

# **Analysis of the 1987-88 Budget Bill**

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## ***Summary of Recommendations***

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# I N T R O D U C T I O N

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In the *Analysis of the 1987-88 Budget Bill*, we report the results of our detailed examination of the Governor's spending proposals for the coming fiscal year. This document summarizes, by program area, the principal findings and recommendations set forth in the *Analysis*. It also shows how approval of these recommendations would affect the state's fiscal condition and workforce.

## Impact of Recommendations--General Fund and Special Funds

**Expenditures.** Table 1 shows the net effect of our recommended changes to the expenditures proposed in the Governor's Budget. As the table shows, approval of these recommendations would reduce General Fund and special funds expenditures by a total of \$540 million. The total reflects:

- \$699 million in recommended *expenditure reductions*;
- \$162 million in recommended *expenditure augmentations*; and
- \$2 million in recommended *funding source changes*.

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Table 1  
Impact of Legislative Analyst's Recommendations  
on General Fund and Special Funds Expenditures  
1987-88  
(dollars in thousands)

<i>Nature of Recommendation</i>	<i>General Fund</i>	<i>Special Funds</i>	<i>Totals</i>
Reductions	-\$321,932	-\$377,495	-\$699,427
Augmentations	161,782	479	162,261
Change Funding Source	<u>-3,840</u>	<u>1,499</u>	<u>-2,341</u>
<b>Totals</b>	<b>-\$163,990</b>	<b>-\$375,517</b>	<b>-\$539,507</b>

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**Revenues, Transfers and Reversions.** We further recommend a number of changes with respect to revenues, transfers, and reversions. The net effect of these recommendations is to *decrease* the amount of funds available to the General Fund and special funds by \$15 million. For the most part, this effect is attributable to our recommendations that several proposed transfers to the General Fund not be approved.

**Legislation.** In addition, we recommend a number of changes to existing law. If approved, these changes would reduce expenditures or increase revenues by a net amount of approximately \$8 million.

Thus, the net effect of approving *all* General Fund and special funds recommendations set forth in the *Analysis* would be to increase available funds by \$532 million.

### Impact of Recommendations--By Program Category

Table 2 summarizes, by program category, the expenditure recommendations which are presented in Table 1. The table shows that the largest recommended reductions in General Fund expenditures are in youth and adult corrections (\$94 million) and K-12 education (\$47 million). These two items make up approximately 86 percent of the total recommended reductions to General Fund expenditures.

Table 2 also shows that recommended expenditure reductions for capital outlay (\$344 million) account for almost all of the special fund recommended reductions.

Table 2  
Impact of Legislative Analyst's Recommendations  
on Expenditures by Category  
General Fund and Special Funds  
1987-88  
(dollars in thousands)

<i>Program Category</i>	<i>General Fund</i>	<i>Special Funds</i>	<i>Totals</i>
Judicial/Executive	-\$8,027	-\$2,301	-\$10,328
State and Consumer Services	2,353	-14	2,339
Business, Transportation and Housing	-186	-15,308	-15,494
Resources	-1,967	-6,218	-8,185
Health and Welfare	3,114	-2,688	426
Youth and Adult Corrections	-94,019	—	-94,019
K-12 Education	-46,660	-8,000	-54,660
Higher Education	-15,023	—	-15,023
General Government	-3,575	2,512	-1,063
Capital Outlay	—	-343,500	-343,500
<b>Totals</b>	<b>-\$163,990</b>	<b>-\$375,517</b>	<b>-\$539,507</b>

### Impact of Recommendations--Personnel-Years

We also recommend a net decrease of 1,629 personnel-years in the state's workforce. This decrease primarily reflects a recommended reduction of 1,523 personnel-years in General Fund

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supported positions for youth and adult corrections. This program reduction primarily results from our recommendation to make technical parole violators eligible for work credits under the existing inmate work/training incentive program. The effect of this recommendation is to reduce prison population, and thus staff in the Department of Corrections.

### **Recommendations Pending**

We have withheld recommendation on \$7 billion in expenditures proposed in the Governor's Budget. We have done so whenever information was lacking to evaluate the need for the requested amount. In each of these cases, we will submit supplemental analyses of the proposed funding levels once the necessary information becomes available. In all likelihood, these supplemental analyses will include recommendations for further funding changes. ♦

# J U D I C I A L

## Judicial

(Item 0250/page 5)

	1985-86 Actual	1986-87 Estimate	1987-88		
			Proposed	Recom- mendation	Difference
Expenditures (thousands)	\$69,650	\$80,557	\$87,636	\$87,085	-\$551
Personnel- years	745.6	774.3	822.2	822.2	--

## Highlights of Our Recommendations

### 1. Salary Increases for Judicial Secretaries

The budget proposes to reclassify judicial secretaries in the Supreme Court and the courts of appeal, and adjust their salaries and benefits, at a cost of \$551,000 from the General Fund in 1987-88. Nearly all of the 89 secretaries are proposed to receive salary increases of about 15 percent in the budget year. This would increase further by the amount of any salary or staff benefit increase approved for state employees in the budget year.

According to the Judicial Council, the proposal is based on a review of compensation levels for judicial branch secretary and deputy clerk classifications. The review was conducted by a private consulting firm. At the time our analysis was written, the Judicial Council had not yet received approval of the study from the courts, and therefore, was unable to provide us with the study. Accordingly, because we have received no documentation to justify this proposal, we recommend deletion of the requested funds, for a General Fund savings of \$551,000 (*Analysis*, page 8). ♦

# EXECUTIVE

## California State World Trade Commission

(Item 0585/page 25)

	1985-86 Actual	1986-87 Estimate	1987-88		
			Proposed	Recommendation	Difference
Expenditures (thousands)	\$1,133	\$1,472	\$2,628	\$1,628	-\$1,000
Personnel- years	8.6	8.9	10.7	10.7	—

### Highlights of Our Recommendations

#### 1. Export Finance Program

The budget proposes to appropriate \$1 million from the Special Account for Capital Outlay to the Export Finance Fund to increase the amount of funds available for loan guarantees during 1987-88. Commission staff indicate the funds are needed to gain the confidence of the banking community.

Our analysis indicates that there is no apparent reason why a lack of confidence should exist because: (1) to date, 49 banks have expressed an interest in participating in the program; and (2) the program has operated for two years without a single default. Finally, the commission has not provided information which would indicate increased guarantee activity will require funds beyond the amount currently available.

On this basis, we recommend a reduction of \$1 million proposed for loan guarantees because the amount does not appear necessary to accommodate the likely level of budget year activity (*Analysis*, page 26).♦



## Department of Justice

(Item 0820/page 39)

	1985-86 Actual	1986-87 Estimate	1987-88		
			Proposed	Recommendation	Difference
Expenditures (thousands)	\$175,096	\$209,590	\$212,345	\$210,543 <sup>a</sup>	-\$1,802
Personnel- years	3,111.6	3,195.9	3,315.3	3,307.3 <sup>a</sup>	-8.0

<sup>a</sup> Recommendation pending on \$2,548,000 and 47.6 personnel-years

### Highlights of Our Recommendations

#### 1. Narcotic Enforcement

The budget requests \$9.5 million in additional funding for the Bureau of Narcotic Enforcement to finance 85 new special agent positions (a 65 percent increase), new field offices in Redding and Riverside, five new regional task forces, four new clandestine lab enforcement teams, upgraded communications equipment, a planning and support unit and additional support personnel. The request is financed partially by \$3.5 million in funds from the Federal Anti-Drug Abuse Act of 1986. We make a number of technical recommendations to reduce the request by \$950,000 primarily for support personnel, communications equipment and facilities expenses (*Analysis*, pages 47-51). ♦

## State Controller

(Item 0840/page 53)

	1985-86 Actual	1986-87 Estimate	1987-88		
			Proposed	Recommendation	Difference
Expenditures (thousands)	\$71,979	\$78,055	\$78,573	\$77,903 <sup>a</sup>	-\$670
Personnel- years	1,232.3	1,276.2	1,289.8	1,273.6	-16.2

<sup>a</sup> Recommendation pending on \$12,904,000 and 2.9 personnel-years.

### Highlights of Our Recommendations

1. We recommend deletion of \$829,000 and 12.4 personnel-years requested for the oil and gas royalty audit program. The funding request is split between the General Fund (\$495,000) and federal funds (\$334,000). The state is entitled to receive 50 percent of all collections resulting from the audits of federal oil and gas royalties paid by companies with leases in California.

The 1986 Budget Act authorized 12.4 personnel-years for the program on a limited-term basis, in order to facilitate legislative review of the program. Our review of the most recent audits completed by the Controller indicates that between November 1985 and September 1986, the audit program did not identify any new oil and gas royalty payments due the state. In addition, the state has only collected roughly one-third of the audit findings and interest payments already due to the state.

In short, the anticipated benefits of the oil and gas royalty program have not been realized. On this basis, we recommend the deletion of \$829,000 and 12.4 personnel-years requested for this program (*Analysis*, page 57).♦

## State Board of Equalization

(Item 0860/page 68)

	1985-86 Actual	1986-87 Estimate	1987-88		
			Proposed	Recom- mendation	Difference
Expenditures (thousands)	\$93,990	\$106,683	\$108,754	\$104,957	-\$3,797
Personnel- years	2,774.1	2,885.8	2,950.1	2,948.3	-1.9

### Highlights of Our Recommendations

#### 1. Funding for County Surveys Program

The Governor's Budget proposes \$1,392,000 in vehicle license fee (VLF) funds in 1987-88 to support local government's 50 percent share of the County Surveys program cost. This use of VLF revenues is precluded, however, by Article XI, Section 15 of the California Constitution (approved as Proposition 47 in June 1986). We recommend the deletion of Item 0860-001-064 to reflect the constitutional restriction on the use of VLF revenues. We further recommend the adoption of Item 0860-001-086 to appropriate \$1,392,000 from cigarette tax revenues for local government's share of the program cost (*Analysis*, page 73).

#### 2. Sales Tax Reimbursements

The Governor's Budget estimates that in 1987-88 the Board of Equalization will receive \$33,510,000 in reimbursements from local governments for the administration of the 1.25 percent local sales and use tax and the optional transactions and use tax for transit districts. Our analysis indicates that these reimbursements are underestimated by \$3 million, because the estimate does not take into account growth in the sales tax base, or the adoption in November 1986 of transit taxes in two counties. Since the board's reliance on the General Fund decreases directly with any increase in reimbursements, we recommend that Item 0860-001-001 be reduced by \$3 million (*Analysis*, page 75). ♦

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## STATE AND CONSUMER SERVICES

### Office of the State Fire Marshal

(Item 1710/page 123)

Expenditures (thousands)	1985-86 Actual	1986-87 Estimate	1987-88		
			Proposed	Recommendation	Difference
	\$8,824	\$9,551	\$10,197	\$11,497	\$1,300

### Highlights of Our Recommendations

#### 1. Public Building Inspection (Augment by \$1.3 Million)

Section 13145 of the Health and Safety Code requires the chief of any city or county fire department or district to enforce building standards and regulations in "public buildings" in his or her jurisdiction. The code requires the Office of the State Fire Marshal to provide this enforcement in areas *outside* of cities and districts providing fire protection services.

The Office of the State Fire Marshal is not authorized to collect fees to cover its costs. The Governor's Budget (1) states that the "State Fire Marshal will introduce legislation in 1987-88 to establish a fee setting process for public building fire inspections" and (2) proposes a \$1.3 million *reduction* in General Fund support and a corresponding \$1.3 million *increase* in reimbursements for this program.

We recommend that the inspection program be sustained at its current level, pending enactment of the enabling legislation. Accordingly, we recommend that the Legislature increase General Fund support for this program by \$1.3 million and decrease reimbursements by \$1.3 million (*Analysis*, page 125). ♦

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## Franchise Tax Board (Item 1730/page 126)

	1985-86 Actual	1986-87 Estimate	1987-88		
			Proposed	Recommendation	Difference
Expenditures (thousands)	\$127,304	\$142,700	\$147,029	\$147,940 <sup>a</sup>	\$911
Personnel- years	3,018	3,154	3,254	3,269	15

<sup>a</sup> Recommendation pending on \$880,000

## Highlights of Our Recommendations

### 1. "Special Adjustment" Reduction

We recommend that the Franchise Tax Board's (FTB) budget be augmented by \$1,436,000 in order to offset the "Special Adjustment" funding reduction made by the administration. Given the FTB's narrow range of discretionary programs, it appears that the board's only option for accommodating the funding reduction would be to reduce audit activities or to cut back on the level of services provided to taxpayers, particularly through the toll-free telephone information service. Funding reductions in either one or both areas could have significant adverse consequences. For instance, if the audit program absorbs the full \$1.4 million reduction, approximately 4,000 audits would not be conducted and \$11.6 million in audit recoveries would be forgone. On the other hand, if the reduction is absorbed by the telephone assistance program, the number of taxpayers receiving busy signals on the toll-free telephone lines would increase dramatically. Under these circumstances, we do not believe that the funding reduction is justified (*Analysis*, page 131).

### 2. Audit Program

We recommend that the FTB budget be augmented by 14.8 personnel-years and \$531,000 so that the board could perform additional audits. The budget includes a total of \$51.2 million for the board's audit program, which will allow it to perform all audits of returns that yield at least \$5 in revenue for each \$1 in audit costs. This level of audit coverage has been authorized in the past because

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it covers a significant level of audit cases without raising the possibility of excessive enforcement and harassment of taxpayers. However, the \$5-to-\$1 ratio is based on total program costs, which includes certain overhead costs which do *not* increase as the number of audits increases. When such expenses are taken out of the cost calculations, we find that the board actually is budgeted to perform audits that yield at least \$7.60 -- not \$5 -- for each \$1 of *incremental* costs. The FTB audit workplan shows that it could perform additional audits that have an incremental revenue-to-cost ratio of greater than \$5 to \$1. Given the Legislature's policy to fund the audit program on the basis of incremental costs to incremental revenue, we believe that the board should be provided with additional funding so that these audits could be conducted. (Potential increase in General Fund revenue of approximately \$1.9 million in 1987-88 and \$3.9 million annually thereafter) (*Analysis*, page 132). ♦

## Department of General Services--Capital Outlay

(Item 1760-301/page 169)

	1987-88		
	Proposed	Recommendation	Difference
Expenditures (thousands)	\$41,454 <sup>a</sup>	\$40,391 <sup>a</sup>	-\$1,063
<sup>a</sup> Recommendation pending on \$40,391,000			

### Highlights of Our Recommendations

#### 1. Site 7A and 7B (-\$1 Million)

The budget proposes \$1 million for partial demolition and partial preliminary plans for a new state office building in Sacramento. The Governor's Budget indicates that these funds will provide for construction of a facility "with priority consideration" given to housing the State Archives collection. The proposed development area currently includes the State Archives buildings and the state building occupied by the Department of Finance plus surface parking on the westerly one-half portion of the block bounded by 10th, 11th, O and P Streets.

We recommend deletion of the requested amount because the department has not indicated exactly what development will take place at Site 7 under the proposal. In addition, the Legislature has already approved funding in the 1984 and 1985 Budget Acts for five projects which will cost more than \$100 million to complete. It is not clear why this project is proposed when other approved projects are not proceeding (*Analysis*, page 170).

#### 2. Hazardous Materials Programs (\$40,391,000 pending)

The budget includes \$40.4 million for three hazardous materials programs, including the PCB program (\$9.8 million), Underground Tanks (\$18.2 million), and Asbestos Abatement (\$12.4 million). Funds for these activities are to be spent according to a priority ranking of hazards. The department indicates that the data to be used to set

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priorities within each separate program, along with cost estimates and a description of each hazard, will be available by March 1, 1987.

We withhold recommendation on the requested amounts pending receipt of the specific hazard data, including priority lists and cost estimates. Until this information becomes available, we have no basis on which to make a recommendation (*Analysis*, page 172).

Finally, we recommend that the department submit to the Legislature, prior to budget hearings, an *integrated priority list of all projects* proposed under the Hazardous Materials Program (*Analysis*, page 173). ♦



# BUSINESS, TRANSPORTATION AND HOUSING

## Department of Transportation

(Item 2660/page 253)

	1985-86 Actual	1986-87 Estimate	1987-88		
			Proposed	Recommendation	Difference
Expenditures (thousands)	\$2,505,044	\$3,099,564	\$3,222,733	\$2,884,643 <sup>a</sup>	-\$338,090
Personnel- years	14,934.7	14,984.9	15,494.5	15,539.7	45.2

<sup>a</sup> Recommendation pending on \$88,169,000

## Highlights of Our Recommendations

### 1. Reversions and Transfers Indicate Overbudgeting

We recommend a reduction of \$39 million from the State Highway Account because past experience indicates a consistent overbudgeting of funds to deliver highway capital outlay projects.

Our analysis indicates that (a) the department is not capable of delivering all highway capital outlay projects scheduled in the State Transportation Improvement Program within three years after an appropriation is made to fund these projects, (b) the costs of projects have been less than estimated, and (c) projects have been dropped from the delivery schedule. As a result, the department has reverted or transferred about \$50 million or more of each appropriation made by the Legislature for highway capital outlay from 1981-82 to 1985-86. About 23 percent of the funds appropriated in 1985-86 have been reverted to date.

Based on this past experience, we think that the amount of State Highway Account funds requested for 1987-88 is too high, and recommend that the amount requested be reduced by \$39 million (10 percent) to reflect more accurately the amount needed (*Analysis*, page 263).

### 2. Legislature Should Determine State-Funded Only Program

We recommend deletion of \$250 million from the State Highway Account requested for state-funded only projects until the Legislature enacts legislation to establish a framework and general guide-

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lines for the California Transportation Commission and the department to follow in determining (a) when state funds should be used to fully support highway projects, and (b) the appropriate magnitude of the state-funded only program.

Until recently, state funds have been used primarily to match federal funds, which pay for about 90 percent of project costs. In the current year, however, the department will use \$100 million of state funds to pay for the full cost of certain noninterstate capital outlay projects, which would otherwise be delayed due to a reduction in federal funds. For 1987-88, the *Governor's Budget* requests a total of \$250 million for the same purpose.

The issue of whether the state should fund a portion of its highways program exclusively with state money is a policy issue which the Legislature should decide. In our view, the Legislature should consider (a) whether a state-funded only program should be an ongoing integral part of the highway capital outlay program, or whether state funds should be used to backfill the loss of federal funds; (b) what the level of funding should be; and (c) what is the impact of using state funds on the fiscal condition of the State Highway Account. Accordingly, we recommend deletion of the \$250 million until the Legislature enacts legislation regarding the state-funded-only program (*Analysis*, page 265).

### **3. Contracting Not Cost-Effective for All Maintenance Work**

We recommend that \$3.6 million requested for contract services to reduce maintenance backlog be used instead to augment department staff by 60.2 personnel-years because (a) it is more cost-effective to hire state personnel for this work and (b) the department has a poor record in contracting for this activity (*Analysis*, page 272).

### **4. Proposed Funding Shift Inconsistent With Legislature's Policy**

We recommend that the Legislature reject the administration's proposal to transfer (a) \$27 million of tidelands oil revenues and (b) \$18 million of General Fund money to the Transportation Planning and Development (TP and D) Account *in lieu of* \$55 million in diesel sales and use tax revenues required to be transferred under current law. We recommend, instead, that the \$27 million in tidelands oil revenues be transferred *directly* to the General Fund.

We further recommend that the Legislature appropriate 60 percent of TP and D Account revenues to the State Transportation Assistance program, consistent with current statutory requirements.

Current law requires that in 1987-88 approximately \$55 million in revenues from the sale and use of diesel fuel—currently deposited in

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the General Fund--be transferred to the TP and D Account, and that 60 percent of these revenues--\$33 million--be appropriated for local transit and streets and roads under the State Transportation Assistance (STA) program. The remaining \$22 million would be available to fund (a) capital and operating needs of state supported rail services (the San Diegan and San Joaquin AMTRAK services and the Peninsula Commuter Service), (b) transit capital improvements, and (c) other mass transportation programs.

To provide additional General Fund reserves in the budget year, the administration is proposing--in lieu of \$55 million in diesel fuel sales tax revenue--to transfer \$45 million to the TP and D Account, consisting of \$27 million in tidelands oil revenues and \$18 million in General Fund resources.

This proposal is inconsistent with the Legislature's policy to provide greater *stability* in the funding of mass transportation programs. Consequently, we recommend the full \$55 million of diesel fuel sales tax be transferred to the TP and D Account. We further recommend, however, that the Legislature transfer \$27 million of tidelands oil revenues *directly* to the General Fund. Finally, as a conforming action, we recommend that the Legislature amend the Budget Bill to appropriate 60 percent of the TP and D Account revenues to the State Transportation Assistance program (*Analysis*, page 274).

#### **5. Petroleum Violation Escrow Account Funding**

We recommend that the Legislature appropriate \$6 million in requested Petroleum Violation Escrow Account (PVEA) funds to the Transit Capital Improvements program instead of the State Transportation Assistance (STA) program.

The administration is proposing to transfer \$6 million in PVEA funds to the TP and D Account to be allocated, under the STA program, to regional transportation planning agencies and transit operators. While the use of PVEA funds may enable local agencies to fund one-time needs, it does not provide *stable* funding for transit operating and capital purposes. In addition, these one-time allocations may not be used to meet the highest priority needs.

Alternatively, the Legislature could use these funds for the Transit Capital Improvements (TCI) program, which allocates money to projects according to a priority ranking made by the California Transportation Commission. Therefore, to insure that funds are allocated on a priority basis, we recommend that the Legislature allocate \$6 million to fund projects under the Transit Capital Improvements program (*Analysis*, page 276).

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## **6. Amount Needed to Match Federal Funds Overestimated**

We recommend a reduction of \$44.6 million from the State Highway Account because the department has overestimated the amount needed to match federal funds for highway capital outlay expenditures (*Analysis*, page 284). ♦

## Department of the California Highway Patrol

(Item 2720/page 289)

	1985-86 Actual	1986-87 Estimate	1987-88		
			Proposed	Recommendation	Difference
Expenditures (thousands)	\$440,436	\$473,025	\$481,934	\$480,433	-\$1,501
Personnel- years	7,684.9	7,642.3	7,523.3	7,517.0	-6

### Highlights of Our Recommendations

#### 1. Counties Refusing to Reimburse the California Highway Patrol for Emergency Motorist Aid System

We recommend deletion of \$900,000 requested by the California Highway Patrol (CHP) to purchase telephone and computer equipment to implement the emergency motorist aid system because participating counties are refusing to reimburse CHP for its costs as required by statute. In addition, we recommend deletion of six personnel-years and reduction of reimbursements by \$170,000 to eliminate support personnel for this system.

The budget is requesting \$900,000 for freeway call box equipment to provide central dispatching services within five counties for emergency motorist aid systems. The budget also continues \$170,000 for six personnel-years added in the current year to staff the project.

Chapter 1350, Statutes of 1985 (SB 1255), requires participating counties to sign a contract with CHP for system service and to reimburse the department for state expenditures. According to the patrol, however, all five counties have failed to sign the reimbursement contracts. Thus, we recommend deletion of the amount requested (*Analysis*, page 294). ♦

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## Department of Motor Vehicles

(Item 2740/page 297)

	1985-86 Actual	1986-87 Estimate	1987-88		
			Proposed	Recommendation	Difference
Expenditures (thousands)	\$315,042	\$339,270	\$350,120	\$347,253	-\$2,867
Personnel- years	7,797.3	7,831.0	7,691.4	7,591.4	-100

### Highlights of Our Recommendations

#### 1. Staffing for Phone/Mail Appointment System Not Documented

We recommend deletion of \$2.4 million and 100 personnel-years requested for the Department of Motor Vehicles' (DMV) phone/mail appointment system.

The department is requesting \$2.4 million to continue funding for 100 personnel-years added in the 1986-87 budget to make field office appointments for motorists obtaining a driver's license or registering their vehicles. According to the department, public use of the appointment system has been increasing.

Our analysis indicates that the department cannot document an increase in the utilization of the system from 1984-85 through 1987-88 (*Analysis*, page 302).

#### 2. Policy to Lease All DMV Offices Needs Tempering

We withhold recommendation on \$1,367,000 requested to lease satellite office space rather than contract state-owned field offices, pending receipt of an analysis detailing the justification for this policy change.

In the fall of 1986, the department informed us that it would no longer acquire land and construct state-owned field offices. Instead, it would only lease new facilities in commercial areas and shopping centers. As the initial step to implement this policy, the department is requesting \$1,367,000 to lease six new satellite office facilities in order to reduce the workload in overcrowded core offices in certain areas.

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Our analysis indicates that, under certain circumstances, leasing may be prudent in order to secure additional office space quickly to serve the growing number of motorists. The department's plan, however, applies a single solution to a wide range of field office needs. Accordingly, we withhold recommendation on the department's request pending justification for this policy change (*Analysis*, page 303). ♦

# R E S O U R C E S

## Energy Commission

(Item 3360/page 336)

	1985-86 Actual	1986-87 Estimate	1987-88		
			Proposed	Recom- mendation	Difference
Expenditures (thousands)	\$47,978	\$123,326	\$146,727	\$145,722 <sup>a</sup>	-\$1,005
Personnel- years	348.6	363.5	392.1	392.1	—

<sup>a</sup> Recommendation pending on \$118,492,000

## Highlights of Our Recommendations

### 1. School Bus Purchase and Demonstration

The budget requests \$100 million from the Petroleum Violation Escrow Account (PVEA) to purchase 1,300 school buses and demonstrate the performance of various fuel types in the buses. (These PVEA funds derive from settlements paid by oil companies to the federal government for past violations of price controls.) The proposal is not supported, however, by any specific expenditure or program plan. For example, the proposal does not specify what types of fuels and buses would be demonstrated or how school districts would be selected to receive the 1,300 demonstration buses. In addition, the commission has not explained how the proposal relates to existing state programs to provide transportation assistance to schools. Moreover, without specific information, there is no way to know whether the proposal is consistent with federal guidelines on the use of the PVEA funds. The federal Department of Energy (DOE) is willing, however, to review a specific proposal prior to legislative action on the budget. We therefore withhold recommendation on the request pending receipt of a detailed description of the proposed project. We further recommend that the Department of Finance and the Energy Commission submit a specific proposal to the DOE for its review prior to adoption of the budget (*Analysis*, page 343).



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## **2. Three Vague Contract Proposals**

The budget requests a total of \$725,000 for three consultant contracts to (1) develop a model of the California petroleum market (\$350,000), (2) collect and analyze energy data (\$200,000), and (3) simulate long-range impacts of various energy scenarios on the state (\$175,000). We recommend deletion of the \$725,000 requested for the three contracts because the proposals are extremely vague and do not indicate what specific information would be produced or how the commission would use the results (*Analysis*, page 345). ♦

## Air Resources Board

(Item 3400/page 350)

	1985-86 Actual	1986-87 Estimate	1987-88		
			Proposed	Recommendation	Difference
Expenditures (thousands)	\$52,776	\$93,170	\$58,953	\$57,681 <sup>a</sup>	-\$1,272
Personnel- years	582.6	573.2	601.8	597.5 <sup>a</sup>	-4.3

<sup>a</sup> Recommendation pending on \$1,102,000 and 7.6 personnel-years

### Highlights of Our Recommendations

#### 1. State Funds for San Joaquin Valley Study Not Needed

We recommend deletion of \$1 million requested from the Environmental License Plate Fund for the San Joaquin Valley Data Collection and Modeling Study because the board already has the necessary air pollution data and models to address the ozone problem that exists in Kern County, and a valley-wide study has not been justified. The board recently conducted a two-year study of Kern County to assess the effectiveness of alternative pollution control measures needed to attain the ozone air quality standard. The board has required certain control measures (including controls on oil production operations) as a result of the study. In response, industry groups and Kern County have questioned the board's decision on the basis that the study should be broadened to include the entire San Joaquin Valley. The board, however, has not determined that the original Kern County study was inadequate, and therefore, has not justified the need for an additional study or established the amount of funding needed to do such a study (*Analysis*, page 357). ♦

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## Department of Forestry and Fire Protection

(Item 3540/page 367)

	1985-86 Actual	1986-87 Estimate	Proposed	1987-88	
				Recom- mendation	Difference
Expenditures (thousands)	\$283,128	\$285,416	\$279,266	\$277,721 <sup>a</sup>	-\$1,545
Personnel- years	3,954.1	4,064.5	4,128.1	4,128.1	—

<sup>a</sup> Recommendation pending on \$100,000

### Highlights of Our Recommendations

#### 1. Transfer of Forest Resources Improvement Fund Money Inconsistent With Recent Legislation

The budget proposes to transfer \$2,335,000 from the Forest Resources Improvement Fund (FRIF) to the General Fund in order to provide additional General Fund revenue for support of unspecified programs. The FRIF receives revenue from timber sales from the state forests. The proposed transfer is contrary to legislative intent recently expressed in Ch 413/86, which limited the use of FRIF funds to specific forestry programs. Accordingly, we recommend deletion of Item 3540-016-928, which transfers the \$2,335,000 from the FRIF to the General Fund (*Analysis*, page 375). ♦

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## Department of Fish and Game

(Item 3600/page 391)

	1985-86 Actual	1986-87 Estimate	1987-88		
			Proposed	Recom- mendation	Difference
Expenditures (thousands)	\$88,073	\$94,507	\$92,599	\$90,198	-\$2,401
Personnel- years	1,452.8	1,503.9	1,507.9	1,507.9	—

### Highlights of Our Recommendations

#### 1. Budget Fails to Provide For Required Loan Payback

We recommend the appropriation of \$650,000 from the Fish and Game Preservation Fund (FGPF) as partial repayment of a General Fund loan made to the FGPF in 1985.

The 1985 Budget Act provided a \$2 million loan from the General Fund to the FGPF as one of a series of measures designed to avoid a potential \$7.1 million deficiency in the general support portion of the FGPF. The Legislature, in approving the loan, required that it be repaid in 48 monthly installments, concluding June 30, 1990. In the 1986 Budget Act, the Legislature granted the department a one-year deferral of the loan repayment.

The 1987 Budget Bill should appropriate approximately \$650,000 from the FGPF for the first 12 installments of the required loan repayments. The budget, however, provides only for the payment of \$160,000 in loan interest at the discretion of the department. Moreover, we recommend deletion of proposed Budget Bill language that would eliminate the requirement that the loan be repaid in 48 monthly installments (*Analysis*, page 397).

#### 2. Fish Food Overbudgeted

The department requests about \$3 million to buy fish food in 1987-88. In each year since 1981-82, the department has overbudgeted for fish food by at least \$863,000. In 1985-86, the department actually

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spent only about \$2.2 million on fish food. Our review indicates that the cost of fish food in 1987-88 will be less than in 1985-86 because (1) new *local* contractors will have lower costs, and (2) the department will produce fewer fish. Therefore, we recommend reducing the fish food budget to \$2,182,000 (the actual cost of fish food in 1985-86), for a savings of \$651,000 from the Fish and Game Preservation Fund and \$153,000 in reimbursements (*Analysis*, page 399). ♦

## Wildlife Conservation Board--Capital Outlay

(Item 3640-301 / page 407)

	1987-88		
	Proposed	Recommendation	Difference
Expenditures (thousands)	\$15,942	\$15,942 <sup>a</sup>	—
<sup>a</sup> Includes \$14,942,000 on which we made no recommendation			

### Highlights of Our Recommendations

#### 1. Other Funds Available for Ecological Reserve Acquisition

The budget requests \$1 million from the Environmental License Plate Fund (ELPF) for the acquisition of ecological reserves. We recommend shifting this funding from the ELPF to the Wildlife Restoration Fund.

The ELPF can be used for a much broader range of activities than the Wildlife Restoration Fund. In addition, the Wildlife Restoration Fund will have a reserve of at least \$1.9 million at the end of 1987-88. This is equal to 134 percent of total proposed expenditures from the fund for 1987-88. There is no analytical basis to maintain such a large reserve in this fund. Thus, in order to increase the Legislature's fiscal flexibility in achieving its budget priorities, we recommend a reduction of \$1 million from the ELPF and an increase of \$1 million from the Wildlife Restoration Fund for the acquisition of ecological reserves (*Analysis* page 410). ♦

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## Department of Parks and Recreation

(Item 3790/page 423)

	1985-86 Actual	1986-87 Estimate	1987-88		
			Proposed	Recommendation	Difference
Expenditures (thousands)	\$193,412	\$193,866	\$145,751	\$143,930	-\$1,821
Personnel- years	2,802.3	2,788.4	2,856.9	2,846.8	-10.1

### Highlights of Our Recommendations

#### 1. Deferred Maintenance/Special Repairs

The budget requests an increase of \$1,198,000 from the State Parks and Recreation Fund for deferred maintenance and special repair projects. During the past several years, the department has requested and received large increases in funding to address a backlog of projects. Our review, however, indicates that a large portion of these additional funds appear to have been diverted to other unidentified purposes. In addition, the department's supporting documents are inconsistent with the budget. Consequently, we recommend deletion of the additional funds. (*Analysis*, page 432.) ♦

## Department of Parks and Recreation--Capital Outlay

(Item 3790-301 / page 440)

	1987-88		
	Proposed	Recommendation	Difference
Expenditures (thousands)	\$49,944	\$43,009 <sup>a</sup>	-\$6,935

<sup>a</sup> Recommendation pending on \$14,232,000

### Highlights of Our Recommendations

#### 1. Pyramid Lake--Liebre Peninsula Day-Use Facilities

The budget requests \$3 million for the development of access and day-use facilities on the Liebre peninsula at Pyramid Lake in Los Angeles County. We recommend deletion of the requested funds because the available information does not define the project adequately or justify the amount requested (*Analysis* page 454).

#### 2. Old Sacramento State Historic Park (SHP)--Museum of Railroad Technology

The budget proposes \$361,000 in planning funds as the first step in developing a \$40 million engineering complex for the California State Railroad Museum in Old Sacramento SHP. We recommend a reduction of \$201,000 in the amount requested to delete funds to design the new facility because the proposed \$40 million complex greatly exceeds the scope and scale envisioned for the facility by the museum's master plan. Instead, we recommend approval of \$160,000 in order to develop architectural programs and conceptual drawings for three alternatives of varying scope and cost for the Legislature to consider (*Analysis* page 459).

#### 3. Angel Island State Park (SP)--Tiburon Land Base Improvements

The department requests \$500,000 to reimburse a private land-owner for the development of land base facilities in Tiburon to serve ferries for visitors to Angel Island SP. We recommend deletion of the requested funds because (1) the proposal is an inappropriate use



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of capital outlay funds, and (2) the department has not addressed alternative means of providing the facilities (*Analysis* page 447).

#### **4. Stanford House SHP--Historic Preservation**

The budget requests \$500,000 to begin construction work on the historic preservation of the Stanford House in Sacramento. We recommend deletion of the requested funds, because funding construction activities would be premature since previously funded research and planning work will not be completed in time for construction to take place in 1987-88 (*Analysis* page 456). ♦

## Department of Water Resources

(Item 3860/page 465)

	1985-86 Actual	1986-87 Estimate	1987-88		
			Proposed	Recommendation	Difference
Expenditures (thousands)	\$56,697	\$98,569	\$101,240	\$58,043 <sup>a</sup>	-\$43,197
Personnel- years	2,622.3	2,649.2	2,655.7	2,655.7	--

<sup>a</sup> Recommendation pending on \$414,000 and 0.5 personnel-years

### Highlights of Our Recommendations

#### 1. Bond Fund Appropriation Premature

We recommend deletion of \$42,750,000 from the Water Conservation and Water Quality Bond Fund requested to provide loans to public agencies for the construction of water conservation and groundwater recharge projects because the appropriation is premature until legislation is enacted authorizing specific loans.

The bond fund provides a total of \$75 million to the department. The department does not expect to make any loans in the current year, and in order to make any loans in 1987-88 and subsequent years, the department first must obtain legislative approval of the specific loan requests and a new appropriation. Since the Legislature has not authorized any loans at this time, the requested budget appropriation for loans is premature (*Analysis*, page 469). ♦

## Department of Water Resources--Capital Outlay

(Item 3860-301/page 475 )

	1987-88		
	Proposed	Recommendation	Difference
Expenditures (thousands)	\$14,500	\$13,017 <sup>a</sup>	-\$1,483
<sup>a</sup> Recommendation pending on \$6,450,000			

### Highlights of Our Recommendations

#### 1. Sacramento River Bank Protection Project

We recommend a reduction of \$808,000 of the \$4,230,000 requested for the Sacramento River Bank Protection Project because the state's share of the project's cost has been reduced from 33 percent to 25 percent, based on an initial interpretation of the federal Water Resources Development Act of 1986 by the U.S. Army Corps of Engineers. The department's budget request is based on the previous cost-sharing formula.

Based on the new 75-25 formula, the state contribution in 1987-88 would be only \$3,167,000, but the state also will owe the federal government \$255,000 for past project costs. In order to remove any past debt for the project, the total appropriation needed for the budget year is \$3,422,000--\$808,000 less than the amount requested (*Analysis*, page 477).

#### 2. Sutter Bypass--Weir No. 2 Replacement

We recommend deletion of \$800,000 requested to replace Sutter Bypass-Weir No. 2 because the department does not have a final design and is not ready to proceed with construction in 1987-88. The department's request for \$800,000 is based on preliminary designs, which the department has since determined do not satisfy both the fishery and water distribution needs of the project. As a result, the department indicates that it will postpone construction of the project (*Analysis*, page 481). ♦

## State Water Resources Control Board

(Item 3940/page 483)

	1985-86 Actual	1986-87 Estimate	1987-88		
			Proposed	Recom- mendation	Difference
Expenditures (thousands)	\$32,481	\$49,508	\$111,828	\$43,828 <sup>a</sup>	-\$68,000
Personnel- years	795.6	938.9	975.5	975.5 <sup>a</sup>	—

<sup>a</sup> Recommendation pending on \$8,873,000 and 9.4 personnel-years

### Highlights of Our Recommendations

#### 1. Bond Fund Appropriation Premature

We recommend eliminating an appropriation of \$68 million from the Water Conservation and Water Quality Bond Fund to provide loans to public agencies for the construction of agricultural drainage projects because the appropriation is premature until enactment of legislation authorizing specific loans. This bond fund provides a total of \$75 million for these loans, but the board currently expects to use only about \$3 million for loans in the current year and only about \$14 million in 1987-88. In order to make any loans in 1987-88 or subsequent years, however, the board first must obtain legislative approval of the specific loan requests. Since the Legislature has not authorized any loans at this time, the budget for the \$68 million for agricultural drainage loans is premature (*Analysis*, page 490). ♦

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# HEALTH AND WELFARE

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## Emergency Medical Services Authority (Item 4120/page 500)

	1985-86 Actual	1986-87 Estimate	1987-88		
			Proposed	Recom- mendation	Difference
Expenditures (thousands)	\$1,587	\$1,637	\$2,610	\$1,714	-\$896
Personnel- years	14.6	15.2	16.7	15.6	-1.1

### Highlights of Our Recommendations

#### 1. Poison Control Center Matching Funds are Premature

The budget proposes 1.1 personnel-years and \$896,000 from the General Fund to provide matching funds for regional poison control centers. Our analysis indicates that the proposal provides inadequate justification for the creation of what amounts to a major new state General Fund program. Specifically, the proposal does not (a) document a need for additional services, (b) document a need for state funding, (c) provide any justification of the specific dollar amounts requested, or (d) provide for a maintenance-of-effort requirement. We therefore recommend deletion of 1.1 personnel-years and \$896,000 and adoption of supplemental report language directing the authority to report to the Legislature on services and funding of regional poison control centers (*Analysis*, page 501). ♦

## California Department of Aging

(Item 4170/page 514)

	1985-86 Actual	1986-87 Estimate	1987-88		
			Proposed	Recommendation	Difference
Expenditures (thousands)	\$121,861	\$125,016	\$125,914	\$125,914	—
Personnel- years	134.7	132.9	137.8	135.9	-1.9

### Highlights of Our Recommendations

#### 1. Expansion of the Health Insurance Counseling and Advocacy Program (HICAP)

The department proposes to expand the HICAP from 31 to all 58 counties and to increase state staff for the program by two positions in order to meet the anticipated workload increases resulting from this expansion. This expansion will increase costs by \$656,000. In addition, the department proposes to fund the entire program--\$1.5 million--through reimbursements from the Department of Insurance (Insurance Fund), instead of the General Fund.

Our analysis indicates that the proposal to fund HICAP through the Insurance Fund is consistent with state law and therefore we recommend approval. However, we recommend against expansion of the program at this time because the department has not provided the Legislature with information regarding the cost-effectiveness of this program as required by state law. Therefore, without prejudice to the goals of this program, we recommend that the California Department of Aging's reimbursements from the Department of Insurance be reduced by \$656,000 (*Analysis*, page 521). ♦

## Department of Alcohol and Drug Programs

(Item 4200/page 526)

	1985-86 Actual	1986-87 Estimate	1987-88		
			Proposed	Recommendation	Difference
Expenditures (thousands)	\$114,504	\$120,116	\$126,868	\$135,068	\$8,200
Personnel- years	163.8	163.4	164.5	164.5	—

### Highlights of Our Recommendations

#### 1. Unbudgeted Alcohol, Drug, and Mental Health (ADAMH) Block Grant Funds

We recommend that the budget be increased by \$8.2 million in available federal funds. We further recommend that prior to budget hearings, the department advise the fiscal committees how it plans to use these funds in 1987-88 and any General Fund match that is required for these funds.

We make this recommendation because the department estimates that in 1987-88 there will be \$8.2 million in unbudgeted ADAMH block grant funds available to support local alcohol (\$7.2 million) and drug (\$1 million) programs. The department indicates that these "surplus" funds are available because it was unable to expend all of the federal funds it received in 1982-83. Since that time, the department has carried over varying amounts in surplus federal block grant funds, with the current total estimated at \$8.2 million (*Analysis*, page 533). ♦

## Department of Health Services

(Item 4260/page 536)

	1985-86 Actual	1986-87 Estimate	1987-88		
			Proposed	Recommendation	Difference
Expenditures (thousands)	\$3,701,107	\$3,851,158	\$3,409,166	\$3,395,493 <sup>a</sup>	-\$13,673
Personnel- years	3,526.9	3,615.4	3,610.4	3,578.9 <sup>a</sup>	-31.5

<sup>a</sup> Recommendation pending on \$2,514,992,000 and 52.7 personnel-years

### Highlights of Our Recommendations

#### 1. Public Health Disengagement Proposal

In the budget year, the administration proposes to "disengage" a number of state-run health care programs and transfer the associated funding, totaling \$477 million, to counties. In the years following, the administration proposes to discontinue this General Fund appropriation and, instead, transfer 1/4 cent of state sales tax revenues to the counties. We estimate that this amount could total over \$600 million. The health care programs affected are the County Health Services (AB 8) program; Family Planning; the Genetically Handicapped Persons' program; grants to Indian, farm-worker, rural, and primary care clinics, the Preventive Health Care for the Aging program, and the Children's Dental Disease Prevention program. We withhold recommendation on this proposal pending receipt of the proposed implementing legislation, as well as information detailing the proposal (*Analysis*, page 554).

#### 2. Child Health Care Training Proposal

As part of the Governor's Children's Initiative, the administration proposes \$1 million in order to (a) involve local health departments in child day care and (b) provide health training to targeted child day care providers. Our review indicates that the State Department of Education is already in the process of determining the need for day care health training and that the administration's proposal may result in inefficiencies in providing health care training. For these reasons, we recommend deletion of the funds proposed for this program (*Analysis*, page 558).



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### 3. Bond Expenditure Plan Not Available

The budget proposes \$14.9 million from the Hazardous Substance Cleanup Fund (bond funds) for state administrative expenditures associated with the cleanup program. We identified three concerns related to this proposal: (a) the division has a poor record of delivering on expenditure promises, (b) administrative costs are a large portion of the total expenses of the program, and (c) two legislatively mandated reports that might shed light on these issues--the annual report due October 1, 1986 and the bond expenditure plan due January 10, 1987--had not been submitted at the time our analysis was prepared. We withhold recommendation on the proposed appropriation pending submission and review of the overdue reports (*Analysis*, page 599).

### 4. Medi-Cal Program Budget

The budget proposes reductions to baseline Medi-Cal expenditures totaling \$309.9 million (\$163.1 million General Fund). The major component of the proposed reduction is for proposed "program restructuring" that would reduce expenditures by \$250 million (\$125 million General Fund). The budget does not specify the statutory or regulatory changes that would be used to accomplish the reduction. We discuss the program restructuring proposal on page 611 of the *Analysis* and in a separate report entitled "The Medi-Cal Program in Perspective" (Report #87-6). Because of the lack of detail provided in the budget regarding the specifics of the program restructuring proposal, and because the basic estimate of Medi-Cal costs will change substantially when the department revises the budget in May to reflect more recent data on caseloads and costs, we withhold recommendation on \$5 billion (\$2.5 billion General Fund) proposed for the Medi-Cal program (*Analysis*, page 606).

### 5. Income and Eligibility Verification System (IEVS)

IEVS is a welfare fraud detection system that relies on computerized data bases to identify welfare fraud. In addition to welfare fraud, the system will be used to identify fraud under the medically needy portion of the Medi-Cal program. We recommend reducing by one-half the amount of eligibility worker time budgeted to follow up on cases identified by IEVS. We base this recommendation on our conclusion that the 100 percent follow-up proposed by the department is not likely to be cost-effective. This recommendation will reduce the cost of IEVS in 1987-88 by \$3,699,000 (\$1,850,000 General Fund) (*Analysis*, page 621). ♦

## Department of Mental Health--Capital Outlay

(Item 4440-301 / page 675)

	1987-88		
	Proposed	Recommendation	Difference
Expenditures (thousands)	\$23,453	\$18,999 <sup>a</sup>	-\$4,544
<sup>a</sup> Recommendation pending on \$1,916,000			

### Highlights of Our Recommendations

#### 1. Office Additions--Atascadero State Hospital (-\$2,060,000)

The budget includes \$5.4 million to construct eight new buildings totaling 35,844 gross square feet. The project would provide space for staff offices, support areas and allow space for 128 beds currently used for administrative purposes to be returned to patient use.

We recommend that the construction cost for the Office Additions project be reduced by \$2,060,000 to reflect the project costs approved by the Legislature in the 1986 Budget Act (*Analysis*, page 680).

#### 2. Fire/Life Safety and Environmental Improvements, N Building--Patton State Hospital (-\$1.2 million)

The budget requests \$7,262,000 for fire/life safety and environmental improvements at the N Building at Patton State Hospital. The project also includes porch enclosures, roof repairs and a heating, ventilation, and air conditioning system.

We recommend deletion of \$1.2 million because neither the department nor the Department of Finance has been able to document \$1.2 million in additional costs. Therefore, we recommend that the project be funded at \$6,062,000, consistent with the legislatively approved cost (*Analysis*, page 682). ♦

## Employment Development Department

(Item 5100/page 684)

	1985-86 Actual	1986-87 Estimate	1987-88		
			Proposed	Recom- mendation	Difference
Expenditures (thousands)	\$137,559	\$186,526	\$134,024	\$133,024	-\$1,000
Personnel- years	10,121.9	9,983.3	9,558.1	9,558.1	—

### Highlights of Our Recommendations

#### 1. Payment of Local Entity Unemployment Insurance (UI) Costs

We recommend enactment of urgency legislation which would immediately revert \$69 million in General Fund monies appropriated to pay local entity UI costs. The budget does not propose to revert these funds until June 30, 1987. Without urgency legislation, the State Controller could disburse these funds even though Legislative Counsel advises that the state is no longer required to pay these costs as a result of a recent state Supreme Court decision.

We further recommend that local entity UI costs not be funded with \$69 million from the UI Fund as proposed by the budget. Legislative Counsel advises that to use UI funds to pay local entity UI costs violates federal law (*Analysis*, page 693).

#### 2. Reed Act Repayment

The budget proposes to use \$1 million from the Employment Development Department (EDD) Contingent Fund to repay federal Reed Act funds which EDD has used to purchase capital assets. The Reed Act funds are a valuable funding source for EDD projects and should be replenished. However, these funds should not be replenished at the expense of reducing the Contingent Fund, which in turn would reduce the amount of money transferred from this fund to the General Fund. Budget Bill language provides that the excess balance in the Contingent Fund shall be transferred to the General Fund. We recommend reducing EDD's Contingent Fund appropria-

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tion by \$1 million and increasing the transfer from this fund to the General Fund by \$1 million (*Analysis*, page 692).

### **3. Employment Training Fund (ETF) Interest Transfer**

The budget proposes to transfer \$15 million in ETF interest earnings for 1987-88 to the General Fund. We believe such a transfer is inconsistent with state law which restricts the use of the ETF to payment of specified training and administrative costs of the Employment Training Panel program. Therefore, we recommend that the Legislature delete Budget Bill language which proposes to transfer ETF interest earnings to the General Fund (*Analysis*, page 706). ♦

## Department of Social Services

(Item 5180/page 717)

	1985-86 Actual	1986-87 Estimate	1987-88		Difference
			Proposed	Recom- mendation	
Expenditures (thousands)	\$3,708,116	\$4,250,161	\$4,514,964	\$4,532,335 <sup>a</sup>	\$17,371
Personnel- years	3,157.8	3,670.1	3,535.7	3,535.7	—

<sup>a</sup> Recommendation pending on \$2,500,000

### Highlights of Our Recommendations

#### 1. Greater Avenues for Independence (GAIN) Grant Avoidance Savings

We recommend an augmentation of \$54.8 million (\$23.4 million General Fund, \$27.4 million federal funds) budgeted as grant avoidance savings resulting from the GAIN program because the department can provide no data to show that these savings can reasonably be expected to be realized. The GAIN program is designed to help Aid to Families with Dependent Children (AFDC) recipients find employment and become financially self-supporting by providing them work, training, education, and supportive services. The budget proposes reductions of \$129.9 million (\$55.6 million General Fund) in AFDC grant expenditures in order to reflect the impact of the GAIN program on AFDC caseloads. Of this amount, \$54.8 million (\$23.4 million General Fund) is due to "grant avoidance"--savings resulting from people who do not apply for aid or who terminate aid rather than participate in the program. The Department of Social Services could not provide any data to substantiate its assertion that these savings actually will be realized (*Analysis*, page 734).

#### 2. Targeting Will Increase Cost-Effectiveness of Fraud Detection Activities

We recommend a reduction of \$5.3 million (\$1.8 million General Fund, \$3.5 million federal funds) in order to reflect a more cost-effective targeting of county case reviews under the Income and Eligibility Verification System (IEVS). The 1987-88 budget proposes

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\$22 million (\$5.2 million General Fund, \$5.2 million county funds, and \$11.6 million federal funds) for the support of the IEVS. This system, which is required by federal law, is designed to electronically review the names of AFDC, Food Stamp, and Medi-Cal recipients and applicants in order to verify that these individuals accurately report income, assets, and other government benefits--such as Unemployment Insurance--to county welfare departments. The budget requests funds to review 100 percent of the cases with income and assets no matter whether \$1 or \$100,000 of income or assets are identified by the review. Our analysis indicates that targeting the follow-up to cases with the highest potential return will allow the state to realize large administrative cost-savings without a large reduction in the level of savings assumed in the budget (*Analysis*, page 754).

### **3. Pre-Admission Screening Results in Few New In-Home Supportive Services (IHSS) Recipients**

We recommend a General Fund reduction of \$3.2 million in the IHSS program in order to reflect a lower number of referrals from the Pre-Admission Screening (PAS) program to IHSS. The purpose of the PAS program is to determine if Medi-Cal recipients who are applicants for nursing home placement could be more appropriately maintained in the community using home-based health and social services. The department estimates that IHSS General Fund costs will increase by \$3.4 million in 1987-88 based on its assumption that the PAS program will increase the IHSS caseload by 90 cases each month. Based on actual experience, however, in the first six months of statewide implementation the PAS program has diverted a total of only 23 persons to the community, with only 4 referred to IHSS. Based on this experience, we estimate that IHSS costs will be \$3.2 million less than the amount assumed in the budget (*Analysis*, page 784). ♦

# YOUTH AND ADULT CORRECTIONAL

## Department of Corrections

(Item 5240/page 802)

	1985-86 Actual	1986-87 Estimate	1987-88		
			Proposed	Recom- mendation	Difference
Expenditures (thousands)	\$999,799	\$1,281,783	\$1,408,917	\$1,318,652 <sup>a</sup>	-\$90,265
Personnel- years	14,292.1	19,105.8	21,231.8	19,730.0 <sup>a</sup>	-1,501.8

<sup>a</sup> Recommendation pending on \$132,313,000 and 2,783 personnel-years

## Highlights of Our Recommendations

### 1. Work/Training Credits for Parole Violators

The Legislature has adopted a statutory policy that every inmate shall have a reasonable opportunity to participate in a full-time credit-qualifying work or educational training assignment. Parole violators who are returned to custody for technical violations of the conditions of their parole, however, currently may not earn work credits. Although these parole violators are housed in state prison and treated like other inmates in other respects, they technically are in prison under the authority of the Board of Prison Terms (BPT). Board policy does not allow these individuals to earn work credits.

Although the BPT could change its policy administratively to allow technical parole violators to earn work credits, it has not done so. Accordingly, we recommend enactment of legislation providing that parole violators may earn work credits to reduce their parole revocation sentences in the same way as inmates earn work credits to reduce their sentences under the existing work/training incentive program. We further recommend a General Fund reduction of \$88.9 million to reflect the major savings that will result from the enactment of the proposed legislation.

Because of the established legislative policy regarding the inmate work program and the potential for major General Fund savings in the budget year, we recommend that the legislative changes be adopted either in urgency legislation or in companion legislation to the Budget Bill (*Analysis*, page 815).

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## 2. Inmate and Parolee Population Growth

We withhold recommendation on that portion of the department's support budget related to increased costs for inmate and parolee population growth. The budget proposes \$115.8 million from the General Fund and \$122,000 from the Inmate Welfare Fund to provide additional staffing and operating expenses to accommodate the projected increase in the state's inmate and parole populations during 1987-88.

Our analysis indicates that there are uncertainties regarding the rate of growth in inmate and parolee populations and the department's plan to house inmates in existing facilities and new prisons scheduled for construction. In the past, population projections used to develop the budget changed significantly before the Legislature approved the Budget Bill. In addition, the budget assumes that three new prisons and five new camps will be activated in the budget year. The department's track record on new prison construction leaves this estimate open to question. An updated construction schedule will be available when the department submits its May revision.

Finally, the Department of Finance reduced the inmate population projection for the budget year by 1,000 inmates to reflect the impact of parole revocation guidelines that are being established by the BPT. Although the guidelines are likely to have an impact on the inmate population, our analysis indicates that there is no analytical basis for the 1,000 inmate reduction because the guidelines are still being developed and have not been approved by the board. Furthermore, the administration could not explain how the 1,000 inmate reduction was derived. The board advises that the guidelines will probably be available prior to the May revision (*Analysis*, page 810).

## 3. Restitution Center

We recommend deletion of \$830,000 requested from the General Fund for the establishment of a 50-bed pilot "restitution center," because the department's proposal contains too many uncertainties and is premature. Ch 1520/84 permits the department to establish restitution centers as a means by which persons sentenced to prison could maintain a job and pay their victims financial restitution.

Our analysis indicates that the costs of the proposal are very high and without a firm basis. The proposal would result in annual inmate per capita costs of more than \$29,000, or more than double the average per capita cost for minimum security inmates housed in state prison. The costs to house inmates held in a restitution center



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should be among the lowest inmate per capita costs in the department because a portion of the inmates' wages would be paid to the department to operate the center and the department would provide no education or work program at the center.

In addition, the department has not taken the necessary preliminary steps to establish the center. For example, the department has not identified a site for the center, received approval from local elected officials or budgeted funds to pay local law enforcement costs (which Chapter 1520 requires), or developed regulations, which must be approved by the Office of Administrative Law (*Analysis*, page 819). ♦

## Department of Corrections--Capital Outlay

(Item 5240-301 / page 836)

	1987-88		
	Proposed	Recommendation	Difference
Expenditures (thousands)	\$17,974	\$15,007 <sup>a</sup>	-\$2,967
<sup>a</sup> Recommendation pending on \$11,496,000			

### Highlights of Our Recommendations

#### 1. San Quentin Neumiller Hospital

In December 1986, the U.S. District Court ruled that CDC's decision in October 1986 to surrender its license of an acute care facility violated a 1983 settlement agreement in which the CDC said it would "seek ...and maintain a license as an acute care facility" for Neumiller Hospital. The federal court ruled that CDC must develop a plan by February 20, 1987 to regain licensure.

Despite the federal court's ruling *and* the Legislature's previous actions to maintain the acute care facility license of San Quentin's Neumiller Hospital, CDC is not requesting any funds in the budget bill for remodeling Neumiller Hospital. Under the circumstances, it is not clear what CDC's plans are to meet the health needs of the inmates at San Quentin. Accordingly, we recommend that prior to budget hearings, the department explain to the Legislature (1) its decision to surrender licensure of Neumiller Hospital and (2) its plans, budget and timeline for providing health care services to the inmates at San Quentin (*Analysis*, page 843).

#### 2. Chino, Vacaville and San Luis Obispo Hospitals

The CDC has submitted proposals to the Legislature since 1981 to enable the department to obtain/maintain licensure of its prison hospitals. Seeking to ensure that inmates receive adequate health care, the Legislature appropriated funds to increase hospital staffing in 1981, 1985 and 1986. In 1986, CDC made its first request for capital outlay money to eliminate physical deficiencies in the hospitals. The Legislature appropriated \$522,000 for detailed program planning, preliminary plans and working drawings--and

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specified three reports that CDC was to submit during the current year.

Despite the high priority, the Legislature has placed on the hospital licensure, when the *Analysis* was prepared, work on preliminary plans and working drawings to remodel the hospitals had not started and none of the required reports had been submitted. The CDC, however, has *increased* its cost estimate for the proposed work from \$2.8 million (1986 estimate) to \$9.7 million (current estimate). The CDC has not explained the substantial cost increase. Consequently, we have withheld recommendation on the project, pending receipt of the required reports and a detailed cost estimate of the proposed work (*Analysis*, page 843).

**3. Sewage Treatment Plant Upgrades--Deuel Vocational Institution, Tracy and California Institution for Men, Chino (-\$1,300,000)**

The budget includes funds for projects at two correctional institutions to upgrade sewage treatment plants to meet waste discharge requirements. The budget proposes \$1,729,000 for working drawings and construction to upgrade the plant at Deuel Vocational Institution, Tracy and \$800,000 to augment \$2.5 million previously appropriated for expanding and rehabilitating the sewage treatment plant at California Institution for Men, Chino. Each project was previously approved by the Legislature.

These requests are to expand the capacity of the sewage treatment plants beyond the capacity that the Legislature approved when funds were initially appropriated for these projects. The Department of Corrections has failed to provide any information to indicate the basis for increasing the capacity. Consequently, the additional funds, \$500,000 for the DVI project and \$800,000 for the Chino project are not justified and we recommend deletion (*Analysis*, pages 846 and 847).

**4. Improvements at New McCain Valley Conservation Camp Not Justified**

The budget includes \$2,651,000 for purchase of (\$1,765,000) and improvements at (\$886,000) the new 120-bed women's conservation camp at McCain Valley in San Diego County. Currently, the CDC leases this facility.

The CDC has not provided any information to substantiate the need for substantial improvements to the existing facilities on this site. Consequently, we have recommended deletion of \$886,000. In addition, we have withheld recommendation on the amount requested for acquisition pending receipt of the department's appraisal and lease-purchase agreement (*Analysis*, page 850). ♦

## Board of Corrections

(Item 5430/page 854)

	1985-86 Actual	1986-87 Estimate	1987-88		Difference
			Proposed	Recom- mendation	
Expenditures (thousands)	\$130,784	\$132,077	\$182,389	\$182,389	--
Personnel- years	25.5	35.1	37.6	37.6	--

## Highlights of Our Recommendations

### 1. Surplus Funds

The budget estimates that the Corrections Training Fund will have a balance of \$5,422,000 on June 30, 1988. The fund receives its revenue from a portion of penalty assessments levied on criminal and traffic fines. Balances in the fund are available to finance the Board of Correction's Standards and Training for Local Officers program. The board advises that the surplus funds are not needed to fund the current program and it has no plans to spend the balance. We see no reason for substantial amounts of money to remain unused in this fund when the money could be made available for the Legislature to allocate to high priority state needs. Our analysis indicates a reserve equal to about 10 percent, or \$1,284,000, of estimated revenue should be adequate to guard against any potential revenue shortfall. Accordingly, we recommend that the remaining surplus of \$4,138,000 be transferred to the General Fund (*Analysis*, page 856). ♦

## Department of the Youth Authority--Capital Outlay

(Item 5460-301 / page 889)

	1987-88		
	Proposed	Recommendation	Difference
Expenditures (thousands)	\$17,305	\$15,615 <sup>a</sup>	-\$1,690
<sup>a</sup> Recommendation pending on \$2,139,000			

### Highlights of Our Recommendations

#### 1. New 600-Bed Institution (\$2 million pending)

The budget proposes \$2 million for working drawings to construct a new 600-bed youth institution at an unspecified location. The estimated cost to construct the facility is \$53 million to \$63 million. The facility will provide bed space to accommodate a portion of the department's projected population increase.

We withhold recommendation on this project pending receipt of (1) completed environmental reports, schematics, site suitability reports, and architectural programming for three sites, (2) an indication by the department which of the three sites is the department's preferred site, and (3) the department's evaluation of alternatives to construction of this new institution (*Analysis*, page 894). ♦

# K - 1 2 E D U C A T I O N

## Department of Education (Item 6100/page 898)

	1985-86 Actual	1986-87 Estimate	1987-88		
			Proposed	Recom- mendation	Difference
Expenditures (thousands)	\$12,216,246	\$13,033,103	\$13,291,941	\$13,229,285 <sup>a</sup>	-\$62,656
Personnel- years	2,373.1	2,602.5	2,616.5	2,617.4	0.9

<sup>a</sup> Recommendation pending on \$710,849,000

### Highlights of Our Recommendations

#### 1. Governor's Class Size Reduction Proposal Should be Rejected

The Governor proposes, over a two-year period, to eliminate approximately \$132 million in funding for four categorical education programs (Economic Impact Aid-State Compensatory Education, Miller-Unruh Reading, Native American Indian Education, and Gifted and Talented Education (GATE)), and use these funds instead to reduce class sizes in grade 1. The budget estimates that the total amount of funding is sufficient to reduce average class sizes in grade 1 from 28 pupils to 22 pupils, over this period.

Although we believe that reducing the state's class sizes may have merit, we find that:

- The Governor's proposal would leave the state's neediest students without specialized support;
- Class size reduction in grade 1 does not eliminate the need for these categorical programs; and
- The proposal fails to address immediate consequences such as (1) lower academic performance of students currently receiving support from categoricals, (2) layoffs of specialized teachers and aides, and (3) aggravation of current shortages of elementary school teachers.

Because the Governor's proposal fails to ensure that the state will continue to meet the legitimate and specialized needs of identified groups of students, we recommend that it be rejected and

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that, instead, funding be restored to the Economic Impact Aid-State Compensatory Education, Miller-Unruh Reading, Native American Indian Education, and GATE programs (*Analysis*, page 946).

## **2. Budget Fails to Recapture PERS Reduction Windfall**

In 1987-88, the Governor's Budget proposes to reduce appropriations to various state agencies to reflect an anticipated reduction in the PERS employer contribution rates, to take effect July 1, 1987. The Governor's Budget *does not* propose, however, to recapture savings in 1987-88 that will accrue to school districts as a result of the rate reduction. As a result, school districts would receive a one-time "windfall" in 1987-88 of approximately \$26.1 million.

Because the anticipated PERS rate reduction will result in real savings to school districts in 1987-88, we see no reason why the state should not adjust revenue limits and the budget-year appropriation for school apportionments to reflect school districts' reduced need for funding. Furthermore, such a reduction would be consistent with legislative policy, established last year, to adjust the appropriation for school apportionments to reflect anticipated budget-year savings that accrue to school districts as the result of PERS rate reductions.

Accordingly, we recommend that the Legislature reduce the General Fund appropriation for school apportionments by \$26.1 million, in order to reflect an anticipated reduction in PERS employer contribution rates (*Analysis*, page 921).

## **3. Language Reverting 1986 School Apportionment Funding is Problematic**

The budget proposes language that, on June 30, 1987, would revert to the General Fund any unexpended school apportionment funding for 1986-87, as approved by the Director of Finance, following a review of apportionment entitlements at the 1986-87 Second Principal Apportionment in June. This provision would allow the state to recapture a large anticipated surplus in 1986-87 school apportionment funding--approximately \$38.4 million--at the end of the current year.

We believe that the proposal to recapture surplus funds is a reasonable one. Our analysis of the language, however, indicates that it would potentially give the Director of Finance undue authority to supersede legislatively-established priorities for ensuring that specified education programs are fully funded, prior to reverting any surplus to the General Fund.

Specifically, the language would allow the Director of Finance to bypass current law that requires that the Superintendent of Public Instruction to use surplus school apportionment funding to eliminate deficiencies in certain education programs, including: (1) school district and county office revenue limits, (2) special education, (3) home-to-school transportation, and (4) special education transportation. The budget, in fact, appears to contemplate just this scenario by proposing that a \$12.9 million current-year deficiency in special education be funded in the *budget year*. (Under current law, this deficiency would be eliminated in the current year).

We recommend that the Legislature amend this reversion provision so that all remaining 1986-87 education deficits will be funded in accordance with the requirements of existing law, prior to reverting any remaining surplus to the General Fund. Consistent with this recommendation, we recommend that \$12.9 million requested in the budget for the 1986-87 special education deficiency be eliminated, because this need will automatically be addressed through the operation of current law (*Analysis*, page 1054).

#### **4. Provision of Basic Aid Hinders Equalization Efforts**

Under California's school finance system, each school district is guaranteed an amount of general purpose revenue equal to its revenue limit times its average daily attendance (ADA). This amount is financed through a combination of local property taxes and state aid. For a handful of school districts, however, the amount of local property taxes received *exceeds* the revenue limit guarantee. The state does not capture any of the excess amount, and instead adds to the excess by providing these districts with additional state "basic aid" equal to the greater of \$120 per ADA or \$2,400.

Our analysis indicates that the provision of basic aid to high-wealth school districts is not justified, for three reasons.

First, the provision of basic aid, in the manner authorized by the Legislature, is not constitutionally required. An opinion by the Legislative Counsel concludes that the requirements of the State Constitution may be met by providing at least \$120 per pupil (or \$2,400) in state aid of any type—including aid provided under categorical programs-- which flows through the State School Fund.

Second, because the school districts receiving basic aid are clearly able to raise large amounts of revenue from local sources, the provision of basic aid tends to exacerbate wealth-related disparities in educational spending per pupil--and thus is contrary to the requirements of the *Serrano* decision.



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Third, based on a review of income and expenditure data for basic aid districts, we conclude that funds provided as basic aid are not critical to the annual operations of most recipient school districts.

In order to address the inequities that are consequent to the provision of basic aid, we recommend that the Legislature adopt Budget Bill language providing that, to the extent a district's local general purpose revenues (including basic aid) per ADA would otherwise grow in excess of the statutory COLA amount provided to similar districts, the district's basic aid entitlement shall be reduced. In no event, however, would a district receive less than the constitutionally-required amount of \$120 per ADA (or \$2,400) in aid from the State School Fund. Adoption of this recommendation would reduce the General Fund cost of basic aid by at least \$1.8 million (*Analysis*, page 923).

#### **5. Reduced Funding for Handicapped Infant Aides Warranted**

The Governor's Budget proposes \$17 million for special education programs serving handicapped infants, of which \$3.4 million would be allocated for instructional aides.

Under current law, "center-based" infant programs are provided funding for two instructional aides per teacher. According to the Department of Education, funding for two aides is needed in order to provide an adult-to-child ratio in these programs of one to four, as required by existing health and safety regulations. (Each teacher generally serves a total of about 12 infants.)

Our review indicates that this statutory ratio could be met if funding were provided for one--rather than two--aide positions, for the following three reasons.

First, infants tend to be served at any given time in groups of about eight. Consequently, only *two* staff members (one teacher and one aide) need to be present at any given time in order to provide the necessary adult-to-child ratio.

Second, infants, unlike older children, only receive services for several hours per week. For this reason, it is unnecessary to hire two full-time equivalent aides. We estimate that most programs provide group services to infants only about 40 percent of the time, and thus could easily maintain the necessary adult-to-child ratio if funded for only *one* full-time equivalent aide.

Finally, the utilization of certificated support staff and parent volunteers further increases the adult-to-child ratio in these programs, thus diminishing the need to hire two full-time aides.

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Given these various considerations, we believe that infant programs would suffer no adverse consequences if they were funded for one full-time equivalent aide position, rather than two. In fact, during the 1985-86 fiscal year, the department funded 60 percent of all center-based infant programs with only one aide, thus further suggesting that these programs could operate adequately if funded for only one position.

Accordingly, we recommend that the amount proposed for instructional aides in handicapped infant programs be reduced by \$1.6 million (*Analysis*, page 968).

#### **6. Equipment Funds for Handicapped Students Should Be Reduced**

The Governor's Budget proposes a \$7 million General Fund appropriation to purchase equipment for pupils with "low-incidence" disabilities such as blindness, deafness, or orthopedic handicaps). Examples of equipment which may be purchased with these funds include such devices as speech synthesizers or mobility aides. The Governor proposed, and the Legislature appropriated, a total of \$12 million for this purpose during the prior and current fiscal years.

Our analysis indicates that, as programs acquire the equipment which they need, the total amount of state funds required for this purpose should decrease to the level necessary only to fund the ongoing costs of equipment maintenance and replacement. On this basis, we believe that the amount proposed for equipment could be reduced, for two reasons.

First, data submitted by the Department of Education indicate that the need to increase the statewide supply of specialized equipment will have been met by the end of the current fiscal year. Thus, only funds to maintain the existing supply of the equipment are now needed.

Second, data supplied by the Department of Education indicate that an annual funding level of only \$1.8 million is required to maintain the existing supply.

Accordingly, we recommend that the amount of equipment funding proposed in the budget be reduced by \$5.2 million, to more accurately reflect this level of need (*Analysis*, page 971).

#### **7. Year-Round School Incentive Payments Exceed "Savings" to State Taxpayers**

In 1987-88, school districts that accommodate overcrowding through the use of year-round schools may be entitled to receive

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incentive funds through the "SB 327" program. The SB 327 program, based on a complicated formula, provides for a payment of up to \$125 (adjusted annually for inflation) per pupil, for every pupil in a school which is operated on a year-round basis because of overcrowding. This payment is added to a flat \$25 per pupil payment provided by another program ("SB 813").

The additional incentive payments available under the SB 327 program are intended to be provided at a level such that both the state and the affected school districts share in the "savings" resulting from avoiding the costs of constructing a new school.

The Governor's Budget proposes the adoption of Budget Bill language specifying the formula by which the amount of the incentive payments under the SB 327 program would be calculated.

Our review of the Governor's proposed formula indicates that, although it would reduce the amount of incentive payments for the SB 327 program from the level provided under current law, the formula would still provide excessively high payments that could, in many cases, exceed the costs of acquiring a new facility. In addition, the language would allow the 1987-88 appropriations to be used for the payment of incentives earned based on the operation of year-round schools during 1986-87, leaving no funds available for budget-year claims.

In order to provide a reasonable payment that more evenly shares "savings" between the state and eligible districts operating year-round schools, and to ensure that the budget year funding is available only for entitlements earned during 1987-88, we make the following recommendations:

- We recommend that the Legislature amend proposed Budget Bill language relative to the SB 327 year-round school program to (1) reduce the amount of incentive payment provided to school districts, because the payment level specified would exceed the costs avoided by the state and (2) clarify that funds are only for the payment of incentive earned based on eligibility during 1987-88.
- Consistent with this recommendation, we further recommend that the \$15 million proposed for year-round school incentive payments from the State School Building Lease-Purchase Fund be reduced by \$8 million (*Analysis*, page 1009).

#### **8. Golden State Examination Program Fails Cost-Benefit Test**

The Golden State Examination program was authorized by Senate Bill 813 (Ch 498/83) to recognize the achievement of high

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school students in specified academic areas, presumably to encourage students to take higher-level academic courses. The Department of Education has completed the development of two of 18 planned examinations. The Governor's Budget proposes \$392,000 from the General Fund in the budget year for more development and/or implementation of tests.

Our review indicates that the program has become much larger and more expensive than the Legislature originally envisioned. According to the Department of Education's current estimates, the total cost for the 18 exams currently planned would be \$12.8 million for development and pilot testing (one-time cost) and \$12.4 million for maintenance (annual cost). Our review indicates that there are far less costly programs--some currently in place--for achieving the program's objectives.

Accordingly, we recommend that all funding for the Golden State Examination program (\$392,000 in 1987-88) be eliminated. By eliminating funding at this time, we estimate a future cost avoidance of \$11.7 million (one-time) for further development and implementation costs and \$12.4 million in annual savings for maintenance costs (*Analysis*, page 1048). ♦

## School Facilities Asbestos Abatement

(Item 6350/page 1059)

	1985-86 Actual	1986-87 Estimate	1987-88		
			Proposed	Recom- mendation	Difference
Expenditures (thousands)	\$10,000	\$4,950	\$5,000	\$100	-\$4,900

### Highlights of Our Recommendations

#### 1. Additional Asbestos Abatement Funds Not Justified

The Governor's Budget proposes to appropriate \$5 million from the General Fund to the Asbestos Abatement Fund in 1987-88. Of this amount, \$4.9 million is to be allocated by the State Allocation Board (SAB) to local school districts for asbestos abatement projects, and would be in addition to \$24.8 million that has been made available to date for such projects. Our review indicates that additional funding support for asbestos abatement is not warranted at this time, for three reasons.

First, the total amount of funding currently available greatly exceeds current requests for these funds. As of December 1, 1986, the SAB had received only \$16 million in *requests* for state funding assistance. Even if all these requests were approved *in full*, \$8.8 million would still be available to fund new requests.

Second, the \$8.8 million available for new project requests could fund about two-thirds more requests than we estimate the SAB is likely to receive through the end of 1987-88.

Finally, if new funding requests received in 1987-88 were to exceed \$8.8 million, it is unlikely that these funds would be needed before the summer of 1988. Consequently, if any additional funding support were needed, it could be provided as part of the 1988-89 Budget Bill.

For these reasons, our analysis indicates that the current fund balance available in the Asbestos Abatement Fund is sufficient to finance current and projected new applications, and that additional funding support is not needed for 1987-88. Accordingly, we recommend that the Legislature delete the \$4.9 million requested from the General Fund for this purpose (*Analysis*, page 1061). ♦

# POSTSECONDARY EDUCATION

## The University of California

(Item 6440/page 1070)

	1985-86 Actual	1986-87 Estimate	1987-88		
			Proposed	Recom- mendation	Difference
Expenditures (thousands)	\$1,672,708	\$1,801,481	\$1,875,424	\$1,860,046 <sup>a</sup>	-\$15,378
Personnel- years	57,645	57,920	58,371	58,357	-14

<sup>a</sup> Recommendation pending on \$20.5 million

### Highlights of Our Recommendations

#### 1. Budget-Year Subsidy for Teaching Hospitals is Premature

We recommend (1) deletion of \$7.4 million requested from the General Fund for an operating subsidy in 1987-88 because of the uncertainty of projections of net gains and losses, and (2) adoption of Budget Bill language expressing intent to appropriate up to \$12.4 million in the 1987-88 deficiency bill to offset losses at the Davis, Irvine and San Diego teaching hospitals.

Our analysis indicates that given the uncertainty of projecting hospital net gains (losses), a General Fund appropriation of \$7.4 million in the 1987 Budget Act may set aside too much to offset actual losses. Accordingly, we believe it would be more appropriate to defer the subsidy issue until action is taken on the 1987-88 deficiency bill, at which time more reliable information will be available (*Analysis*, page 1094).

#### 2. Teaching Hospitals--Prior-Year Subsidy was Overallocated

We recommend deletion of \$700,000 to adjust the 1985-86 hospital operating subsidy to the legislatively approved amount of \$9.6 million. The Director of Finance incorrectly advanced the university \$10.3 million for the 1985-86 subsidy--an overpayment of \$700,000 (*Analysis*, page 1094).

#### 3. Transfer of Instructional Equipment Funding from UC to CSU is Warranted

We recommend that General Fund support for instructional equipment replacement (IER) at UC be reduced by \$4 million, in con-

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junction with a corresponding increase for the California State University (CSU), in order to achieve greater consistency in funding the two system's annual IER need. The Governor's Budget proposal would overfund UC and underfund CSU, according to a common methodology adopted by both systems to estimate the annual IER funding requirement (*Analysis*, page 1086).

#### **4. Graduate Enrollments Workload Formula Needs Examination**

We recommend deletion of \$1,153,000 requested from the General Fund for new faculty to support an additional 250 graduate students, pending reexamination of the student/faculty workload formula.

We recommend that the Legislature postpone this increase for one year because our analysis indicates that the student/faculty workload formula which is used to adjust the university's budget may provide an excess in instructional resources which, in turn, allows academic departments to overenroll graduate students. If the campuses have excess instructional resources, some growth in graduate student enrollment could be absorbed within current levels of budgeted resources (*Analysis*, page 1082).

#### **5. Keck Observatory (Hawaii) Should be Financed by the Regents Not the State**

We recommend deletion of a \$1 million General Fund augmentation requested for operation and instrumentation of the Keck Observatory because this activity primarily supports the externally funded research program, and consequently should be funded from the Regents' Opportunity Fund.

When the Regents made the unilateral commitment to Caltech to finance the operating and instrumentation costs of the Keck Observatory, they had no basis to assume that the state would pick up these costs. Based on the information provided by the university, it appears that the primary benefits from the Keck Observatory would accrue to scientific researchers working on individual research projects funded from extramural sources. Consequently, we believe that the Regents' Opportunity Fund, which derives its revenues from overhead charges against contracts and grants, would be a more appropriate funding source for support of all of the operating and instrumentation costs (*Analysis*, page 1089).

#### **6. Pacific Rim and Toxics Research Augmentations Are Not Needed**

We recommend deletion of a (1) \$500,000 General Fund augmentation requested for additional toxics research, and a (2) \$250,000 General Fund augmentation requested for additional Pacific Rim

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research because UC has the ability to realign its research priorities within the base budget for its existing research program.

In general, the state provides UC with a lump sum amount of money for research, and permits the university to allocate the funds as it sees fit. The budget request to augment funding for these two programs implies that each and every dollar in the \$164 million Research Program base budget will be used for research having a higher priority than the research to be undertaken in the Toxics and Pacific Rim Research Programs. Were this not the case, the university could fund the augmentation for these programs through internal reallocations. Whether all of the other research activity within the current-year research budget does, indeed, have a higher priority to the Legislature (or even to the university) than the work to be accomplished with the \$750,000, we are unable to say.

In sum, we have no basis for concluding that the \$750,000 augmentation is needed to expand the Toxics and Pacific Rim Research Programs. For this reason, and in view of the fact that support for the Research Program has increased at a faster pace than General Fund support per student for other UC programs during the past five years, we recommend that the augmentation request for these programs be rejected (*Analysis*, page 1091).

#### **7. Withhold Recommendation on Superconducting Super Collider Pending Decision to Build**

We withhold recommendation on the \$1 million General Fund amount requested for further siting studies for a superconducting super collider because no decision has been made by the Congress to build the facility.

Because of the uncertainty surrounding the construction of the SSC, we withhold a recommendation on both the current and budget year amounts for this project. The university should submit the following information to the Legislature prior to budget hearings:

- the latest status on a federal decision to build the SSC.
- an estimate of the cost of acquisition of the land necessary for the site. This land acquisition cost is a state responsibility.
- an estimate of the energy that the SSC will use and the source of that energy.
- estimates of any other costs to the state related to locating the SSC in California (*Analysis*, page 1090).



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## **8. Faculty Salaries and Benefits--Withhold Pending Additional Data**

We withhold recommendation on the proposed salary increase for UC faculty until the May revision of the budget, in order to evaluate whether it is feasible to augment the budget by \$4.9 million to provide salaries which are at parity with UC's comparison universities. The budget proposes \$12.3 million which is only sufficient enough for a 1.5 percent increase on an annualized basis. The comparison institution methodology--as reported pursuant to SCR 51/65--indicates that a 2.1 percent increase for UC faculty would be needed in 1987-88 for them to achieve parity.

We are also withholding recommendation on the requested \$6.8 million for faculty and staff benefit increases, pending additional information from UC. Since 1983-84 UC's maximum monthly health insurance benefit per employee has been higher than the amount for state civil service and California State University employees. We have asked the university for information related to how it has been able to provide this benefit differential (*Analysis*, page 1103). ♦

## University of California--Capital Outlay

(Item 6440-301 / page 1106)

	1987-88		
	Proposed	Recommendation	Difference
Expenditures (thousands)	\$139,542	\$136,072 <sup>a</sup>	-\$3,470
<sup>a</sup> Recommendation pending on \$128,442,000			

### Highlights of Our Recommendations

#### 1. Recommend Elimination of Revenue Bond Financing

The Budget Bill includes \$88.5 million for capital outlay for the University of California to be financed from various "revenue" bond programs. In addition, the budget includes "revenue" bond funded projects for the California State University and Community College bringing the total to \$142.4 million. Under this financing plan, the State Public Works Board is authorized to issue certificates, revenue bonds, negotiable notes and negotiable bond anticipation notes for construction of the various facilities. The board then lease purchases (or in the case of segments of higher education other than the university, lease or lease purchases) the facilities to the system. Lease payments from the operating/support budget are pledged towards payment of principal and interest on the debt instruments issued by the board.

If the Legislature continues its current policy of debt financing through these "revenue" bonds, we estimate the General Fund payment will reach \$140 million per year. This includes payments for higher education (\$52.3 million) and for the Department of Corrections for new prison construction (\$87.8 million). Unlike general obligation bonds, debt service on these "revenue" bonds would have to be counted towards the limit because the bonds are not voter approved.

Given the significant annual debt service requirement and the present spending limit, the Legislature should eliminate funding for projects from these "revenue" bonds. As an alternative, the

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Legislature should consider continuation of the general obligation bond financing for higher education facilities. General obligation bond financing would have two advantages: First, the debt service requirements for general obligation bonds do not count towards the constitutional appropriation limit. Second, the effective interest rate would be lower on general obligation bonds than these "revenue" bonds (*Analysis*, page 1109).

## **2. Physical Sciences Building--Santa Barbara (\$800,000)**

The budget includes \$800,000 for preliminary planning for a new Physical Sciences Building on the Santa Barbara campus. Our analysis indicates that while additional instructional laboratory space is justified, the total amount of space currently devoted for research and instruction in Physical Sciences is adequate based on state space guidelines. Accordingly, the campus needs to evaluate reallocation of existing space to better meet the identified instructional space. We therefore recommend deletion of the preliminary plan funds for the requested new building in Item 6440-301-782(21). The future savings associated with this recommendation is \$25.7 million (*Analysis*, page 1115).

## **3. Science Library--Santa Cruz (-\$642,000)**

The budget includes \$642,000 for preliminary plans and working drawings for a new science library on the Santa Cruz campus. Our analysis indicates that while additional library space is justified, the proposed project is not cost-efficient. We have recommended that the project be revised to provide an *addition* to the existing *central* library rather than construction of a separate science library. Second, the amount of funds proposed for construction is excessive in comparison to the costs that the Legislature has approved for similar facilities on campuses of the California State University. Accordingly, we have also recommended that the cost of proposed project be revised to be consistent with CSU library facilities (*Analysis*, page 1120). ♦

## California State University (Item 6610/page 1135)

	1985-86 Actual	1986-87 Estimate	1987-88		
			Proposed	Recom- mendation	Difference
Expenditures (thousands)	\$1,528,937	\$1,625,904	\$1,689,806	\$1,690,161 <sup>a</sup>	\$355
Personnel- years	33,733.1	32,525.1	33,276.0	33,272.6	-3.4

<sup>a</sup> Recommendation pending on \$11.7 million

### Highlights of Our Recommendations

#### 1. Transfer of Instructional Equipment Replacement Funding from UC to CSU is Warranted

We recommend that General Fund support for instructional equipment replacement at CSU be augmented by \$4 million, in conjunction with a corresponding reduction for the University of California (UC), in order to achieve greater consistency in funding the two systems for this purpose. According to a common methodology adopted by both systems to estimate the annual funding requirements for instructional equipment replacement, the Governor's Budget proposal would underfund CSU and overfund UC (*Analysis*, page 1146).

#### 2. Miscellaneous Reimbursements Are Underbudgeted

We recommend increasing CSU's budgeted level of miscellaneous reimbursements by \$1.6 million--thereby permitting an offsetting General Fund savings of the same amount--in order to bring the budget projections into line with actual receipts in recent years (*Analysis*, page 1154).

#### 3. Contingency for Employee Benefits Not Justified

We recommend deleting \$1 million budgeted from the General Fund as a "contingency" for staff benefits. We find no precedent for allocating funds for contingencies in CSU's budget, nor is it the Legislature's policy to provide for contingencies in individual agency budgets. The proposed contingency provision is essentially an

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unallocated expenditure, potentially resulting in executive, rather than legislative, discretion over the manner in which the funds will be expended (*Analysis*, page 1159).

#### **4. Faculty Salaries--Withhold Pending Additional Data**

We withhold recommendation on the proposed salary increase for CSU faculty until the May revision of the budget, in order to evaluate whether it is feasible to augment the budget by \$42.2 million to provide salaries which are at parity with CSU's comparison institutions. The budget proposes a 3 percent increase, effective January 1, 1988 (1.5 percent annualized). The comparison institution methodology--as reported annually pursuant to SCR 51 of 1965--indicates that a 6.9 percent increase would be needed in 1987-88 to achieve parity with CSU's list of comparison colleges and universities (*Analysis*, page 1162). ♦

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## California State University--Capital Outlay (Item 6610-301/page)

	1987-88		
	Proposed	Recommendation	Difference
Expenditures (thousands)	\$108,793	\$100,245 <sup>a</sup>	-\$8,548
<sup>a</sup> Recommendation pending on \$89,125,000			

### Highlights of Our Recommendations

#### 1. Chemistry/Geology Building Renovation and Additions; Chilled Water System Expansion--San Diego (-\$671,000)

The budget includes \$671,000 for preliminary plans and working drawings for a \$10 million project that would (1) alter the Chemistry/Geology Building (2) provide an addition to the building and (3) expand the chilled water distribution system on the San Diego campus. Our review of the request reveals that the Chemistry/Geology Building needs to be repaired, but the repairs should be financed from the CSU support/operations budget in 1987-88 and future fiscal years. Moreover, the proposed addition for self-instruction computer laboratories, classroom and support space is not justified based on state space guidelines. Finally, expansion of the chilled water distribution system is not needed because the system has sufficient capacity for existing and approved buildings (*Analysis*, page 1180).

#### 2. Classroom/Student Services/Faculty Office Building--San Bernardino (-\$696,000)

The budget includes \$861,000 for preliminary plans and working drawings for a new classroom/faculty office/student service building on the San Bernardino campus. The estimated future cost for construction to this facility is \$10.2 million. Our analysis indicates that the proposed project should be revised to delete space that is not justified. Specifically, we recommend deletion of 11,305 assignable square feet (asf) for self-instruction computer laboratories

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because the CSU needs to develop a systemwide plan for accommodating the computers to be acquired under CSU's Campus Information Resource Plan (CIRP). In addition, the 31,820 asf proposed for administrative space needs to be reevaluated.

Our analysis indicates that approval of \$165,000 will be sufficient to finance preparation of preliminary plans for a 39,700 asf project to provide additional space for faculty offices, laboratories and classrooms. Accordingly, we recommend that Item 6610-301-782(29) be reduced by \$696,000 (*Analysis*, page 1189).

### **3. Remodel and Addition to Business Administration and Education Building--San Luis Obispo (-\$772,000)**

The budget includes \$772,000 for preliminary plans and working drawings for remodeling and construction of an addition to the Business Administration and Education Building on the San Luis Obispo campus. The estimated future cost for this project is \$13.9 million. We have recommended deletion of the requested funds because:

- Additional laboratory space proposed in the new building addition is not justified based on state space guidelines.
- Additional space for computer workstations should not be approved because CSU needs to develop a statewide facilities plan for instructional computer workstations.
- The CSU has not provided any information to describe the structural, health or safety code problems in the existing building that would warrant major rehabilitation costing \$4.2 million.

On this basis, we recommend deletion of the requested funds in Item 6610-301-782(45) (*Analysis*, page 1192).

### **4. Off-Campus Centers--North San Diego, Ventura and Contra Costa Counties**

We have withheld recommendation on \$19,691,000 proposed for land acquisition and development of permanent off-campus centers in North San Diego County, Ventura and Contra Costa Counties.

In the case of the San Diego proposal, the projected enrollment to be accommodated at the permanent center is unclear at this time. The CSU initially requested acquisition and planning funds based on providing facilities with a capacity to accommodate over 4,000 FTE. A recent review of the CSU request by the California Postsecondary Education Commission (CPEC) recommends development for no

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more than 1,600 FTE. Moreover, it is unclear why CSU needs to acquire 450 to 500 acres to accommodate a center.

Funds are also proposed for acquisition of 240 acres for a permanent off-campus center in Ventura. This proposal has not been reviewed by CPEC. We have withheld recommendation on the requested acquisition because CPEC's review may assist the Legislature in determining (1) if enrollments justify establishment of a permanent center and (2) the appropriate amount of property needed to accommodate a permanent center.

The proposed establishment of a permanent off-campus center in Contra Costa County (on 380 acres of state-owned property that was acquired as a state college campus) has also not been reviewed by CPEC. Accordingly, we have withheld recommendation on this proposal. In addition, the Legislature may wish to consider acquisition of the existing leased facilities. This may be more cost effective for providing permanent facilities rather than spending \$15 million on developing the state-owned parcel (*Analysis*, page 1199). ♦



## California Community Colleges (Item 6870/page 1211)

	1985-86 Actual	1986-87 Estimate	1987-88		
			Proposed	Recom- mendation	Difference
Expenditures (thousands)	\$1,292,070	\$1,297,036	\$1,280,334	\$1,277,297	-\$3,037
Personnel- years	142.3	151.0	167.9	163.2	-4.7

### Highlights of Our Recommendations

#### 1. Current-Year Equalization Reversion

We recommend that the Legislature delete proposed Budget Bill language which would revert \$8.9 million provided in the 1986 Budget Act for equalization funding. We further recommend that the Legislature adopt corresponding Budget Bill language which would authorize the Chancellor of the California Community Colleges to allocate current-year equalization funds.

The budget proposes to revert to the General Fund on July 1, 1987, \$8.9 million appropriated in the 1986 Budget Act for community college equalization--supplemental funding to reduce per-ADA (Average Daily Attendance) revenue disparities among the districts.

The 1986 Budget Act requires that, in lieu of the statutory provisions governing the allocation of equalization funds, the Chancellor develop an allocation plan and secure the approval of the plan by the Director of Finance. In a letter dated October 29, 1986 to the Director, the Chancellor outlined his plan for allocating equalization funds to the community colleges districts. The Director, however, did not approve the Chancellor's plan.

The Director has not indicated that the plan is inadequate, rather he has cited a general weakness in state General Fund revenues as his reason for not approving the plan.

We believe that the proposed Budget Bill language reverting the \$8.9 million in equalization funds should be deleted for three reasons:

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(1) The Legislature has recognized the need to reduce revenue disparities among the community college districts and has empowered the Chancellor to devise a plan to correct the weakness of the statutory equalization formulas. The Chancellor has developed a plan in accordance with this legislative directive.

(2) The Director of Finance has not identified any weaknesses in the Chancellor's allocation plan, and the 1986 Budget Act already contains the amount needed to make payments for equalization.

(3) The reversion of equalization funds in the current year may adversely affect the operations of community college districts scheduled to receive these funds.

In order to provide for the allocation of current-year equalization funding, we recommend that the proposed Budget Bill language be deleted and that alternate language be adopted authorizing the Chancellor to allocate these funds (*Analysis*, page 1221).

## **2. Public Employees' Retirement System Adjustment**

We recommend that the Legislature reduce the General Fund appropriation for community college apportionments by \$2.7 million to reflect an anticipated reduction in PERS employer contribution rates.

The Governor's Budget proposes to reduce appropriations to various state agencies in 1987-88 to reflect an anticipated reduction in the PERS employer contribution rates, to take effect July 1, 1987. The budget, however, *does not* propose to recapture savings in 1987-88 that will accrue to community college districts as a result of this rate reduction. Left unchanged, the budget would provide community college districts a one-time "windfall" of approximately \$2.7 million in 1987-88 (*Analysis*, page 1222). ♦

## California Community Colleges--Capital Outlay

(6870-301/page 1237)

	1987-88		
	Proposed	Recommendation	Difference
Expenditures (thousands)	\$49,637	\$31,542 <sup>a</sup>	-\$18,095
<sup>a</sup> Recommendation pending on \$8,124,000			

### Highlights of Our Recommendations

#### 1. Redwoods CCD--Vocational Building (-\$657,000)

The budget includes \$657,000 for working drawings, construction and equipment for a new 4,440 assignable square foot (asf) building to house vocational arts at the Mendocino Coast Education Center. The district indicates that this building will enable them to hold photography, art, graphics and ceramics classes at the center, rather than in leased facilities.

Our analysis indicates that it would be less expensive for the district to continue to lease, rather than build new space. Accordingly, we recommend deletion for a savings of \$657,000 (*Analysis*, page 1246).

#### 2. San Diego CCD--Instructional Center(-\$3,250,000)

The budget proposes \$3,250,000 for working drawings and construction of a 16,826 asf building for business, management, computer science and general purpose classrooms. Construction of the building will enable the district to remove several "temporary" facilities from the campus.

Our review of the district's proposal indicates that the project is premature. According to state space guidelines, the district has sufficient facilities at its three colleges and 11 centers to accommodate current and projected space needs. Moreover, in comparison with the temporary facilities on many other community colleges campuses, these temporary buildings are sturdy and are in remarkably good condition. Consequently we recommend deletion of this request for a savings of \$3,250,000 (*Analysis*, page 1248).

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**3. Palomar CCD--Remodel Seven Buildings for Space Utilization (-\$572,000)**

The Palomar CCD requests \$572,000 to remodel seven buildings on the Palomar campus to increase the buildings' usability or safety. This work includes minor alterations to enlarge rooms, add offices, replace a dance floor and install fume hoods. This work also includes repairs such as replacing lighting and seats.

Our review of the district's request indicates that the proposed alterations are insufficiently justified and the proposed repairs are inappropriately budgeted. Accordingly, we recommend deletion of the \$572,000 (*Analysis*, page 1250).

**4. Peralta CCD--Conversion of Existing Space (-\$1,259,000)**

The district proposes a major remodeling of several buildings at Merritt College. The district has been unable to substantiate the estimated cost and indicates that a portion of the proposal may have to be deleted. Moreover, the proposed remodeling is unnecessarily complicated and costly. Consequently, we recommend deletion for a savings of \$1,259,000 (*Analysis*, page 1250).

**5. Kern CCD--Science Lab Reconstruction (-\$728,000)**

The budget includes \$728,000 for working drawings and construction for a major renovation of science laboratories. The proposed project is excessive and includes many items that should be part of the district maintenance program. Consequently, we recommend deletion of \$728,000 (*Analysis*, page 1252).

**6. West Hills CCD--Library Addition (-\$606,000)**

The district proposes to add 4,819 square feet of library space by expanding the existing library. While the district has an 11,682 asf shortage of library space, the district has a 35,580 asf surplus of lecture space (368 percent of state space guidelines). The district has not explained why existing facilities cannot be remodeled, at lower cost, to meet the district's library needs. Accordingly, we recommend deletion for a savings of \$606,000 (*Analysis*, page 1252).

**7. Los Angeles CCD--Los Angeles Music Building (-\$840,000)**

The budget provides \$840,000 to install a chiller and additional chilled water coils to the air handling system of the Los Angeles Music Building. The need for this project has not been substantiated. The proposed chiller was originally part of the building's design, but was deleted by the district, on a priority basis because of

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the high cost. Accordingly, we recommend that the requested \$840,000 for this project be deleted (*Analysis*, page 1256).

**8. Rancho Santiago CCD--Site Acquisition (-\$3,184,000)**

The budget proposes \$3,184,000 for the Rancho Santiago CCD to purchase 22 acres on the east boundary of the existing 30 acre campus. The district contends that the purchase is necessary because, (1) a new instructional building will be needed in a few years to accommodate expected student enrollment growth and (2) the district's master plan shows the future building located on a parcel which the district does not own.

Our review of the district proposal indicates that the need to place the new building on the proposed parcel, rather than on district-owned land, has not been substantiated. The existing 30-acre Rancho Santiago campus is largely undeveloped. We see no reason a building could not be constructed on the existing campus land. Furthermore, we believe that the district should reconsider its master plan because it does not appear to develop land efficiently and the adjacent parcels are very expensive. Accordingly, we recommend deletion of the \$3,184,000 for the land acquisition (*Analysis*, page 1257).

**9. Yuba CCD--Creation of a Permanent Woodland Education Center (-\$2,121,000)**

The Yuba CCD requests funds to construct a *new* center in Woodland on district-owned land. Specifically, the budget proposes a total of \$2,121,000 for working drawings and construction of on-site and off-site development and working drawings for an instructional/administration building. The future cost of these projects is \$3,278,000.

Our review of the district's proposal indicates that the need for the construction of a permanent center in Woodland has not been established. There is sufficient classroom and laboratory space in the Yuba and nearby Los Rios Community College Districts to accommodate *all* the Woodland students without any new construction. Accordingly, we recommend deletion of \$2,121,000 to create the new campus center (*Analysis*, page 1258). ♦

# GENERAL GOVERNMENT

## Administration and Payment of Tort Liability Claims

(Item 8190/page 1289)

	1985-86 Actual	1986-87 Estimate	1987-88		
			Proposed	Recom- mendation	Difference
Expenditures (thousands)	\$3,410	\$12,677	\$891	\$891	—

### Highlights of Our Recommendations

#### 1. Flood Litigation

The heavy rains and subsequent flooding of substantial portions of Northern California during February 1986 resulted in the filing of a significant number of damage claims against the state. According to the Board of Control, it received over 1,800 flood-related claims on behalf of nearly 4,400 claimants requesting approximately \$3.1 billion in damages. Based upon its policy of denying claims involving complex questions of law or fact, the board denied nearly all of these claims. Subsequently, a significant number of legal actions have been filed in Superior Court against the state.

The Governor's Budget proposes no additional attorney staff or legal support to address this litigation. Instead, the budget proposes to augment the Board of Control's budget by \$300,000 to provide for "contractual services to review and appraise" flood claims. Our review of this request indicates it is inappropriate because the board has already denied these claims and no further flood-related claims are expected (*Analysis*, page 1357).

While the outcome in any of these flood-related actions is uncertain, the sheer number and magnitude of the claims suggests that the state should pursue an active and comprehensive defense. Therefore, we recommend that during budget hearings the Department of Finance report on its assessment of the General Fund threat posed by pending flood litigation, and what steps it is taking to ensure that the risk of significant adverse judgments resulting from this litigation is minimized (*Analysis*, page 1291). ♦

## Department of Industrial Relations

(Item 8350/page 1306)

	1985-86 Actual	1986-87 Estimate	1987-88		
			Proposed	Recom- mendation	Difference
Expenditures (thousands)	\$127,885	\$131,287	\$107,688	\$107,688 <sup>a</sup>	--
Personnel- years	2,169	2,216	1,854	1,854 <sup>a</sup>	--

<sup>a</sup> Recommendation pending on \$22.1 million and 377 personnel-years

### Highlights of Our Recommendations

#### 1. Transfer of the Cal-OSHA Program

The budget proposes to transfer responsibility for inspecting *privately* owned and operated businesses to the federal government. Currently, the state inspects both private and public sector workplaces under the state's occupational safety and health program (Cal-OSHA). We withhold recommendation on this proposal because: (1) there is not now enough information available to know what level of resources the federal government would commit to a California program, and (2) a decision on the proposed transfer involves basic policy judgments (such as the appropriate level of state control) which only the Legislature can make (*Analysis*, page 1317).

#### 2. Revamped Occupational Safety and Health Program

The budget proposes 377 positions and \$22.1 million for the department to administer its remaining occupational safety and health functions (such as the public sector program, consultation services and specialized inspections). The level of resources proposed was basically the "residual" left after positions were eliminated for the Cal-OSHA transfer. The department did not independently assess the needs of the new program by building its budget from the "ground up." Consequently, many aspects of the proposed new program need clarification. In order to address these concerns, we recommend that the department provide to the Legislature by April 1, 1987 a "zero-based" budget for the new program (*Analysis*, page 1317). ♦

## Department of Food and Agriculture

(Item 8570/page 1336)

	1985-86 Actual	1986-87 Estimate	1987-88		
			Proposed	Recommendation	Difference
Expenditures (thousands)	\$85,629	\$96,136	\$96,716	\$96,416	-\$300
Personnel- years	2,110.5	2,162.5	2,045.8	2,045.8	--

### Highlights of Our Recommendations

#### 1. Veterinary Laboratory Fees Should Be Increased

We recommend a General Fund reduction of \$1,227,000 and an equivalent increase in fee reimbursements because the users of the veterinary laboratories should pay at least 25 percent of the ongoing costs of the laboratories. Chapter 1536, Statutes of 1982, authorized a new central laboratory at the University of California at Davis (UCD) and directed the department to contract with the university to take over full operation of the existing statewide laboratory system upon completion of the new central laboratory. The new \$10.7 million central laboratory at UCD is essentially complete and UCD will assume full operation of the veterinary laboratory system in July 1987.

Chapter 1536 also required the university and the department to "establish a schedule of fees to help defray the costs of the operations of the laboratories." Fees have been raised only slightly, however. As a result, since the enactment of Chapter 1536, the portion of laboratory support provided from fees will have fallen from 8.7 percent in 1982-83 to 4.0 percent in 1987-88, while the annual operating costs of the laboratory system will have tripled. The General Fund will have paid for essentially all of the increase.

The department estimates that the livestock and poultry industries receive about 25 percent of the benefits from many services of the veterinary laboratories. Based on that estimate, which we believe is conservative, laboratory users should pay at least 25 percent of the



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total ongoing costs of the veterinary laboratory system. The 1987-88 budget requests \$6,321,000 for these ongoing costs. In order to provide a 25 percent share of these costs, fee reimbursements should total \$1,580,000 in 1987-88, or \$1,227,000 more than the amount budgeted. Accordingly, we recommend increasing fees by a sufficient amount to generate \$1,219,000 more revenue and decreasing General Fund support by an equivalent amount (*Analysis*, page 1342).

## **2. Forgiveness of Fair Loans**

We recommend transferring \$1,730,000 from the Fair and Exposition Fund to the General Fund in order to repay the full amount of the loans to local fairs that the budget proposes to forgive. The Director of Finance made 14 loans totaling \$9,322,000 to local fairs for capital improvements and deferred maintenance projects during the period of 1974 through 1980. Loan repayments are deposited in the General Fund. Currently, a total of \$6,730,000, or 72 percent of the amount loaned, remains unpaid. The budget proposes to forgive this unpaid balance in exchange for a transfer of only \$5 million from the Satellite Wagering Account to the General Fund. We see no reason to forgive the entire loan balance when the General Fund still would be more than \$1.7 million short, and the shortfall can be made up from the Fair and Exposition Fund, which has approximately \$16.2 million available for allocation to local fairs. Accordingly, we recommend an additional transfer of \$1.7 million from the Fair and Exposition Fund to the General Fund (*Analysis*, page 1344).

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# M I S C E L L A N E O U S

## Augmentation for Employee Compensation: Civil Service, Exempt and Statutory Employees

(Item 9800/page 1412)

Expenditures (thousands)	1985-86 Actual	1986-87 Estimate	1987-88		
			Proposed	Recom- mendation	Difference
	—	—	\$109,476	(pending)	(pending)

### Highlights of Our Recommendations

#### 1. 1987-88 Employee Compensation Increases

The budget proposes \$109,476,000 (\$61,371,000 General Fund) for compensation increases for state employees. This amount would provide \$84,177,000 for a "general compensation increase" of up to 3 percent for state employees, beginning January 1, 1988. In addition, the \$109 million includes funding for projected premium rate increases in order to maintain existing health and dental benefits (\$18,865,000 for state employees and \$6,734,000 for retired annuitants). This is the sixth year that state employee compensation increases will be subject to collective bargaining. Negotiated changes in employee compensation and other terms and conditions of employment will be submitted to the Legislature for approval in the form of memoranda of understanding (MOUs). We withhold recommendation on employee compensation increases, pending submission to the Legislature of MOUs and compensation proposals for nonrepresented state employees (*Analysis*, page 1413). ♦