, and concurrently pass legislation that eliminates the Renters' Credit program, contingent on passage of the proposition. Because of legal uncertainties over the timing of when the elimination of the homeowners' exemption could be effective, we do not recommend elimination of the proposed funding for the program at this time.

Should the United States Supreme Court rule that Proposition 13 is unconstitutional, however, the Legislature may wish to consider alternative formulations of these programs as components of their response to the court decision.

Local Government Financing
Item 9210

Expenditures

Requested 1992-93	$12,300,000
Estimated 1991-92	25,138,000
Actual 1990-91	25,895,000
Requested decrease $12,838,000 (-51 percent)	

Fiscal Recommendations

Total recommended reduction	None

Findings and Recommendations

Analysis Page

1. **Supplemental Subventions.** Recommend the administration report at budget hearings on the estimated cost and number of beneficiaries of this program. 83

General Program Statement

This budget item reflects state expenditures associated with two different programs as follows:

Supplemental Subventions Program. In 1980-81, the Legislature fully exempted business inventories from the property tax and increased the existing business inventory subvention to reimburse local agencies for the lost property taxes. Under this arrangement, the Legislature provided 100 percent reimbursement for business inventory revenue losses in 1980-81 through 1983-84. Beginning in 1984-85, the Legislature repealed the business inventory subvention and began providing a new "Special Supplemental Subvention" to reimburse local agencies for any further revenue loss related to the repeal of the business inventory subvention. The special supplemental subvention to cities was ended in 1988-89, but redevelopment agencies are still eligible for such subventions.

Monterey County Viewshed Subvention. The California Wildlife, Coastal, and Park Land Conservation Act (Proposition 70) made a total of $25 million available to Monterey County for projects to preserve viewshed in the Big Sur area.

Overview of the Budget Request

The budget proposes to continue to phase-out funding for the Supplemental Subventions program.

The budget proposes expenditures of $12.3 million for local government financing programs in 1992-93 — $7.3 million for the Supplemental Subventions program and $5 million for the Monterey County Viewshed program. This is a decrease of $12.8 million, or 51 percent, from estimated current-year expenditures. The decrease is due to reduced expenditures of $17.8 million for the Supplemental Subventions program, a program which the Governor intends to phase out completely — offset by increased expenditures of $5 million for the viewshed program. Because of the statutory timeline for allocating supplemental subventions, the $7.3 million in proposed expenditures for this program is comprised of two parts: (1) $4.8 million (one-half of the funds appropriated for this program in the 1991 Budget Act) and (2) $2.5 million (one-half of the funds proposed for this program in the budget year).

This budget, along with the budgets of many departments, has been subject to a variety of reductions over the past several years. Among these is an unallocated reduction of 4 percent from the General Fund in 1991-92. (This reduction is 1.6 percent of the item's budget from all funds.) In our companion document, *The 1992-93 Budget: Perspectives and Issues*, we discuss the impact of these reductions on various departments.

Analysis and Recommendations

Supplemental Subventions Phase-Out

We recommend that the administration report at budget hearings on the number of agencies projected to be assisted through the revised subventions program — and the dollar amount of assistance that will actually be required.

LOCAL GOVERNMENT FINANCING—Continued

In our *Analysis of the 1991-92 Budget Bill* (please see pages 1188 and 1189), we reviewed the Governor's proposal to reduce funding for the supplemental subventions program and, ultimately, to eliminate these subventions completely. Because we found that (1) permanent fiscal assistance to redevelopment agencies appeared to be contrary to the Legislature's intent in establishing the program and (2) there was no statewide purpose in continuing to provide general fiscal assistance to the agencies, we recommended approval of the Governor's proposal. In addition, we recommended the Legislature enact legislation repealing the statutory authority for the program and provide funding through the Budget Bill in future years to the extent that there are agencies which are in need of this assistance.

Consistent with the Governor's stated intent to phase-out this program, the 1992-93 Governor's Budget proposes to further narrow the scope of the supplemental subventions program. Specifically, the budget proposes to (1) reduce the amount of subventions from $9.6 million in the current year to $5 million in 1992-93 and (2) restrict assistance to those agencies which otherwise would have insufficient tax revenues to pay debt service on certain bonds. The budget indicates that the proposed $5 million in subvention funds would be *prorated* among eligible agencies, if this amount is insufficient to meet the total demand for funds.

Our analysis indicates that the proposed $5 million amount is consistent with the Governor's objective of lowering state costs for this program, but *may not* be consistent with the objective of preventing redevelopment agencies which have pledged this money for debt service from falling into default. Our review indicates that the $5 million amount was determined somewhat arbitrarily — and not based on a careful assessment of redevelopment agency debt payment needs. For example, the administration advises that it has not determined (1) the number of redevelopment agencies likely to be eligible for a subvention or (2) the dollar amount of the assistance which may be required per agency. Without this basic data, neither the Legislature nor the administration can project whether the proposed $5 million will be sufficient to ensure that agencies do not go into default — or whether the budgeted amount could be reduced.

Accordingly, we recommend that the administration report at budget hearings on the number of agencies likely to be assisted through this program and the dollar amount of assistance estimated to be provided. In addition, should the administration project that the subvention funds will be prorated among eligible agencies, the administration should explain the implications of this proration for agency debt service payments.

Payment of Interest on General Fund Loans
Item 9620

Expenditures

Requested 1992-93	$5,000,000
Estimated 1991-92	72,000,000
Actual 1990-91	2,383,000
Requested decrease $67,000,000 (-93.1 percent)	

Fiscal Recommendations

Total recommended reduction	None

General Program Statement

To meet the General Fund's short-term cash needs, the state may borrow either internally, from the balances in other state funds, or externally, by issuing short-term borrowing instruments (revenue anticipation notes). External borrowing is preferable because the state can invest money at a higher interest rate than the rate at which it must borrow. This is because, when the General Fund borrows externally, it does so at *tax-exempt* interest rates, whereas when it borrows internally, it does so, in effect, at higher *taxable* interest rates — since most of the borrowed funds would otherwise be invested in taxable securities. Taxable securities generally earn more than tax-exempt securities in order to compensate for the tax liability. Being exempt from income taxes, however, the state receives the full benefit of these higher earnings. The Legislature has expressed its intent that the state use external, rather than internal, borrowing whenever it is advantageous to the state. This budget item is for payment of interest on *internal* borrowing. The interest paid on external loans is funded by a continuous appropriation in the Government Code, not from the appropriation in this item.

Overview of the Budget Request

The budget anticipates that the state will need to use much less internal borrowing in the budget year than in the current year.

The budget requests $5 million to pay interest on internal borrowing in 1992-93, compared with estimated internal borrowing costs of $72 million shown in the budget for the current year. (However, subsequent to publication of the budget, the current-year estimate was reduced to $55 million in a January 31, 1992, legislative notification letter from the Department of Finance.) Interest on external loans (which is not funded in

PAYMENT OF INTEREST ON GENERAL FUND LOANS—Continued

this item) is projected to be $220 million in 1992-93, the same amount as estimated for the current year.

The deterioration of the state's fiscal situation in the current year, due to the prolonged recession, has necessitated unusually large amounts of internal borrowing. The budget indicates that the state began the current year with a carryover deficit of $1.7 billion in the Special Fund for Economic Uncertainties (the General Fund reserve) and estimates that a $1.8 billion deficit will be carried over into 1992-93. The budget proposes to pay off the 1991-92 deficit in 1992-93 and end the year in balance.

The budget anticipates that there will be less need for short-term borrowing to cover General Fund cash-flow needs in 1992-93 than in the current year. In addition, enactment of Ch 185/91 (AB 1254, Baker) will facilitate the use of less-costly external borrowing by streamlining some procedures for issuing revenue anticipation notes and by authorizing the state to carry over external borrowing up to 120 days into the next fiscal year (provided that the borrowing is for no longer than 12 months). Should the need for larger amounts of internal borrowing arise, however, budget bill language in this item (Provision 2) authorizes the Director of Finance to augment the $5 million specifically appropriated by any amount necessary to pay for additional internal borrowing.

Health Benefits for Annuitants

Item 9650

Expenditures

Requested 1992-93	$341,675,000
Estimated 1991-92	280,063,000
Actual 1990-91	227,696,000
Requested increase $61,612,000 (+22 percent)	

Fiscal Recommendations

Total recommended reduction	None
Recommendation pending	$341,675,000

Findings and Recommendations

Analysis Page

1. **Final Premium Rates for 1992-93 Have Not Been Determined.** Withhold recommendation on this item pending receipt of actual health and dental insurance premium rates to be charged by providers in the budget year. 88

General Program Statement

This appropriation provides for the state's contribution toward the monthly health and dental insurance premiums for annuitants of the Judges', Legislators', District Agricultural Employees', and Public Employees' Retirement Systems (PERS), as well as selected annuitants of the State Teachers' Retirement System. The program provides eligible members with the option of selecting insurance coverage from as many as 27 state-approved health providers.

Government Code Section 22825.1 expresses legislative intent that the state pay an average of 100 percent of health insurance premiums for annuitants, and 90 percent of the health insurance costs for their dependents. Although the State Employees Dental Care Act does not express the same intent with regard to the state's contribution toward annuitants' dental insurance costs, the state, in practice, also pays 100 percent and 90 percent of dental premium costs for annuitants and their dependents, respectively.

Chapter 83, Statutes of 1991 (AB 702, Frizzelle), amended Section 22825.1 as it relates to active employees. The state's contribution toward the cost of health insurance premiums for employees who are not represented by bargaining units is now determined by the Department of Personnel Administration. For represented employees, the state's contribution is now subject to the collective bargaining process.

Overview of the Budget Request

The budget proposes total expenditures of $341.7 million from the General Fund for health and dental benefits for annuitants in 1992-93. This amount includes $337,675,000 in Budget Act appropriations, and $4 million in statutory appropriations pursuant to Ch 1251/90 (SB 2465, Cecil Green). This level of funding is $61.6 million, or 22 percent, more than the estimated current-year expenditures. The increase is attributable to both higher premiums charged by the state-approved insurance providers, and projected growth in the annuitant population.

Annuitant Health Benefits. The budget proposes expenditures of $306.2 million for the payment of annuitant health insurance premiums in 1992-93. This represents an increase of $55.2 million over 1991-92 expenditures, based on *projected* increases of 10 percent in the premium cost ($33.1 million) and 8 percent in program enrollment ($22.1 million).

Annuitant Dental Benefits. The budget proposes expenditures of $35.4 million for the payment of annuitant dental insurance premiums in 1992-93. This represents an increase of $6.4 million over 1991-92 expenditures, based on *projected* increases of 13 percent in the premium cost ($3.8 million) and 8 percent in program enrollment ($2.6 million).

Active Employees Benefits. The 1992-93 budget proposes no increase in the state's contribution toward the cost of health and dental coverage for *active* employees.

Analysis and Recommendations

Final Premium Rates for 1992-93 Have Not Been Determined

We withhold recommendation on this item, pending receipt of actual health and dental insurance premium rates to be charged by providers in the budget year.

The expenditure level proposed in the Governor's Budget is based on projected increases in the insurance premium rates. At the time that this analysis was prepared, the PERS was in the process of negotiating 1992-93 premium rates with its contracted providers. Therefore, we withhold recommendation on this item, pending receipt of final budget-year premium rates.

Equity Claims of Board of Control and Settlements and Judgments by Department of Justice

Item 9670

Expenditures

Requested 1992-93	$1,000
Estimated 1991-92	601,000
Actual 1990-91	701,000
Requested decrease $600,000 (-99.8 percent)	

Fiscal Recommendations

Total recommended reduction	None

General Program Statement

The Governor's Budget includes expenditures for payment of equity claims by the Board of Control, settlements and judgments by the Department of Justice (DOJ), and tort claims by the DOJ and the Department of Transportation (Caltrans). Payment of tort claims of $70,000 or less, however, are the only expenditures funded in this item in the 1992 Budget Bill. Other expenditures are funded in separate legislation. The DOJ investigates all tort claims against the state, except claims arising from the activities of Caltrans, which are referred to that agency for investigation.

Overview of the Budget Request

The budget for tort claims is significantly underfunded.

The Budget Bill proposes an appropriation of $1,000 from the General Fund for payment of routine tort liability claims (amounts of $70,000 or less) in 1992-93. This is $700,000 less than the amount identified in the Governor's Budget for 1992-93, and $600,000 less than estimated current-year expenditures for the same purpose. Budget Bill language provides that, in the event that expenditures exceed the amount appropriated, the Director of Finance may allocate up to $1.2 million from the Special Fund for Economic Uncertainties. Although this approach is consistent with the 1989, 1990, and 1991 Budget Acts, it provides the Legislature with an inaccurate picture of the funds available in the General Fund reserve.

Payment of Specified Attorney Fees
Item 9810

Expenditures	
Requested 1992-93	$1,915,000
Estimated 1991-92	1,915,000
Actual 1990-91	1,520,000
Fiscal Recommendations	
Total recommended reduction	None

General Program Statement

This item provides funds for the payment of attorney fee claims, settlements, and judgments against the state arising from actions in state courts. Generally, this item finances court-awarded attorney fees that relate

PAYMENT OF SPECIFIED ATTORNEY FEES—Continued

to a legal action that brings about the enforcement of an "important right" and results in a "significant benefit to the public."

Overview of the Budget Request

The budget proposes funding for attorney fees at the current-year level.

The budget proposes an appropriation of $1.9 million, which consists of $1.4 million from the General Fund, $150,000 from special funds, and $320,000 from nongovernmental cost funds.

This program, along with many other programs, has been subject to a variety of reductions over the past several years. Among these is an unallocated reduction of 4 percent from the General Fund in 1991-92 (3 percent of the program's total budget from all funds.) This reduction is proposed to be carried over into 1992-93. In our companion document, *The 1992-93 Budget: Perspectives and Issues,* we discuss the impact of these reductions on various departments.

Reserve for Contingencies or Emergencies
Item 9840

Expenditures

Requested 1992-93	$4,500,000
Estimated 1991-92	4,500,000

Fiscal Recommendations

Total recommended reduction	None

MAJOR ISSUES

- **Deficiency Costs.** Annual General Fund deficiencies typically are more than $300 million, which exceeds the size of the proposed $105 million reserve in the Governor's Budget.

Findings and Recommendations

Analysis Page

1. **Likely 1992-93 Deficiency Costs.** Annual General Fund deficiency costs typically exceed $300 million, which is more than the Governor's Budget's projected reserve of $105 million for 1992-93. 92

General Program Statement

This item provides a mechanism that the Director of Finance may use to augment budget appropriations in order to cover deficiency spending for contingencies or emergencies. Every year, unforeseen needs arise that require the expenditure of additional state funds beyond the amounts already appropriated or estimated in the annual budget. Most of the money needed to fund deficiency spending is provided in the annual omnibus deficiency bill (sometimes several bills), which appropriates funds to augment the nominal amounts initially provided in this item. Additional money to cover unanticipated spending is provided outside the reserve for contingencies or emergencies through the following mechanisms:

- Individual department deficiency bills.
- Budget Act provisions that allow agencies to spend more than the amount specifically appropriated to them in their budget items.
- Constitutional or statutory appropriations that automatically provide additional spending authority for certain purposes, such as for interest payments on the state's cash-flow borrowing or for disaster assistance.

Overview of the Budget Request

The amounts requested for 1992-93 are the same as those provided in the 1991 Budget Act, but are merely "placeholders" for deficiency costs that will be identified during the budget year.

The budget proposes three appropriations totaling $4.5 million for allocation by the Department of Finance to state agencies in 1992-93 for contingency or emergency costs in excess of specific appropriations. The appropriations consist of $1.5 million each from the General Fund, from special funds, and from nongovernmental cost and bond funds.

Item 9840-011-001 appropriates an additional $2.5 million for temporary loans to state agencies whose operations are threatened by a delay in receiving reimbursements or revenue. These loans must be repaid by the end of the fiscal year in which they are made.

Item 9840-490 reappropriates any unexpended balances of deficiency appropriations in the 1991-92 Reserve for Contingencies or Emergencies. The reappropriated funds would be available during the budget year for allocation by the Director of Finance to cover additional costs associated with 1991-92 deficiencies that are discovered after the fiscal year ends.

Analysis and Recommendations

Budget Reserve Would Not Cover Typical General Fund Deficiency Costs

We find that typical deficiency costs exceed the Governor's Budget's projected reserve of $105 million.

Typically, deficiencies total several hundred million dollars each year, most of which is from the General Fund. Table 1 shows General Fund deficiency costs during the 10-year period from 1982-83 through the current year. Costs through 1990-91 are actual amounts, while the 1991-92 amounts reflect the mid-year estimates in the Governor's Budget. General Fund deficiency allocations totaled $536.1 million in 1990-91, which is the largest amount during the 10-year period shown in the table. One-half of the 1990-91 deficiency occurred in two programs — Medi-Cal ($175.2 million) and the Renters' Tax Credit ($96 million).

Table 1

General Fund Deficiency Expenditures[a] 1982-83 through 1991-92

(in thousands)

	Reserve for Contingencies or Emergencies	Other[c]	Total Amount Allocated
1982-83	$334,419	$47,477	$381,896
1983-84	109,531	93,565	203,096
1984-85	419,217	10,000	429,217
1985-86	345,925	13,236	359,161
1986-87	330,602	140,913	471,515
1987-88	277,543	96,122	373,665
1988-89	203,662	55,700	259,362
1989-90	299,158	97,606	396,764
1990-91	341,156	194,962	536,118
1991-92	201,720[b]	154,101	355,821

[a] Includes deficiencies funded from this item and other appropriations.
[b] Total amount of 1991-92 allocations anticipated by the Department of Finance as of January 1992.
[c] Figures compiled by Legislative Analyst's Office.

Over the 10-year period shown in Table 1, annual General Fund deficiencies always have exceeded $200 million and have been more than $300 million in eight years. Although it is possible for unanticipated savings to offset some of these deficiency costs, for budgeting purposes the Legislature should plan on having to fund several hundred million dollars of General Fund deficiencies in 1992-93 in addition to the costs that are anticipated in the budget. The reserve of $105 million provided in the Governor's Budget would not be adequate to cover these costs.

In the current year, budget estimates indicate that deficiencies will total $372.8 million. However, this amount will increase as additional contingencies or emergencies arise during the remainder of the fiscal year. The budget indicates that $201.7 million of these deficiencies will be funded from the reserve in this item via the annual omnibus deficiency bill. In addition, we have identified $171.1 million of other General Fund deficiencies contained in the budget for 1991-92.

Reserve for Contingencies or Emergencies. The major General Fund deficiencies proposed for funding in the 1992 omnibus deficiency bill are the following:

- *Department of Corrections — $75.7 million.* The deficiency partially restores an unallocated reduction of $112 million that the Legislature made in the 1991 Budget Act. It also provides $6 million to eliminate a backlog of reimbursements owed to local governments for detaining parole violators.
- *Medi-Cal — $35.3 million.* Funds are for additional caseload.
- *County Medical Services — $29 million.* Funding is for caseload and cost increases.
- *Department of Forestry and Fire Protection — $27.3 million.* This amount consists of $18.4 million to augment fire fighting resources for the 1991 fire season and $9 million to replace budgeted fee revenues that were not authorized by legislation.
- *Renters' Credit — $11 million.* This increased cost occurs because claims exceed the budgeted amount.
- *Department of Developmental Services — $6.1 million.* This funding is needed to replace Medi-Cal reimbursements that were overestimated.

Other Deficiencies Shown in the Budget. The budget also indicates that special legislation and ongoing statutory appropriations will fund $171.1 million in General Fund deficiencies through mechanisms other than the main deficiency item. The largest of these deficiency expenditures are the following:

- *Interest on General Fund Loans — $50 million.* The budget estimates that the General Fund will incur additional interest costs for short-term internal borrowing from other state funds to cover 1991-92 cash-flow needs. These costs will total $50 million according to a January 31, 1992 letter from the Department of Finance. Budget Act language authorizes the additional spending.
- *County Welfare Administration — $27.4 million.* The Department of Social Services' budget item authorizes the additional spending for county welfare department administrative costs.
- *State Teachers' Retirement System — $14.2 million.* The state's required contribution is larger than originally estimated and will be provided through an ongoing statutory appropriation.
- *State Water Resources Control Board — $18.4 million.* Funds were provided by Ch 460/91 (AB 18, Sher) to replace budgeted fee revenues that were not authorized by legislation.
- *Victims of Crime Program — $11.7 million.* The Board of Control will seek special deficiency legislation to make up for a shortfall in penalty revenue to the Restitution Fund.
- *Sierra Madre Earthquake Housing Assistance — $10 million.* The Department of Housing and Community Development received funding to assist earthquake victims from the Special Fund for Economic Uncertainties (the General Fund reserve) under ongoing statutory authority.
- *East-Bay Firestorm — $7.9 million.* The Department of Social Services received an allocation under ongoing statutory authority in order to assist fire victims.

Current-Year Deficiencies in Other Funds

In 1991-92, estimated special fund deficiencies total $29.9 million, which is an increase of $3.5 million over the $26.4 million allocated in 1990-91. The largest deficiency proposed for the current year is $17.7 million from the Motor Vehicle Account for the California Highway Patrol to offset funding shortfalls and increased retirement contributions.

The budget further proposes to allocate $3.2 million for deficiencies from nongovernmental cost funds and bond funds — a decrease of $10.1 million compared with allocations in 1990-91. The 1991-92 amount includes $847,000 in retirement funds for additional costs of the Public Employees' Retirement System and $585,000 in bond funds for project planning and management at the California Community Colleges.