

SUMMARY OF RECOMMENDED
LEGISLATIVE CHANGES CONTAINED IN THE
ANALYSIS OF THE 1986-87 BUDGET BILL

FEBRUARY 1986

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INTRODUCTION

This report summarizes the recommendations for new legislation contained in the Analysis of the 1986-87 Budget Bill and The 1986-87 Budget: Perspectives and Issues (P&I).

All of the recommendations included in this report are discussed in greater detail within the Analysis and the P&I. This report merely (1) summarizes our analysis of the issues at stake, (2) outlines the contents of the changes in existing law that we recommend, and (3) presents our estimate of the fiscal effect from the proposed legislation. These recommendations generally fall into one of three categories:

- Legislative changes that would result in savings to the state;
- legislative changes in the law which would increase efficiency;
- legislative changes which would improve the delivery of services of California.

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JUDICIAL

Contribution to Judges' Retirement Fund--
New Retirement Program for Future Judges

Reference:

Analysis, page 20.

Analysis:

The current retirement program of the Judges' Retirement System (JRS) has (1) high ongoing (or "normal") costs (currently, twice the cost of other state systems), (2) unfunded normal costs (that is, no provision is made for covering all ongoing costs through annual contributions), and (3) no reserve funding (the system currently has an unfunded liability of \$620 million).

Recommendation:

We recommend that the Legislature enact legislation establishing a new retirement program for future judicial appointees providing (1) mandatory participation, (2) full funding of normal costs, and (3) control of the state's financial exposure under the new system.

Fiscal Impact:

The establishment of a new retirement program with lower state contributions would result in potentially major annual General Fund savings in future years.

EXECUTIVE

California Debt Advisory Commission-- Transfer of Functions to the State Treasurer's Office

Reference:

Analysis, page 102.

Analysis:

The California Debt Advisory Commission (CDAC) is responsible for collecting and disseminating information on the issuance of public debt in California, providing technical assistance to state and local agencies on debt management matters, and conducting research studies on public debt. The provisions of current law which authorize the commission sunset on January 1, 1987.

In our judgment, there is a need for the state to continue some of the activities that now are performed by CDAC. However, it is not apparent why a separate state commission is needed to conduct these activities. The "commission" form of organization is justified when an entity takes action that requires a broad array of viewpoints. The CDAC's responsibilities do not appear to fit this description. It does not issue debt or provide financial assistance to state or local agencies, has no authority to approve the issuance of debt, and has no direct responsibility to promulgate regulations with regard to public debt management in California.

In contrast, data collection and research, the principal activity of the commission, can be conducted by an office with a single head. Accordingly, we conclude that the CDAC does not have the statutory responsibilities to justify its status as a separate commission. We also find that the commission's responsibility to collect and analyze

information on debt issuance and provide technical services could be performed or managed just as effectively by the State Treasurer's office. This also would permit the state to realize administrative cost savings from not having to support a separate commission.

Recommendation:

We recommend that legislation be enacted to transfer the commission's functions to the State Treasurer's office.

Fiscal Impact:

We estimate that the transfer of the CDAC's functions to the State Treasurer's office would increase the office's costs by \$300,000 in the second half of 1986-87. However, this also would permit savings of approximately \$100,000 in the budget year and \$200,000 per year thereafter, compared to having the commission continue in its present form.

California Mortgage Bond Allocation Committee--Fund Surplus

Reference:

Analysis, page 108.

Analysis:

During 1985-86 budget hearings, the Legislature expressed concern about the unnecessarily high surplus level in the committee's fee account. At that time, the June 30, 1986 surplus was estimated at \$30,000. Accordingly, the Legislature adopted language in the Supplemental Report to the 1985 Budget Act stating its intent that the committee limit the surplus in the Mortgage Bond Allocation Fee Account to an amount not exceeding estimated current-year expenditures.

The 1986-87 budget indicates, however, that the fund surplus is estimated to grow to \$60,000 by June 30, 1986. Furthermore, based on information provided in the budget, it appears that no action is planned in either the current or budget year to rectify the situation. The surplus exists because the committee has set application fees charged local governments at a level that far exceeds what is necessary to support its costs.

Recommendation:

Because the committee has not complied with legislative intent as expressed in the Supplemental Report of the 1985 Budget Act, we recommend that the Legislature enact legislation limiting the size of the surplus which may be maintained in the fee account.

Fiscal Impact:

Enactment of such legislation would reduce the surplus in the fee account, resulting in minor savings to local governments. There would be no direct fiscal impact on the state.

STATE AND CONSUMER SERVICES

Department of Consumer Affairs-- Biennial Vehicle Inspection Program

Reference:

Analysis, page 130.

Analysis:

Pursuant to Chapter 892, Statutes of 1982 (SB 33), the Bureau of Automotive Repair administers the Biennial Vehicle Inspection Program (BVIP) in the urban "nonattainment areas" of the state. This program, which will remain in effect until January 1, 1990, requires that vehicles be inspected to determine whether they comply with smog equipment and emission standards established by the Environmental Protection Agency.

In recent years, manufacturers have introduced cars with computerized fuel-mixture control and diagnostic systems that tune the engine while it is running for optimum performance and low emissions. When such a high technology system malfunctions, however, it can result in a large increase in emissions without giving the vehicle operator any indication that a problem exists.

In 1985, the Air Resources Board approved a regulation requiring that all 1988 model vehicles have on-board diagnostic systems that will alert the motorist and the mechanic when these systems are not working properly. The board expects that many vehicle owners will seek immediate repairs in response to these alerts.

The BVIP smog inspection procedures may need modifications to accommodate the large increase in high technology cars, beginning in 1988. The new testing procedures promise to be more efficient and less costly to the motorist. Accordingly, we recommend that legislation be enacted to

change BVIP inspection procedures so as to accommodate high technology cars.

Recommendation:

We recommend that the Legislature enact legislation changing the Biennial Vehicle Inspection Program procedures to accommodate high technology vehicles by the start of the 1988 model year.

Fiscal Impact:

Unknown, but potentially significant savings to the state's motorists from a modification in the BVIP testing procedures.

Franchise Tax Board--Fees for Tax Documents

Reference:

Analysis, page 155

Analysis:

The Franchise Tax Board (FTB) often receives requests from individuals and businesses for certain types of tax documents. Among others, these include photocopies of tax returns, certificates of tax clearance, and letters of good standing. The documents usually are needed by the taxpayer for such purposes as qualifying for a personal loan or reviving a corporation.

Although the FTB generally is authorized to charge fees for these services, the board's practice is only to charge for copies of Bank and Corporation (B&C) tax returns. More of these tax documents should be provided on a fee-for-service basis, however, since the documents usually are used for private business purposes which benefit the individual taxpayer or corporation, rather than the general public. We note that other state agencies, such as the Secretary of State, charge fees for similar documents, and the federal Internal Revenue Service charges a fee for a copy of a taxpayer's federal tax return. The FTB should do the same.

Recommendation:

We recommend that legislation be enacted to require the FTB to charge for tax documents, in cases where the documents are not required by the taxpayer in order to satisfy a state tax liability.

Fiscal Impact:

Based on the existing volumes of these documents processed by the board, we estimate that the fees would generate approximately \$150,000 per year in revenue to the General Fund.

Department of General Services--
Telecommunications Role and Mission Need to Be Strengthened

Reference:

Perspectives and Issues, page 232.

Analysis:

Division of Authority Between the Control Agencies. In the Analysis of the 1985-86 Budget Bill (please see pages 195-196), we discussed the rather confusing arrangement whereby two agencies are involved in the establishment of the state's telecommunications policies. The administration maintains that its two control agencies--the Telecommunications Division (TD) in the Department of General Services (DGS) and the Office of Information Technology (OIT) in the Department of Finance--have a coordinated approach to telecommunications oversight. It is not clear to us, however, what specific role the OIT currently plays in the overall process of telecommunications planning; nor can we find any basis for concluding that the office should be involved in this process.

We continue to believe that it makes greater sense administratively for a single agency to have both overall management authority in telecommunications and operational responsibilities to carry out daily tasks. It appears that the DGS, which is involved extensively with telecommunications vendors, user agencies, regulatory bodies, and state control agencies on a daily basis, is best suited for the responsibility of planning for the state's use of telecommunications goods and services.

Mission of the Control Agencies. Of all of the responsibilities of the telecommunications control agencies, one which appears to have eluded them is the need to advocate and promote the application of telecommunications technology to state government operations. Traditionally, the TD has played a reactive role with respect to state agency telecommunications needs, and the division generally expects state agencies to be responsible for proposing conceptual telecommunications solutions to their management problems.

We believe that it makes little sense to rely almost exclusively on individual state agencies to promote the most cost-beneficial use of telecommunications goods and services. This is because: (1) state agencies do not have a specific charge to use telecommunications technology in their operations, and (2) state managers are not always familiar with the ways that telecommunications can solve their management problems.

Recommendation:

We recommend the enactment of legislation that: (1) designates the DGS as the state's sole telecommunications control agency, and (2) revises the department's telecommunications mission to include an advocacy role.

Fiscal Impact:

By clarifying and strengthening the role of the DGS in state telecommunications management activities, this legislation could result in both lower state telecommunications costs and improved service delivery by state agencies.

BUSINESS, TRANSPORTATION AND HOUSING

California Transportation Commission--Guidelines for Preparation
of the Commission's Fund Estimate

Reference:

Analysis, page 272.

Analysis:

Current law requires that the California Transportation Commission annually adopt an estimate of available funds as the basis for development of its five-year State Transportation Improvement Program (STIP). As we have pointed out in past Analyses, the STIP Fund Estimates adopted by the commission in recent years have been based on unrealistic assumptions resulting in delivery schedules that are unreasonably optimistic and in inflated expectations.

For example, in August 1985 the commission acted to defer projects from the 1985 STIP, which it adopted only two months earlier, because funds would not be available to finance these projects. The process of identifying projects to be deferred is disruptive at the state level, but even more so at the local level, because project priorities have to be re-established. Although the commission recognizes the upward bias in its estimating procedure, it has not acted to correct the problem.

Recommendation:

We recommend that the Legislature enact legislation providing general guidelines for the commission to use in preparing the annual Fund Estimate.

Fiscal Impact:

None.

Department of Transportation--Establish Guidelines
for Joint Development of Department Property

Reference:

Analysis, page 317.

Analysis:

Current law allows the Department of Transportation to lease to public and private entities the use of areas above or below highways and any land not currently needed for highway purposes. The department does not have explicit authority to lease nonhighway properties.

Some of the department's properties are in areas where space is in high demand for development of high-rise commercial buildings. Consequently, the department's interest in leasing-out properties has increased as a result of increased property values. For instance, the department is considering leasing highway air space (such as rights-of-way along the Harbor Freeway), as well as nonhighway properties (such as a department owned parking lot in Los Angeles, and the San Francisco Transbay Terminal) to private entities for joint development. As the department identifies more of these types of properties, the possibility of further commercial development leases will increase.

It is not clear whether current law regarding property leases applies to commercial development of the type contemplated by the department. Moreover, our review indicates that, in considering leases of its properties for commercial development, the department may fail to consider alternative uses of these properties that would satisfy other state needs.

Recommendation:

We recommend that legislation be enacted to clarify (1) whether the department may engage in joint development of state-owned property, (2) what types of projects would be subject to legislative approval and review, and (3) what types of projects can be undertaken by the department, with review and approval of the California Transportation Commission.

Fiscal Impact:

Unknown, but potentially major, fiscal impact to the State Transportation Fund, depending on the policy guidelines.

Department of Motor Vehicles--Motor Vehicle Account Deficit
Recommended Fee Increase

Reference:

Perspectives and Issues, page 146.

Analysis:

Based on our projections of revenue and expenditure growth, the Motor Vehicle Account (MVA) will run a deficit of just under \$50 million in 1986-87. Within another four years, the cumulative revenue shortfall in the account will be somewhere between \$676 million and \$1 billion (depending on the rate of growth in expenditures) unless (1) vehicle registration and driver's license fees are increased and (2) the growth of expenditures by the Department of Motor Vehicles, California Highway Patrol, and Air Resources Board is slowed.

The Governor's Budget fails to address the cause of the deficit in the MVA--the growing imbalance between account revenues and account expenditures. Instead, the budget proposes to transfer \$65.7 million from the State Highway Account (SHA) to the MVA to eliminate the deficit in the budget year. However, if this transfer is approved by the Legislature, it will only provide a temporary one-year stop-gap solution and would transfer the deficit to the SHA from the MVA.

Our analysis indicates that the Legislature should take a three-step approach to eliminating the imbalance between the MVA expenditures and revenues. First, it needs to increase compliance with the state's vehicle registration laws. Second, it should shift the source of funds for the Air Resources Board for certain pollution control activities from the MVA to the General Fund. Third, it must increase user fees so as to balance account revenues with expenditures.

Recommendation:

We recommend the enactment of legislation to increase the vehicle registration fee by \$6 (to \$29) and the driver's license fee by \$4 (to \$14), effective January 1, 1987.

RESOURCES

California Tahoe Conservancy--Tort Immunity

Reference:

Analysis, page 367.

Analysis:

State law generally exempts public agencies and public employees from liability for injuries caused by a natural condition of any unimproved public property. Chapter 1222, Statutes of 1984, broadens this immunity until January 1, 1987 to include injuries on property acquired with conservancy funds that are located in partially improved subdivisions where the injury resulted from the natural condition of the property.

Because the conservancy will not have acquired any lands until late in the current year, it may not have any experience with the application of this tort immunity before the provision sunsets. Consequently, there will be little or no information on which the Legislature may judge the need for continuing this policy.

Recommendation:

In order that the Legislature may have information on which to evaluate the desirability of this provision, we recommend that legislation be enacted extending tort immunity for lands acquired by the conservancy for another two years, until January 1, 1989.

Fiscal Impact:

Unknown potential savings to the General Fund due to reduced litigation costs, and reduced exposure by the state to court judgments resulting from tort claims.

Energy Resources Conservation and Development Commission--
Application Fees for Third-Party Developers

Reference:

1986 Analysis, page 393.

1985 Analysis, page 407.

Analysis:

Most power plants now being built in California are owned by private parties other than utilities (called "third parties"). The commission does not charge applicants a fee to process power plant siting applications. The commission's administrative costs, instead, are funded from the Energy Resources Programs Account (ERPA) in the General Fund, which derives its revenue from a surcharge on electricity sold by utilities. As a result, utility rate payers are subsidizing third-party power plant developers. A policy to charge third-party developers for the commission's cost of reviewing their siting applications would eliminate this subsidy.

Current law requires the commission to process each power plant siting application within one year. Because applications are not filed at a constant rate, the commission's siting workload is uneven. Uneven workload increases the commission's costs due to expensive overtime and contract support needed during peak workload periods and underutilized resources at slow times. Charging fees to third-party applicants could reduce the peak workload problem, because a third-party applicant could be given the choice of (1) waiting to submit the application and paying a fee to cover the average costs of the siting process or (2) submitting the

application during the peak workload period and paying the higher fee needed to cover the additional cost of using overtime and/or outside contract services. We recommended in our Analysis of the 1985 Budget Bill (see page 407) enactment of legislation to establish such fees.

Recommendation:

We continue to recommend enactment of legislation to require the commission to adopt fees to cover the commission's full costs of processing applications submitted by third-party power plant developers.

Fiscal Impact:

Potential major increase (roughly \$4 million to \$5 million) in annual revenues to the ERPA from application fees, beginning in 1987-88, when the new fee mechanism could be implemented. Potential unknown reduction in commission costs to review power plant applications to the extent workload is spread more evenly throughout the year.

State Lands Commission--Coastal Commission
Permit Authority Over Offshore Leases

Reference:

1986 Analysis, page 447.

1985 Analysis, page 464.

1984 Analysis, page 623.

Analysis:

The State Lands Commission (SLC) has suspended indefinitely all offshore leasing for oil and gas development partly because of a jurisdictional dispute with the Coastal Commission over whether proposed leasing by the SLC between Point Conception and Point Arguello requires a coastal development permit from the Coastal Commission.

There is no dispute that the Coastal Commission has permitting authority for actual oil exploration or development activities after the SLC has issued leases. Consequently, Coastal Commission policies and actions will be very important to prospective lessees, regardless of whether the leasing decisions by the State Lands Commission are subject to the Coastal Commission's jurisdiction. We believe it is appropriate, therefore, to provide the Coastal Commission with explicit permitting authority over offshore oil activity at the earliest point at which the offshore activity is proposed--namely, during the leasing process. In our Analysis of the 1984 and 1985 Budget Bills we recommended enactment of legislation to explicitly require a coastal permit for leasing of state tide and submerged lands.

Recommendation:

We continue to recommend enactment of legislation to explicitly give the Coastal Commission permitting authority over offshore leases proposed by the State Lands Commission.

Fiscal Impact:

The current jurisdictional dispute has halted leasing activity. If leases were executed without the approval of the Coastal Commission, uncertainty about future coastal permits for exploration and development activities on the leases would increase the financial risk to the lessees. As a consequence, their bids on the leases might be significantly lower than they would be if the leases were sanctioned by a permit from the Coastal Commission. On this basis, we conclude that requiring a coastal permit at the outset of leasing activities probably would increase state revenue from future offshore leases. The amount of the increase is unknown and would depend on many factors.

Department of Water Resources--Adoption of Fee Structure for the
California Irrigation Management Information System (CIMIS)

Reference:

Analysis, page 578.

Analysis:

The California Irrigation Management Information System (CIMIS) disseminates computer-generated information on irrigation scheduling to the agricultural community to increase irrigation efficiency, which reduces farm costs by saving water and energy. CIMIS is currently in its first year of a three-year pilot program. The budget requests \$1,308,000 in 1986-87 for the pilot program. This is the same amount as provided in the current year and the department expects the cost to be the same in 1987-88. Prior to the pilot program, the department spent \$3,488,000 to conduct a four-year research and development program for CIMIS.

In the Supplemental Report of the 1985 Budget Act, the Legislature directed the department to evaluate alternative fee structures for the CIMIS program and to recommend a preferred fee structure. The department evaluated four fee structures but it did not recommend any of these options. The report indicates that growers' willingness to pay should be evaluated in greater depth before a fee structure is adopted. The department, however, does not intend to charge fees for the program until statewide implementation begins in 1988-89.

One of the objectives of the CIMIS pilot program is to determine if the market for the program is large enough to justify implementation on a statewide basis. Since the department does plan to support the eventual

statewide program through fees, it seems logical that fees should be charged during the pilot phase. Without including fees in the pilot program, the department will have no basis for determining (1) if the agricultural community is willing to pay enough for CIMIS information to cover the program's cost or (2) which of the various fee structures is best.

Recommendation:

We recommend the enactment of legislation authorizing the Department of Water Resources to charge fees for the CIMIS program in order to assess the growers' willingness to pay for CIMIS before the department expands the program statewide.

Fiscal Impact:

Of the four fee structures identified by the department, the one that appears most appropriate for the CIMIS program would recoup 55 percent of the costs from fees in the first year of charging fees, with the percentage going up in subsequent years. If this fee structure were implemented in 1986-87 the department would collect \$244,000. (The total chargeable costs (\$444,000) are less than the full program costs (\$1,308,000) because the department has excluded research costs, grants, and certain program and equipment costs that should be amortized over a number of years.) Eventually fees would cover the full chargeable costs--potentially \$1 million to \$3 million dollars annually.

HEALTH AND WELFARE

Department of Health Services--
Toxic Substance Control Division
Responsible-Party Liability

Reference:

Analysis, page 708.

Analysis:

Current departmental policy exempts parties responsible for contamination at hazardous waste disposal sites from continuing liability upon the successful completion of an approved cleanup plan. This means that future cleanup liability would transfer to the state in the event that current cleanup standards do not adequately protect public health. The state of the risk assessment is poor; most scientists agree that the ability of science to assess accurately the health effects posed by toxic chemicals is quite limited. Because science cannot accurately determine the health effects of many chemicals, we believe it is premature for the state to assume liability for potential secondary cleanup costs.

Recommendation:

We recommend adoption of legislation reversing the department's policy of exempting responsible parties from further liability at sites that are cleaned up to the levels established by the department. We further recommend that legislation require the department to inform responsible parties that financial liability for remediating hazardous waste sites does not necessarily end with the successful completion of a cleanup project that is based on current health-impact data.

Fiscal Impact:

This legislation could result in future savings to the state if current cleanup standards are shown to provide inadequate protection of

public health. The legislation could also increase future costs of the state hazardous waste cleanup program if eliminating the current liability exemption reduces the incentive for responsible parties to participate in cleanup projects.

Department of Health Services--
Toxic Substance Control Division
Hazardous Waste Cleanup Strategy

Reference:

Perspectives and Issues, page 210.

Analysis:

Most hazardous waste sites pose a long-term and short-term danger. The short-term threat--primarily fire and explosion hazard and direct danger to the public through direct contact with toxic materials--may often be dramatically reduced with relatively inexpensive interim cleanup measures. Long-term dangers--characterized primarily by serious environmental contamination--require a much greater effort to remediate. The Department of Health Services cleanup efforts focus on cleaning up both the short- and the long-term threats of a relatively small number of sites; the remaining sites receive little or no attention. As a result, unattended sites will present an ongoing danger to the public and the environment.

Recommendation:

We recommend enactment of legislation establishing a policy that requires interim cleanup activities at hazardous waste sites in order to quickly reduce threats to the public and the environment. We further recommend that this legislation establish general criteria under which interim measures would be applied.

Fiscal Impact:

Since the amount of funds available to clean up hazardous waste sites is limited, additional expenditures for interim cleanup measures would reduce support available for the permanent remediation of sites.

Department of Health Services--
Toxic Substance Control Division
Hazardous Waste Site Priorities

Reference:

Perspectives and Issues, page 212.

Analysis:

The state priorities list reflects the department's assessment of which sites should be cleaned up first. Our analysis of the Department of Health Services priority list indicates that (1) site priorities are not updated to reflect new information concerning the magnitude of the threat posed by each site and (2) the list does not accurately reflect the relative costs and benefits of cleaning up hazardous waste sites. Our research into this area suggests that using a net benefit calculation to determine site priorities instead of the department's methodology offers the Legislature a way of setting site priorities that explicitly recognizes the relative importance of costs and benefits associated with site cleanup.

Recommendation:

We recommend enactment of legislation requiring the Department of Health Services to revise its site cleanup priorities based on the net costs and benefits that result from cleaning up a hazardous waste site. We also recommend that this legislation require the department to update a site's priority whenever new data indicate that the danger posed by the state has changed significantly.

Fiscal Impact:

This legislation would have no fiscal effect but would merely alter the order in which sites are cleaned up.

Employment Development Department--
Disability Insurance Funding Mechanism

Reference:

Analysis, page 882.

Analysis:

The Disability Insurance (DI) program provides cash benefits to individuals who are unable to work because of a nonwork-related physical or mental illness or injury. The DI program is financed by worker contributions collected through a payroll tax which are deposited in the DI Fund. In 1985 disbursements from the DI Fund exceeded revenues and reserves, resulting in a deficit of \$32 million in December 1985 and January 1986. Because of this deficit, it was necessary for the department to borrow money from the General Fund in order to pay benefit claims. The department estimates that the fund will have a deficit of \$44 million at the end of 1986 and the beginning of 1987 because payments from the fund will exceed revenues.

Based on our review, we conclude that the following changes in the DI financing mechanism are necessary in order to avoid future deficits in this fund.

- The DI Financing Mechanism Should Incorporate a Significant Amount of Historical Experience.
- The DI Financing Mechanism Should Be Less Volatile.
- The DI Financing Mechanism Should Be Based on a More Realistic Point-In-Time Estimate of the DI Fund Balance.

Recommendation:

We recommend that the Legislature enact a new DI tax rate formula which (1) incorporates a significant amount of historical experience, (2) is less volatile, and (3) uses a more realistic point-in-time estimate of the DI Fund balance.

Fiscal Impact:

The exact fiscal impact of our recommendation would depend on the specific DI tax rate formula enacted by the Legislature. Adoption of our recommendation, however, would result in ensuring a higher level of reserves in the DI Fund.

YOUTH AND ADULT CORRECTIONAL

Department of the Youth Authority--
Parental Payment of Ward Housing Costs

Reference:

Analysis, page 1068.

Analysis:

Existing law requires the parent of a minor detained in a local juvenile facility pursuant to an order of the juvenile court, to reimburse counties for a portion of the costs they incur in supporting the minor. Counties are limited to a maximum charge of \$15 per day for food and food preparation, clothing, personal supplies and medical expenses. Only those parents with the ability to pay may be charged for support of their child.

We know of no reason why parents of youth detained in state juvenile facilities should not be charged for support of their child as well, again provided they have the ability to pay. Taking into account reimbursements currently received from the federal government for a portion of the Youth Authority's care and maintenance costs, our analysis indicates that a charge of \$2.53 per day should be assessed to cover the remaining ward support costs. This amount is well below what counties currently charge to parents (about \$10 per day on the average), and less than 20 percent of what state law authorizes the counties to charge.

In order to minimize the administrative costs of collecting these payments, we also recommend the Legislature direct the counties to collect the parental payments and to offset their administrative costs from the amounts collected.

Recommendation:

We recommend the enactment of legislation requiring parents to pay some of the costs of supporting minors committed to the Youth Authority.

Fiscal Impact:

Enactment of this legislation could result in potential General Fund savings of up to \$4.2 million annually, less administrative costs.

K-12 EDUCATION

Department of Education-- Lottery Fund Enrollment Calculation

Reference:

Analysis, page 1139.

Analysis:

The Supplemental Report of the 1985 Budget Act directs the Legislative Analyst to "conduct a study to determine the appropriate method for calculating enrollment (FTE/ADA), as used for the distribution of lottery funds among the K-12 and higher education segments." Based on our review, we recommend the enactment of legislation to provide that enrollment in the state special schools (K-12), summer school programs (K-12), and apprenticeship programs (K-12 and community colleges) be recognized in the distribution of lottery revenues.

State Special Schools. The state operates six special schools for handicapped pupils (grades K-12). Because the schools are not funded on the basis of ADA and are administered by the State Department of Education rather than by a school district or county superintendent of schools, the State Controller's office has determined that, under current law, enrollment in these schools may not be counted for purposes of lottery revenue distribution. This enrollment, however, is comparable to enrollment in classes for handicapped pupils in programs operated by school districts and county superintendents. Consequently, we recommend legislation to provide that state special school enrollment be included in the lottery distribution formula.

Summer School and Apprenticeship Programs. State funding is provided for K-12 summer school instruction under specified circumstances, and for apprenticeship programs in secondary schools and community colleges. Because these courses are funded on the basis of a specified rate of reimbursement per hour of attendance, rather than ADA, the Controller has determined that this enrollment may not be counted for lottery revenue distribution.

This appears to be a technical issue arising from the manner in which enrollment is defined for reporting and funding purposes. Consequently, we recommend that the Legislature enact legislation providing that enrollment in state-funded summer school and apprenticeship programs be recognized in the distribution of lottery revenues.

Recommendation:

We recommend that the Legislature enact legislation to revise the way enrollment is calculated in determining the distribution of lottery revenues.

Fiscal Impact:

We estimate that, if our recommendations are adopted, there would be a shift of \$371,000 in lottery revenues to the K-12 segment from the community colleges (\$124,000), the California State University (\$159,000), and the University of California (\$88,000). For each segment, the redistribution amounts to less than 1 percent of the segment's total allocation of lottery revenues.

Department of Education--Sunset Review Process

Reference:

Analysis, page 1142.

Analysis:

Current law establishes a sunset review process for selected categorical education programs. Under this process, each program is assigned a "sunset date," on which all rules and regulations governing that program cease to operate unless the Legislature first enacts reauthorizing legislation.

Prior to its sunset date, each program undergoes an extensive evaluation, which is designed to provide the Legislature with information regarding its purpose, funding, participation, and other factors relevant to the question of whether and in what form it should continue. The following four entities are required to evaluate each program and submit recommendations to the Legislature:

- a Sunset Review Advisory Committee,
- the Department of Education,
- the Office of the Legislative Counsel, and
- the Office of the Legislative Analyst.

Although the sunset legislation requires an extensive evaluation of each program, the law does not assign responsibility for review of the resulting reports to any specific legislative committees. As a result, legislative review has not yet occurred, even though one program has already been reauthorized.

Recommendation:

We recommend that the Legislature amend the sunset review process for categorical programs to establish a procedure for considering and acting upon recommendations made by the State Department of Education, the Legislative Counsel, the Legislative Analyst, and designated sunset review advisory committees.

Fiscal Impact:

No direct fiscal effect.

Department of Education--Teacher Education and Computer Centers
Sunset Date

Reference:

Analysis, page 1173.

Analysis:

Chapter 1318, Statutes of 1984, establishes a "sunset date" of June 30, 1986 for "local staff development and teacher education and computer centers," and requires the Department of Education, the Legislative Counsel, and the Sunset Review Advisory Committee to report to the Legislature by January 31, 1985, on the appropriateness and effectiveness of the program. The law further requires the Legislative Analyst to submit findings, comments, and recommendations regarding the program within 90 days of receiving the report.

The Sunset Review Advisory Committee did not submit an evaluation report of local staff development and the Teacher Education and Computer Centers (TECCs) but instead recommended that the Legislature move the sunset date for these programs from June 30, 1986 to a future date to allow a more comprehensive and meaningful sunset review process. The committee made this recommendation because the TECCs were first authorized in 1983, and a sunset report would only have reviewed approximately one and one-half years of the program's existence--an insufficient period on which to base a meaningful evaluation.

We concur with the committee's recommendation. Accordingly, we recommend that the Legislature enact urgency legislation extending the sunset date of the TECCs to June 30, 1990. Without this legislation, the authorization for the TECCs will expire on June 30, 1986.

Recommendation:

We recommend that the Legislature enact urgency legislation extending the sunset date of the Teacher Education and Computer Centers from June 30, 1986 to June 30, 1990.

Fiscal Impact:

We identify no direct fiscal impact associated with this recommendation. (Current law provides that, if the Legislature does not enact legislation to continue a program that would otherwise sunset, the program shall continue to be funded for the general purposes of the program as specified in the provisions relating to its establishment and operation.)

Department of Education--Financing School Construction

Reference:

Analysis, page 1234 and Perspectives and Issues page 190.

Analysis:

Since the passage of Proposition 13 in 1978, the burden of providing funding for local school facilities construction and reconstruction has shifted from local school districts to the state. In the intervening years, the voters have approved two statewide bond issues totaling \$950 million, and the Legislature has appropriated a total of \$450 million in tidelands oil revenues for financing school facilities. Yet, despite these expenditures, the amount of state revenues available falls at least \$465 million short of meeting local demand for school facilities financing.

Our review of the existing system for allocating state funds to local school districts identifies the following problems:

- The process is slow. It takes several years to review, process and allocate funds for a single school construction project.
- There are no funding priorities. Once districts meet a minimum threshold of 10 percent overcrowding, all funds are allocated on a first-come first-served basis.
- The classroom loading standards are outdated. The standards, which by regulation the board uses, have been in place since 1955 and do not reflect changes in facility usage patterns resulting from educational changes made over the last 30 years.
- The responsibility for processing an application through the system is fragmented among several state agencies.

Because the current method of funding school construction (1) fails to provide sufficient funds to meet district needs in a timely manner and (2) fails to distribute equitably the burden of paying for new school facilities, we believe that the option of raising funds through temporary property tax increases should be reestablished for local school districts.

The Legislature has taken the first step towards such an option by approving ACA 55, which will appear on the June 1986 ballot. This measure, provides that local governments may--with the approval of two-thirds of district voters--incur bonded indebtedness for site acquisition and capital outlay and pay off the bonds by temporarily increasing the property tax rate.

Our analysis indicates, however, that the Legislature should take an additional step in order to ensure that all districts, regardless of their property tax base wealth, are able to raise the revenues needed to finance local school facilities. Specifically, we recommend the enactment of legislation, contingent upon voter approval of ACA 55, to establish a "guaranteed yield schedule." Under this schedule, each school district levying a given tax rate to amortize school facilities bonds would be guaranteed the same minimum revenue yield per pupil housed.

Recommendation:

We recommend that the Legislature enact legislation, contingent upon voter approval of ACA 55, guaranteeing school districts a specified minimum yield from a given property tax rate levied for the purpose of financing the construction or reconstruction of school facilities.

Fiscal Impact:

This proposal would neither increase nor decrease the, total amount of state revenues available to local school districts for financing school facilities needs. Because local school districts would have the ability to raise matching funds locally for school construction projects, existing limited state resources could be used to meet more districts' needs.

Commission on Teacher Credentialing--Funding Alternatives

Reference:

Analysis, page 1295.

Analysis:

In our report, "A Review of Funding Alternatives for the Commission on Teacher Credentialing," submitted to the Legislature in December 1985, we note that the current system for funding the Commission on Teacher Credentialing:

- Is not providing enough revenue to support the commission's current level of activity, and unless the Legislature acts to increase the commission's revenues or cut back its existing program, the Teacher Credentials Fund will run a deficit in 1986-87;
- Does not require all of those who benefit from the commission's activities to help fund them, thereby violating the "benefit principle," a commonly-accepted criterion used to assess fairness in public finance;
- Does not yield a stable flow of revenues, which hinders the commission's ability to conduct long-term planning; and
- Does not provide useful data on the supply of and demand for teachers.

In our report, we also recommend a set of actions which we believe would overcome the deficiencies in the current funding arrangement.

Specifically, we recommend that the Legislature:

- Increase the credential fee by \$10 (from \$40 to \$50), in order for the commission to meet its immediate funding needs;
- Impose a registration fee on all practicing teachers;
- Charge postsecondary institutions an accreditation fee to cover the cost of evaluating and approving teacher education programs; and
- Provide General Fund support to cover the costs of studies, data collection and reporting activities undertaken at the Legislature's direction or which primarily serve the Legislature's information needs.

In sum, we believe that the combination of a \$50 credential fee, new registration and accreditation fees, and General Fund support would stabilize the commission's funding structure and make it more equitable. Furthermore, instituting a registration fee would enable the commission to gather better data on the supply of, and demand for, teachers.

Recommendation:

We recommend that the Legislature (1) enact urgency legislation increasing the maximum credential fee level from \$40 to \$50, in order to meet the immediate funding needs of the commission, and (2) enact legislation authorizing the commission to charge accreditation fees and registration fees.

Fiscal Impact:

The increase in the maximum credential fee level and the new accreditation and registration fees should result in increased revenues for the Teacher Credentials Fund. (Once all the new fees are established, these recommendations could result in a reduction in the credential fee.)

GENERAL GOVERNMENT

Department of Industrial Relations--
Change in Statutory Requirement for Occupational Safety
and Health Inspections

Reference:

Analysis, page 1580.

Analysis:

Current law requires the California Occupational Safety and Health program (Cal-OSHA) to investigate all valid complaints by employees, employee representatives, or employers of unsafe or unhealthful worksite conditions. The department interprets this requirement to mean that Cal-OSHA must inspect each worksite for which a valid complaint is received.

Our analysis of the Cal-OSHA program indicates that worksite inspections for complaints alleging serious on-the-job health and safety hazards are warranted. Our review further indicates, however, that worksite inspections in response to complaints alleging either (1) a nonserious condition (that is, a condition that does not threaten employees with serious illness or injury) or (2) a purely regulatory violation, cause valuable resources to be diverted from other types of inspections that are likely to be more effective in preventing occupational injury and illness.

Recommendation:

We recommend that the Legislature enact legislation allowing the department greater discretion in conducting mandatory inspections so that scarce resources can better be directed towards inspection activities which reduce the risk of occupational injury and illness.

Department of Food and Agriculture--
Pesticide Licensing and Registration Fees Should Be Increased

Reference:

Analysis, page 1616.

Analysis:

Our analysis indicates that the Pesticide Regulatory program will face a shortfall of \$600,000 in the current year and \$2 million in the budget year in fee revenues deposited in the Agricultural Fund. These revenues come from three sources: licensing and certification fees, pesticide registration fees, and "mill tax" funds which are derived from a tax on pesticides sold in California.

Registration Fees. The department registers all pesticides used in California. In registering a pesticide and setting conditions on use, the department determines whether the pesticide will work as described, whether it is properly labeled, and the pesticide's health and environmental effects. The budget requests \$7,329,000 for the registration of this program, consisting of \$5,336,000 from the General Fund, \$516,000 from registration fees, and \$1,477,000 from the mill tax.

We concur with the department's stated funding policy that industry fees or special taxes should support programs that either directly benefit an identifiable group of persons or regulate their activities in order to prevent damage to others. The ability to register and sell a pesticide in California provides a substantial and direct benefit to the pesticide manufacturer. Accordingly, we believe that the registration of pesticides should be funded fully by registration fees.

Fiscal Impact:

This change would not result in any fiscal impact, as it simply would allow the department to redirect existing resources. The benefits of the change would be in more effective use of those resources to reduce worksite injuries and illnesses.

Licensing Fees. Additional funds are needed in order to continue licensing and certifying pesticide users, dealers, and advisers since the department will face a shortfall of \$193,000 for this program. (This is part of the \$2 million shortfall identified above.) This program currently receives no General Fund support. Fees are the most appropriate source for these additional funds. The licensing activities directly benefit those who are licensed or certified and are a normal cost of doing business.

Recommendations:

1. We recommend enactment of legislation requiring the Director of Food and Agriculture to set annual pesticide registration fees at an amount sufficient to support the full cost of registering pesticides and establishing safe conditions for their use.

2. We recommend enactment of legislation requiring the Director of Food and Agriculture to charge license and certification fees that are sufficient to finance the pesticide licensing and certification programs.

Fiscal Impact:

The recommended legislation would (1) eliminate the \$2 million funding shortfall in 1986-87 and (2) shift \$4.8 million in support for the Pesticide Regulatory Program now budgeted from the General Fund to fee revenue if fully implemented in 1986-87. The total General Fund savings could be up to \$6.8 million in additional annual fee revenues if the funding shortfall otherwise were made up by the General Fund. To accomplish this, annual registration fees would have to be increased from \$40 annually to approximately \$600. Licensing fee revenues would have to be roughly doubled which would generate an additional \$482,000 per year for the licensing program.

Public Utilities Commission--Standards for Rail Safety Needed

Reference:

Analysis, page 1637.

Analysis:

The Public Utilities Commission (PUC) is responsible for assuring the safety of rail transit projects. In the Analysis of the 1985-86 Budget Bill (please see page 1573), we found that the PUC had not issued comprehensive safety planning criteria, safety standards, or safety procedures for the design, construction, and operation of rail rapid transit systems. Such comprehensive guidelines have the potential to provide a high level of rail safety at a relatively low regulatory cost through the routine compliance of transit operators. Furthermore, comprehensive safety guidelines are necessary to provide a rational basis for the commission's enforcement activities.

Last year, the Legislature augmented the PUC's staff involved in rapid transit safety oversight, and added language to the 1985 Budget Act requiring the commission to develop rail safety standards as a first priority in 1985-86. This legislative directive will "sunset" on June 30, 1986.

Recommendation:

We recommend that legislation be enacted to require the PUC to continue on a permanent basis its efforts to develop and implement safety planning criteria, standards, and procedures for the design, construction, and operation of rail rapid transit systems.

Fiscal Impact:

There would be no additional costs to the PUC to continue current activities relating to the development of guidelines and standards. Such standards, however, would result in unknown, but potentially major, savings to local rail transit systems to the extent that substantial redesign and construction modifications are avoided.