Analysis of the 1990-91 Budget Bill

Summary of Findings and Recommendations

Legislative Analyst's Office
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TABLE OF CONTENTS

INTRODUCTION

In the *Analysis of the 1990-91 Budget Bill,* we report the results of our detailed examination of the Governor's departmental spending proposals for the coming fiscal year. By contrast, *The 1990-91 Budget: Perspectives and Issues* provides an overall perspective on the state's revenues and expenditures for the budget year. It also looks to the future in an effort to focus on some of the challenges facing California in the years ahead. This document summarizes, by program area, the principal findings and recommendations set forth in the *Analysis* and the *Perspectives and Issues*. It also shows how approval of these recommendations would affect the state's fiscal condition.

Impact of Recommendations--General Fund and Special Funds

Figure 1 shows the net effect of our recommended changes to the expenditures proposed in the Governor's Budget. As the figure shows, approval of these recommendations would increase the amount of General Fund and special fund monies available for appropriation by the Legislature by a total of $84 million. The total reflects:

- $80 million in recommended **expenditure reductions**;
- $6 million in recommended **expenditure augmentations**; and
- $10 million in recommended **transfers, reversions, and funding source changes.**

In addition, we have recommended reductions in K-14 education totaling $111 million. Adoption of these recommendations would make a like amount of funds available, which, under the provisions of Proposition 98, can only be used for K-14 purposes. We have recommended that these funds be transferred to the "Proposition 98 Reserve" from which these funds could be appropriated by the Legislature for its priorities.

Figure 1

Impact of Legislative Analyst's Recommendations On General Fund and Special Funds

1990-91
(in millions)

Nature of Recommendation	General Fund	Special Funds	Totals
Reductions	-$45.4	-$34.3	-$79.7
Proposition 98 -- Transfer to Reserves	(110.6)	(--)	(110.6)
Augmentations	0.4	5.2	5.6
Adjustments	(24.0)	(--)	(24.0)
Transfers, Reversions, and Funding Source Changes	-11.6	2.1	-9.5
Totals[a]	-$56.6	-$27.0	-$83.6

[a] Totals do not include recommended reductions in K-14 education. We have recommended that these funds be transferred to the Proposition 98 Reserve. Totals also do not include adjustments to reflect restoration of Family Planning program funds.

BUDGET OVERVIEW

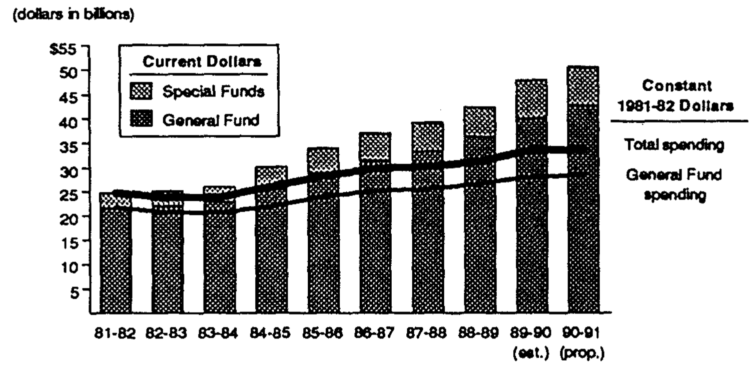
Figure 1 shows state expenditures for the last 10 years from the General Fund and special funds in both "current dollars" (amounts as they appear in the budget) and "constant dollars" (current dollars adjusted for the effect of inflation since 1981-82).

State spending (in current dollars) from all state funds has increased from $24.7 billion in 1981-82 to a proposed level of $50.5 billion in 1990-91. This amounts to an average annual increase of 8.3 percent. In constant dollars, total state expenditures have grown less rapidly, increasing at an average annual rate of 3.5 percent over the 10-year period.

Figure 1

Total State Spending
Current and Constant Dollars

1981-82 through 1990-91



Our review of the proposed budget for 1990-91 resulted in the following significant findings:

- ☑ The General Fund cost of maintaining current levels of state services, including restoring the reserve to the 3-percent-of-expenditures level, would amount to $4.5 billion in 1990-91. Because General Fund revenues available for expenditure are only expected to increase by $2.6 billion, this leaves a funding gap of $1.9 billion. The budget proposes to cover this gap by: (1) deferring state costs, (2) funding the reserve at less than 3 percent of expenditures, (3) reducing current service levels in a variety of programs, and (4) shifting costs to counties. (*Perspectives and Issues*, page 5).

- Of the $3.5 billion in projected General Fund revenue growth (after accounting for the distorting effect of earthquake-related transfers to the General Fund), the first $345 million must be used to fund the existing level of state expenditures. This is because current-year expenditures are expected to exceed current-year revenues, and are being financed by drawing down the state's reserve fund. In addition, the budget proposes that $489 million be allocated to the Special Fund for Economic Uncertainties. This leaves $2.6 billion for expenditure growth. Of this amount, the budget proposes $1.5 billion for workload growth, $1.3 billion for K-14 education pursuant to the provisions of Proposition 98, $400 million for cost-of-living adjustments, and $210 million for increased federal requirements. These increases are partially offset by reductions proposed in a variety of program areas. (*Perspectives and Issues*, page 19).

- The budget's revenue estimates are based on a forecast of continued moderate economic growth in the state's economy. This forecast is somewhat more optimistic than the consensus of other forecasters for California. As a result, the forecast does have some downward revenue potential. Because some of the uncertainty in the forecast may be clarified with the filing of tax returns in April, it is possible that the revenue forecast could be significantly changed in the May revision. (*Perspectives and Issues*, page 87).

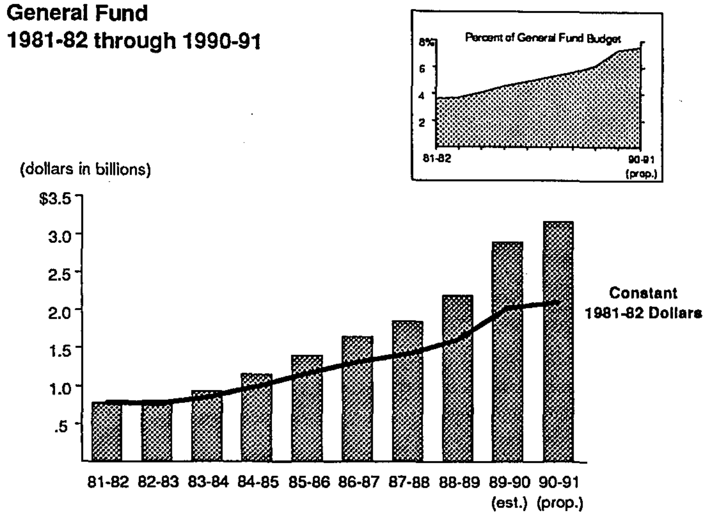
CRIMINAL JUSTICE

Funding for criminal justice programs represents 6.3 percent of expenditures from all state funds proposed in 1990-91 and 7.5 percent of General Fund expenditures proposed in 1990-91. As shown in Figure 1, criminal justice program expenditures have almost tripled over the last 10 years, increasing at an average annual rate of 17 percent (General Fund). The figure also shows that criminal justice expenditures have increased steadily and rapidly as a share of the General Fund budget over the 10-year period. In fact, criminal justice is the only expenditure category that has increased its share of General Fund expenditures in *every* year since 1981-82. Figure 1 also displays the spending trend as adjusted for declines in state purchasing power. On this basis, criminal justice expenditures have increased at an average annual rate of 12 percent.

Figure 1

Criminal Justice Expenditures Current and Constant Dollars

General Fund 1981-82 through 1990-91



Our review of the proposed budget for 1990-91 resulted in the following significant findings:

Judicial

- ☑ The STATSCAN automated data collection system has grown beyond levels authorized by the Legislature. (*Analysis*, page 11.)
- ☑ The family court services funding proposal is inconsistent with authorizing legislation. (*Analysis*, page 18.)
- ☑ The proposal for $1.2 million mainframe computer lacks needed justification for approval. (*Analysis*, page 19.)
- ☑ The Supreme Court's proposal to add seven central staff attorney positions at General Fund cost of $547,000 is premature. (*Analysis*, page 20.)

Adult Corrections

- The prison inmate population is projected to increase by 12 percent in the budget year, exceeding 100,000 inmates by April 1991. The inmate population is expected to exceed 145,000 by 1994-95. A growing portion of this population consists of persons who are returned to prison to serve short terms (less than 12 months). The department has proposed strategies to reduce the number of inmates serving short terms. (*Analysis*, page 787.)

- The parole population is expected to increase by 14 percent in the budget year, exceeding 70,000 parolees. (*Analysis*, page 789.)

- The department seeks to expand significantly its community-based bed program by 2,400 beds in 1990-91, but does not have a bed activation plan. (*Analysis*, page 792.)

- Although the department has developed a substance abuse treatment plan for inmates and parolees that contains a number of components, the budget proposes to fund only a portion of the plan and anticipates federal funds will be available for the remainder. However, it is not clear that federal funds will be available. (*Analysis*, page 793.)

- There are a number of problems with the mental health treatment programs for inmates, including:

  - Poor coordination between the Departments of Corrections and Mental Health. (*Analysis*, page 902.)

  - The Department of Mental Health is providing less than 30 percent of the funded treatment services to inmates at the California Medical Facility. (*Analysis*, page 902.)

Youth Corrections

- The Youth Authority's ward population projections beyond 1990-91 may be too high. Revised projections may reduce the need for additional institution beds. (*Analysis*, page 828.)

- The Youth Authority proposes to close three facilities, eliminating 221 facility beds, and redirect the savings to cover a portion of its workers' compensation costs. (*Analysis*, page 829.)

TRANSPORTATION

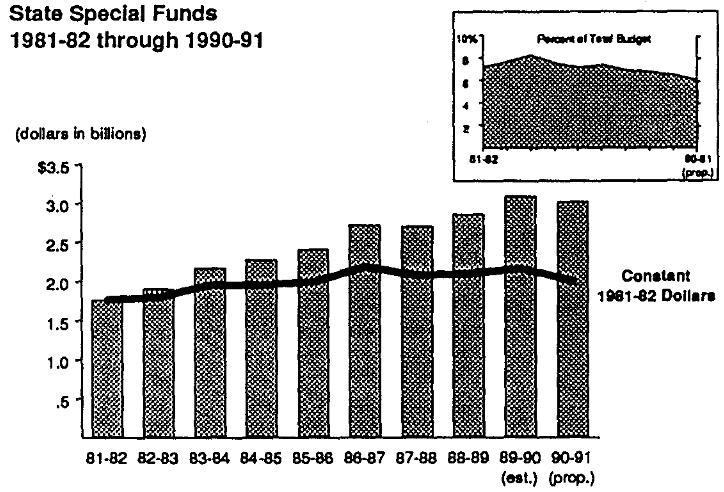
Funding for transportation programs represents 6 percent of expenditures from all state funds proposed in 1990-91. State funds for transportation programs are provided almost entirely from state excise taxes on gasoline and diesel fuel, truck weight fees, and vehicle registration and drivers' license fees. Only minimal amounts of General Fund money are used for the state's transportation programs.

Figure 1 shows spending trends over the last 10 years. The average annual increase in spending from all state funds for transportation programs over the decade was 6.1 percent. The figure also shows that expenditures for transportation programs have been declining steadily as a share of expenditures from all state funds since 1982-83. Figure 1 also shows the rate of increase in state spending as adjusted for declines in state purchasing power. On this basis, transportation spending's annual rate of increase was about 2.3 percent through 1989-90, but would decline in 1990-91.

Figure 1

Transportation Expenditures Current and Constant Dollars

State Special Funds 1981-82 through 1990-91



Our review of the proposed budget for 1990-91 resulted in the following significant findings:

Department of Transportation

☑ Based on current estimates of revenue, the state faces a shortfall of $3.7 billion in resources through 1992-93 in order to construct all 1988 State Transportation Improvement Program projects according to schedule and pay for noncapital outlay expenditures. The shortfall would be larger if normally available federal funds are used (in combination with state money) to fund $266 million of seismic retrofit projects. (*Analysis*, page 260.)

TRANSPORTATION

For 1990-91, the budget identifies a shortfall of $533 million in the State Highway Account (SHA), and proposes various adjustments and reductions including:

- Reducing SHA-funded staff by 765 personnel-years.

- Minimizing the need for further staff reductions by shifting staff from SHA-funded work to work funded by other sources--primarily local sales tax revenues, toll revenues, and private developer funds.

- Shifting $118 million from mass transportation local assistance programs to the highway program to further alleviate the impact of the SHA deficit on highway activities. (*Analysis*, page 262.)

☑ The reduction in mass transportation local assistance programs will leave $16.2 million for the Transit Capital Improvement Program in 1990-91. With this amount, the state can fund only a small portion of its $101 million of commitments to local transit projects, including projects on the Bay Area Rapid Transit and the Los Angeles Metro Rail systems. (*Analysis*, page 286.)

☑ If SCA 1 is approved by voters in June 1990, about $18.5 billion in additional transportation funds would be available--through gas tax and truck weight fee increases and bond proceeds--over the 10-year period 1990-91 through 1999-2000. Specifically, an additional $718 million would be available to the SHA in 1990-91 thereby eliminating the shortfall of $533 million. (*Analysis*, page 263.)

☑ If SCA 1 is not approved and additional revenues are not available, the Legislature will need to decide, based on its own priorities, what level of highway capital outlay program should be sustained vis-a-vis other programs (for example, maintenance, mass transportation) in the budget and subsequent years.

In addition, the Legislature will need to determine:

- The level of project development staffing needed to carry out the capital outlay program. (*Analysis*, page 272.)

- The level of capital outlay "shelf" projects to be developed. (*Analysis*, page 272.)

- The extent to which rights-of-way should be acquired in excess of the amount needed to award projects in 1990-91. (*Analysis*, page 282.)

- The amount of state funding of mass transportation activities that would best meet the state's transportation demands. (*Analysis*, page 288.)

☑ The department would be forced to initiate layoffs or make other budget reductions if the assumptions used to develop its capital outlay support staffing request prove overly optimistic. (*Analysis*, page 273.)

☑ The budget proposes an increase of 30 PYs and $3.8 million to increase the level of litter removal on state highways. This activity is the department's lowest priority maintenance work. These resources should be redirected to other higher priority activities. (*Analysis*, page 283.)

California Highway Patrol

☑ 165 new officers and sergeants are requested to continue strengthening enforcement field force. Because the Legislature has not been provided with service level standards and workload data necessary to evaluate the request, there is no analytical basis to determine if the request is justified. (*Analysis*, page 296.)

☑ The CHP proposes to rearm all uniformed personnel with semi-automatic pistols in the next two years. We recommend that the requested amount be reduced by $182,000 because the number of semi-automatic pistols to be purchased exceeds departmental need. (*Analysis*, page 298.)

Department of Motor Vehicles

☑ Without additional revenue or reductions in expenditures, the Motor Vehicle Account will experience a shortfall of at least $60 million in the budget year. (*Analysis*, page 303.)

☑ Production of magnetic stripe driver licenses and identification cards has been delayed indefinitely because of protests filed against the bid award. (*Analysis*, page 306.)

NATURAL RESOURCES

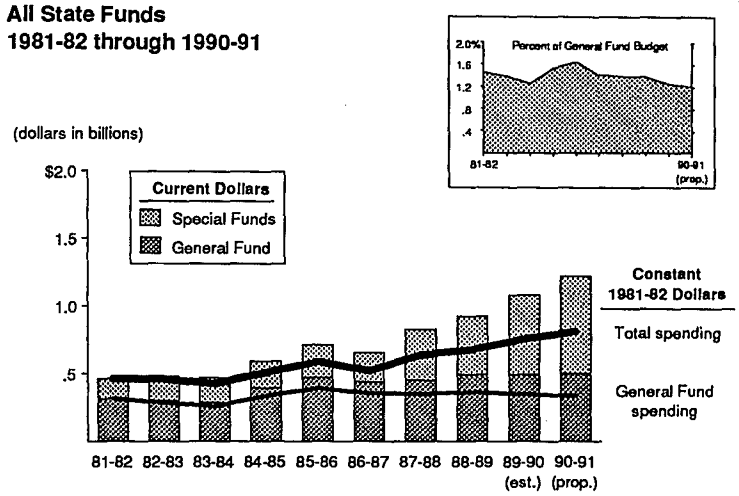
Funding for resources programs represents only a small share (2.4 percent) of expenditures from state funds proposed by the Governor's Budget in 1990-91. As Figure 1 demonstrates, the share of the General Fund budget allocated for resources programs has declined steadily for the last five years. Special funds have now surpassed the General Fund as the primary source of support for these programs.

Figure 1 shows state spending trends for resources programs over the last 10 years. As this figure demonstrates, General Fund expenditures have increased by nearly $200 million in the last 10 years. When these expenditures are adjusted for declines in purchasing power, however, the growth in General Fund spending for support of resources programs has increased only slightly. Figure 1 also demonstrates that special fund expenditures for resources programs have increased markedly--from $150 million in 1981-82 to $724 million proposed in 1990-91. Adjusting for declining purchasing power, *total* state expenditures for resources programs grew at an average annual rate of 6.5 percent during the last 10 years.

Figure 1

Resources Expenditures
Current and Constant Dollars

All State Funds
1981-82 through 1990-91



Our review of the proposed budget for 1990-91 resulted in the following significant findings:

California Conservation Corps

- ☑ Discretionary expansion of corps members will cost General Fund an additional $1.9 million. (*Analysis*, page 326.)
- ☑ Supervisory support is over staffed at cost of $421,000 to the General Fund. (*Analysis*, page 326.)
- ☑ Unnecessary equipment purchases to cost General Fund $491,000. (*Analysis*, page 327.)

California Integrated Waste Management Board

☑ The budget proposes an increase of $43.4 million to implement new, integrated waste management legislation. These costs would be funded through new waste disposal and regulatory fees authorized by AB 939 (Sher). (*Analysis*, page 336.)

☑ The budget contains few details, however, on how the new integrated waste management program will be implemented. (*Analysis*, page 343.)

☑ The budget proposes to transfer $4.8 million between the General Fund and a new Waste Management Incentive Account, and subsequently transfer these funds *back* to the General Fund. This proposal will not offset General Fund costs for waste management tax credits. (*Analysis*, page 344.)

Air Resources Board

☑ Incentives based regulation (IBR) could prove to be a more efficient and effective way of achieving state air quality goals when compared to the current system of "command and control." Consequently, we recommend that the Legislature take action to authorize and evaluate the use of IBR. (*Perspectives and Issues*, page 235.)

Department of Conservation

☑ Department expenditures will rise by 32 percent primarily as a result of legislative changes to the Beverage Container Recycling Program. These changes increase incentives for recycling by increasing payments to recyclers. (*Analysis*, page 354.)

Budget does not adequately address the effects of increased recycling incentives on department workload:

- Recycling technical assistance activities are not coordinated with the new Integrated Waste Management Board. (*Analysis*, page 358.)

- Financial Analysis Unit positions are proposed for a limited term--rather than permanent--basis. (*Analysis*, page 358.)

Department of Forestry and Fire Protection

- 1990-91 firefighting costs are not reflected in the budget. Based on a 10-year average, these costs will exceed $24 million. (*Analysis*, page 361.)

- Law change is needed to implement shift of $11 million in General Fund fire protection costs to fees paid by private parties. (*Analysis*, page 365.)

- Butte County probably will not be able to pay the state for $6.1 million in fire protection services provided to the county in 1989-90 and 1990-91. However, the budget assumes that these payments will be available for support of department program expenditures. (*Analysis*, page 366.)

- Proposal to use revenue bonds to purchase airplanes and telecommunications equipment is "penny wise and pound foolish." (*Analysis*, page 366.)

Department of Fish and Game

- The department's current-year and budget-year expenditure plans will put the Fish and Game Preservation Fund in the red for 1989-90 and 1990-91. (*Analysis*, page 381.)

- The Legislature must make significant reductions in department expenditures to correct for revenue shortfalls. (*Analysis*, page 383.)

  - As much as $4.6 million must be cut in the current year.

  - Consistent with legislative intent, $9.5 million should be cut in 1990-91 to balance the department's budget and establish a prudent reserve.

- While there currently is much attention being given to the problem of major offshore oil spills, a related but lower profile problem also needs attention. Frequently occurring small spills in the aggregate also result in significant environmental damage. (*Perspectives and Issues*, page 253.)

Department of Boating and Waterways

- The budget proposes expansion of the department's private loan program from $4 million to $8 million in order to accommodate individual loan requests in excess of $1 million for construction of private marina facilities. (*Analysis*, page 392.)

- The department's proposed expenditure plan probably will result in reductions in grants and loans to local agencies beginning in 1991-92. (*Analysis*, page 392.)

Department of Parks and Recreation

- The prices charged for California state parks meet or exceed the prices charged for other public parks in the western states. Despite these relatively high prices, these fees pay for only 35 percent of the costs of operating state park units. (*Analysis*, page 407.)

- The budget proposes to transfer a total of $6.8 million from the Public Resources Account to cover costs already incurred by two park bond funds:

  - A $5.5 million transfer to the 1986 park bond fund for loan interest payments (*Analysis*, page 409); and

  - A $1.3 million transfer to the 1988 park bond fund for reimbursement of expenditures related to earthquake repair. (*Analysis*, page 410.)

Department of Water Resources

- Budget fails to implement the Environmental Water Fund and the Water Quality Program as required by AB 444 and AB 1442. (*Analysis*, page 425.)

- Two new flood control projects will cost $35 million in 1990-91. These projects eventually will cost the state as much as $340 million over a 10-year period. (*Analysis*, page 426.)

State Water Resources Control Board

☑ The budget does not include the information necessary to evaluate two new expenditure proposals totaling $14.8 million in 1990-91.

- The budget proposes to continue a program to clean up leaking underground storage tanks ($12.3 million). A review and evaluation of this program is due to the Legislature in March 1990. (*Analysis*, page 433.)
- No plan exists for the expenditure of funds appropriated for the Bay Protection and Toxic Cleanup Program in the current and budget years ($2.5 million each year). (*Analysis*, page 435.)

HEALTH

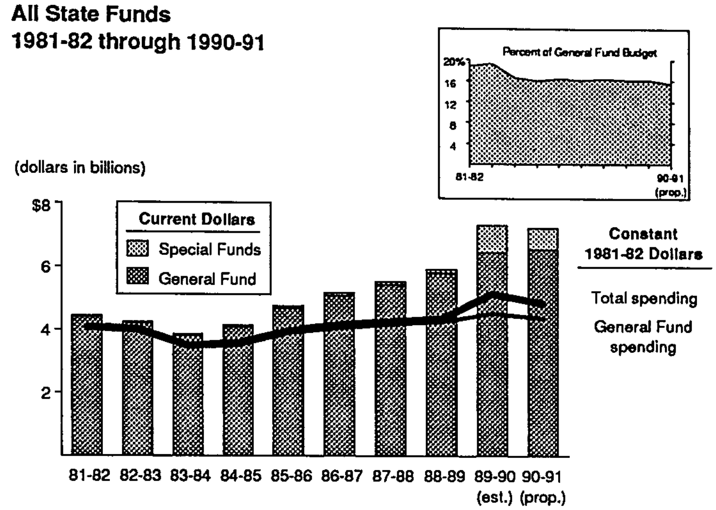
Funding for health programs represents 14 percent of expenditures from all state funds and 15 percent of General Fund expenditures proposed in the budget for 1990-91. Figure 1 shows spending trends over the last nine years and as proposed in the budget. The average annual increase in General Fund spending for health programs over the last 10 years is 5.5 percent. Including the recent increase in cigarette tax funding and other special funds pushes the rate of annual increase up to 6.7 percent.

Figure 1 also displays the rate of increase for health programs as adjusted for declines in state purchasing power. As the figure shows, spending on the adjusted basis has increased only slightly over the last 10 years. The average annual increase in adjusted spending from the General Fund amounts to 0.9 percent; including the special funds raises this increase to 1.9 percent.

Figure 1

Health Expenditures
Current and Constant Dollars

All State Funds
1981-82 through 1990-91



General Issues

Our review of rural health services suggests that state programs have had limited success in improving access to health care in rural areas. To address this concern, we recommend that the Legislature (1) designate a lead agency on rural health issues and direct that agency to develop a systematic approach to assisting rural health care providers and (2) direct state agencies to evaluate adjustments to the regulatory and reimbursement systems affecting rural health providers. (*Perspectives and Issues*, page 267.)

The Governor's Budget identifies $45 million in additional Proposition 99 (cigarette and tobacco products surtax) funds as available for expenditure on health-related programs. The Legislature can use these funds (1) to augment county health and mental health services as proposed by the Governor; (2) to implement the Major Medical Insurance Program established by Ch 1168/89 (AB 60, Isenberg), which the Governor does not propose to implement; or (3) for different purposes. (*Perspectives and Issues*, page 309.)

Public Health

- The department has not submitted sufficient information on its public health budget for the Legislature to be able to (1) determine whether proposed budget changes are justified and (2) evaluate the department's spending priorities. As a result, are withholding recommendation on two entire public health program budgets--for maternal and child health local assistance and AIDS programs. (*Analysis*, page 299.)

- A recent court decision could increase state costs for health services provided to medically indigent persons by up to $605 million annually. In addition, the state could be liable for reimbursing counties for their uncompensated costs in providing services back to 1986-87. (*Analysis*, page 503.)

- There continue to be major uncertainties over estimated State Legalization Impact Assistance Grant (SLIAG) expenditures for health services provided to newly legalized persons due to program implementation and claiming issues involving counties, the state, and the federal government. (*Analysis*, page 510.)

- The department has not complied with legislative direction to give high priority to black infant mortality when spending the $1.8 million augmentation for the Adolescent Family Life Program provided in the current year. (*Analysis*, page 528.)

- The Legislature can make services provided through the Adolescent Family Life Program a Medi-Cal benefit and serve an additional 1,455 women or free up $2 million (General Fund) for other purposes. (*Analysis*, page 529.)

Toxic Substances Control

- Funding for the toxics program may be insufficient to continue existing levels of site mitigation and hazardous waste management activities in 1991-92 and future years. (*Analysis*, page 544.)

- Administrative and clerical positions in the toxics program are overbudgeted by at least $1,375,000 and 30 personnel-years because the division underestimates the number of hours positions are available to work in a year. (*Analysis*, page 547.)

☑ Hazardous waste disposal, treatment, and storage facilities are closing, rather than seeking final operating permits. This will have an unknown effect on the division's permitting and enforcement workload, revenue from fees imposed on facilities, and capacity statewide for the disposal and storage of hazardous wastes. (*Analysis*, page 549.)

Medi-Cal

☑ Proposals to save $62.1 million (General Fund) through a drug discount program, reduced reimbursement for incontinence supplies, and restructuring rates for physicians are not fully developed. (*Analysis*, page 564.)

☑ A proposal to save $36.4 million (General Fund) by eliminating six optional benefits could increase Medi-Cal costs for other services. (*Analysis*, page 567.)

☑ The department estimates that General Fund costs for undocumented persons will be $100.4 million higher in the current year than estimated in the 1989 Budget Act, and will increase an additional $31.4 million in 1990-91. The increase in the current-year estimate is due to increases in caseload, rather than increases in anticipated cost per case. The cause of the changes are unknown. (*Analysis*, page 570.)

☑ Our review of long-term health care services suggests that the Medi-Cal reimbursement system may be (1) contributing to low growth in the supply of nursing facility beds, (2) causing access problems to these beds for Medi-Cal clients, and (3) providing incentives that encourage expansion of facilities that are more costly to operate. (*Perspectives and Issues*, page 289.)

Developmental Services

☑ The budget for the regional centers is likely to be underfunded due to problems with the methodology for estimating day program costs. (*Analysis*, page 597.)

☑ The department is proposing legislation to impose fees for services provided by regional centers in order to obtain federal funding. Absent this legislation, the budget would be underfunded by $33.8 million. (*Analysis*, page 601.)

HEALTH

- The department may be able to expand its Home- and Community-Based Services Program and receive an additional $65 million in federal reimbursements each year. (*Analysis*, page 602.)

- The state developmental centers (SDCs) are experiencing major problems with licensing, accreditation, and certification that the proposed $8.7 million augmentation to reduce the salary savings rate will not solve. (*Analysis*, page 610.)

- The department has continued to experience problems with its janitorial contractor in the current year. (*Analysis*, page 614.)

Mental Health

- The state hospitals are overstaffed relative to the department's staffing standards, yet treatment levels are below the level specified in the standards. These findings raise concerns about the department's procedures for budgeting and allocating staff. (*Analysis*, page 630.)

- Proposed augmentations of 142 positions and $2.7 million (General Fund) in the state hospitals are unjustified. (*Analysis*, page 635.)

- Treatment levels at the department's psychiatric program at the California Medical Facility at Vacaville are below the department's standards. (*Analysis*, page 639.)

- The budget assumes enactment of legislation to transfer fiscal and programmatic responsibility for mental health services provided to special education pupils to the State Department of Education. (*Analysis*, page 647.)

- Legislation authorizing collection of SSI/SSP payments to clients could reduce General Fund costs for institutions for mental diseases (IMD) services by at least $4 million annually. (*Analysis*, page 649.)

- The impact of federal nursing home reform on the need for IMD services is not reflected in the budget. We estimate General Fund costs of up to $1.4 million in 1990-91. (*Analysis*, page 651.)

WELFARE & SOCIAL SERVICES

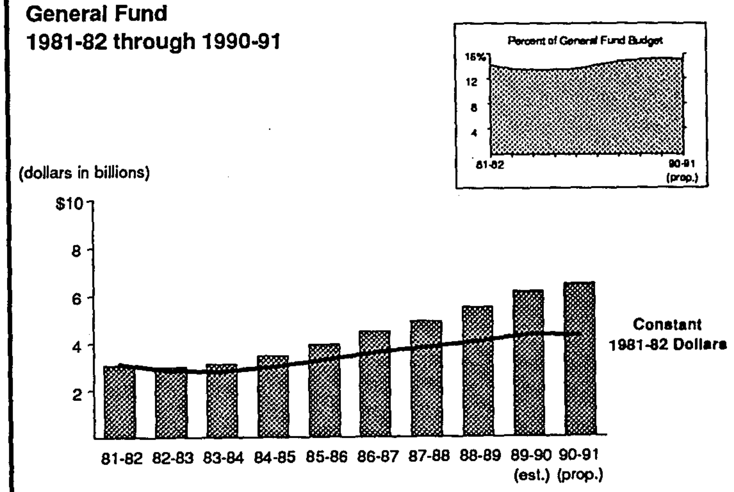
Funding for welfare and social services programs represents 13 percent of state expenditures from all state funds and 15 percent of expenditures from the General Fund as proposed in the budget for 1990-91. Figure 1 displays spending trends in this area over the last nine years and as proposed in the budget. As the figure shows, General Fund expenditures for these programs have increased steadily since 1982-83, and have more than doubled over the entire period. The figure also shows that welfare and social services programs have accounted for a slightly increasing share of all General Fund expenditures since 1983-84.

Figure 1 also displays the spending for these programs adjusted for declines in the purchasing power of the dollar. On this basis, expenditures increased by an average annual rate of 4.4 percent. The amount proposed in the budget, which would require several statutory changes to implement, would actually represent a slight decline (less than half a percentage point) in purchasing power as compared with estimated current-year expenditures, resulting in the first drop in real expenditures for these programs since 1983-84.

Figure 1

Welfare and Social Services Expenditures Current and Constant Dollars

General Fund 1981-82 through 1990-91



Our review of the proposed budget for 1990-91 resulted in the following significant findings:

Department of Aging

- ✔ The budget proposes to reduce spending for the Linkages Program by one-half, for a General Fund savings of \$2.1 million. This program provides various services to the frail elderly and to disabled adults. (*Analysis*, page 454.)

WELFARE & SOCIAL SERVICES

Department of Alcohol and Drug Programs

- The budget does not include an estimated $79 million in additional federal funds. (*Analysis*, page 471.)
- The department needs to develop an alcohol and drug treatment oversight plan. (*Analysis*, page 473.)

Employment Development Department

- The budget proposes to eliminate the Service Center Program, which provides employment counseling and referral as well as related services to certain individuals in nine disadvantaged areas in the state, for a General Fund savings of $7.7 million. (*Analysis*, page 659.)

Department of Rehabilitation

- Anticipated caseload in Habilitation Program, which provides training and supportive services to severely disabled clients, is not fully funded in the budget, for a General Fund savings of $10 million. (*Analysis*, page 670.)

Department of Social Services

- The budget proposes a 43 percent reduction of effort in family day care licensing, for a total General Fund savings of $2.8 million. (*Analysis*, page 683.)
- The budget proposes to suspend the statutory COLA for AFDC recipients in 1990-91, for a General Fund savings of $112 million. (*Analysis*, page 692.)

- The department estimates that AFDC-Family Group caseloads will grow by 4.7 percent in 1989-90 and 1990-91, which is double the average annual rate during the previous eight-year period. (*Analysis*, page 693.)

- The budget proposes $26 million from the General Fund for a new transitional child care program. (*Analysis*, page 697.)

- The budget proposes to eliminate foster care grants for seriously emotionally disturbed children, for a General Fund savings of $26 million in the foster care program, offset by an equal increase in the State Department of Education budget. (*Analysis*, page 698.)

- The budget assumes enactment of legislation to waive the statutory requirement for a state COLA (4.62 percent) for SSI/SSP grants in 1990-91 for a General Fund savings of $141 million. (*Analysis*, page 726.)

- The budget proposes to reduce General Fund support for the Child Welfare Services Program by $24 million. (*Analysis*, page 745.)

- The budget proposes to restrict eligibility for the In-Home Supportive Services Program, for a General Fund savings of $71 million. (*Analysis*, page 754.)

- The budget proposes $164 million *less* for the GAIN program than the amount needed to serve total anticipated caseloads in all counties. (*Analysis*, page 764.)

- The budget proposal to eliminate funding for the Child Abuse Prevention and Training Act Program, for a $10 million General Fund savings, represents a policy issue for the Legislature. (*Analysis*, page 768.)

WELFARE & SOCIAL SERVICES

K-12 EDUCATION

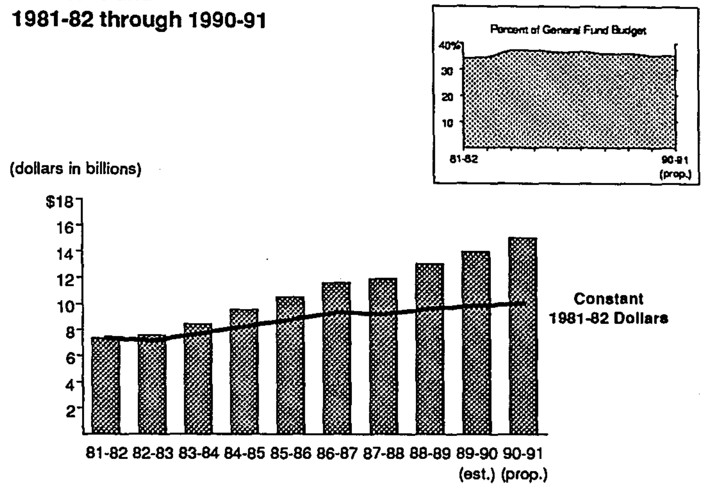
Funding for K-12 education represents 36 percent of General Fund expenditures proposed in 1990-91 and 30 percent of proposed expenditures from *all* state funds. Figure 1 shows spending trends over the last nine years and as proposed in the budget. The average annual increase in General Fund spending for K-12 education over this period is 8.4 percent, or slightly higher than the rate of increase in *total* General Fund spending (7.8 percent).

Figure 1 also displays the rate of increase for K-12 expenditures as adjusted for declines in state purchasing power. As the figure shows, expenditures in "constant" dollars also have increased significantly (37 percent) over the period.

Figure 1

K-12 Education Expenditures
Current and Constant Dollars

General Fund
1981-82 through 1990-91



Our review of the proposed budget for 1990-91 resulted in the following significant findings:

- ☑ The Legislature should defer action on $110 million to reduce class sizes and instead transfer these funds to the K-12 Proposition 98 reserve. Once the Legislature has determined an appropriate level for this reserve (at the May revision), it should appropriate the balance in excess of this amount for high-priority purposes (including fully funding COLAS and/or reducing class sizes). (*Analysis*, page 874.)
- ☑ The supplemental grants (categorical equalization) program inappropriately includes transportation, Economic Impact Aid, and other specified programs on the list of those that generate entitlements to $180 million in funding, because per-pupil needs for these programs vary significantly. (*Analysis*, page 904.)
- ☑ Costs of desegregation programs continue to grow at rates far in excess of the K-12 budget generally. The Legislature has a limited number of options for bringing these costs under control. (*Analysis*, page 899.)

- The existing home-to-school transportation funding formula should be revised, because it results in an inequitable distribution of state aid. (*Analysis*, page 917.)
- The budget reduces funding for school apportionments by $44 million, by tightening eligibility standards and funding rates for (1) K-12 students concurrently enrolled in adult education and (2) adults enrolled in K-12 independent study. (*Analysis*, pages 860 and 864.)
- The budget reduces the amount of Proposition 98 funding available for other K-12 purposes by $48 million, by (1) shifting to the K-12 budget funding for certain noninstructional services required by special education pupils and (2) increasing OCJP funding for drug education by $10 million. (*Analysis*, page 852.)

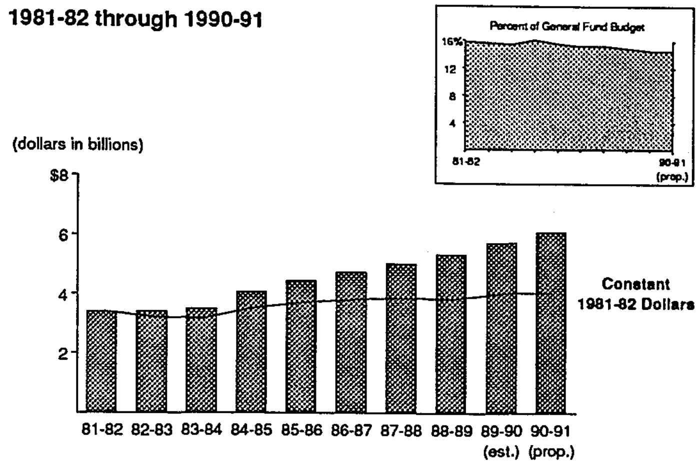
Funding for higher education programs represents 8.1 percent of expenditures from all state funds and 14 percent of General Fund expenditures proposed in 1990-91. As shown in Figure 1, higher education expenditures have declined steadily as a percentage of General Fund expenditures since 1981-82. The figure also shows that expenditures for this program area have increased from about $3.4 billion in 1981-82 to almost $6 billion as proposed for 1990-91, which represents an average annual increase of 6.7 percent.

Figure 1 also presents the spending trend for higher education as adjusted for declines in purchasing power. On this basis, higher education expenditures have increased at an average annual rate of 2 percent.

Figure 1

Higher Education Expenditures Current and Constant Dollars

General Fund 1981-82 through 1990-91



Our review of the proposed budget for 1990-91 resulted in the following significant findings:

The University of California

- UC should expedite the development of one new campus with the intent to open this campus as early as possible before the current planning date of 1998, reassess the enrollment assumptions associated with a second new campus, and suspend planning for a third new campus. (*Perspectives and Issues*, page 214 and *Analysis*, page 981.)

- The Governor proposes to seek separate legislation to provide the state's $55.6 million 1990-91 contribution to the University of California's Retirement Plan in the first three months of 1991-92. We are concerned about the possibility that there may be legal responsibilities related to the timing of the payment and have requested the Legislative Council to advise the Legislature on the legal implications of the proposal. (*Analysis*, page 984.)

The California State University

- There currently is no demonstrated need for any new CSU campuses by 2005, based on:

  (1) statewide enrollment trends, and

  (2) the various options available to meet regional enrollment needs. (*Analysis*, page 1002 and *Perspective and Issues*, page 222.)

- In 1989-90, the CSU has provided its executive employees with significant COLA salary increases ranging from 15 to 43 percent. (*Analysis*, page 1014.)

- Budget requires the CSU to achieve $14.5 million in unallocated savings. (*Analysis*, page 1013.)

- Budget proposes to delay $2.6 million in revenue bond payments at a General Fund cost of $959,000 over the next 20 years. (*Analysis*, page 1013.)

- Budget proposes to terminate the Teacher Education program in order to double the funding for Graduate Equity Fellowships. (*Analysis*, page 1008.)

California Community Colleges

- The Legislature should allocate proposed $5 million for "over the cap" ADA growth according to its priorities. (*Analysis*, page 1038.)

- The Legislature may wish to enact urgency legislation to target $5.5 million in unspent 1988-89 funds according to its priorities. (*Analysis*, page 1035.)

Student Aid Commission

- The budget proposes no increase in the Cal Grant maximum award amount or in the number of awards. (*Analysis*, page 1053.)

- The budget provides no funding for the Willie L. Brown, Jr. Community Service Scholarship Program. (*Analysis*, page 1056.)

- SAC's authority to purchase defaulted loans increases by $75 million. (*Analysis*, page 1058.)

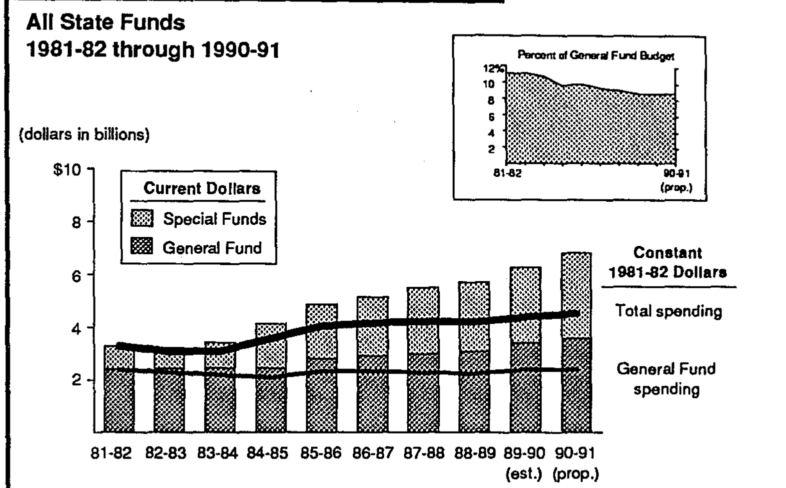
Funding for general government programs represents about 14 percent of expenditures from all state funds and approximately 8.4 percent of General Fund expenditures in 1990-91. These general government expenditures include: state administrative expenses, regulatory programs, tax relief, local government aid, and the costs of state-mandated local programs.

Figure 1 shows that general government expenditures from all state funds have increased from $3.3 billion in 1981-82 to a proposed level of $6.8 billion in 1990-91, an average annual increase of 8.5 percent. Spending for these programs from the General Fund has increased at a much-less-rapid average annual rate of 4.7 percent. As a result, special funds now support almost one-half of expenditures in this program area.

Accounting for declines in state purchasing power, Figure 1 shows that general government expenditures from all funds have grown at an average annual rate of 3.7 percent between 1981-82 and 1990-91. General Fund expenditures, in contrast, show no increase over the 10-year period when adjusted for purchasing power declines.

Figure 1

General Government Expenditures Current and Constant Dollars



Our review of the proposed budget for 1990-91 resulted in the following significant findings:

Administration

- ☑ Board of Equalization proposal to shift cost of property tax assessment program to local governments raises significant questions. (*Analysis*, page 77.)
- ☑ Secretary of State has poor track record on automation projects, but need for progress mandates further efforts. (*Analysis*, page 85.)
- ☑ Franchise Tax Board can raise more General Fund revenue by shifting collections activity to in-house collections agents. (*Analysis*, page 136.)

- The Career Opportunity Development Program is operating at significantly reduced participation levels. (*Analysis*, page 177.)

Regulation

- The Department of Insurance's initial approach to implementing Proposition 103 delayed putting the provisions of that measure into effect. Our review of the current effort to implement the measure indicates that many issues remain to be resolved before the department can begin regulating the industry. (*Analysis*, page 238 and *Perspective and Issues*, page 345.)
- Because implementation of Proposition 103 has been significantly delayed, the department does not have the experience to justify the amount requested in the budget, and we do not have the analytical basis to make final recommendations regarding the adequacy of the amount. For these reasons, we withhold recommendation on the $22.1 million requested for Proposition 103-related administrative and regulatory activities, pending outcome of administrative hearings. (*Analysis*, page 240.)
- The State Banking Department may run out of revenues to operate an effective regulatory program. For this reason, we recommend that the department report to the Legislature, prior to the budget hearings, regarding the magnitude and the effects of the funding program, as well as potential solutions. (*Analysis*, page 247.)
- A state charter option for savings and loan associations and a separate state department to regulate them are no longer needed. (*Analysis*, page 249.)
- Department of Industrial Relations (DIR) proposal to implement workers' compensation reform lacks specific details. (*Analysis*, page 1099.)
- Vacancies in authorized Cal-OSHA positions persists. (*Analysis*, page 1103.)
- Correction for underbudgeted federal funds in the DIR will save General Fund $1.2 million in current year and $2.8 million in budget year. (*Analysis*, page 1105.)
- By raising the mill tax on the sale of pesticides by 2-1/2 cents, the Legislature could eliminate General Fund support for the pesticide regulatory program in the Department of Food and Agriculture. (*Analysis*, page 1126.)

GENERAL GOVERNMENT

- General Fund support for the pesticide program should be reduced by $1.1 million because there are sufficient reserves in the mill tax fund to support these costs. (*Analysis*, page 1129.)

- Funding for the Agricultural Export Program should be reduced by $2.3 million to eliminate market development grants to large organizations such as E. & J. Gallo Winery, Sunkist Growers, and Beatrice/Hunt Wesson. These companies have the resources to develop and support their own marketing programs. (*Analysis*, page 1131.)

Local Government Aid

- Low and declining fiscal capacity may impede some counties' ability to meet state program objectives and local service needs. (*Perspectives and Issues*, page 323.)

Housing and Economic Development

- Proposed uses of Unitary Fund revenues in the Department of Commerce are inconsistent with legislative intent. (*Analysis*, page 210.)

- Tourism funding increase cannot be justified on a cost-benefit basis. (*Analysis*, page 213.)

- Large staffing increase in the Department of Housing and Community Development will cost Propositions 77 and 84 bond funds over $4 million in budget year and may increase in future years, decreasing funds available for loans and grants. (*Analysis*, page 223.)

- Proposed sale of surplus property at Agnews State Hospital to provide $15 million to aid earthquake victims not likely to occur in 1990-91 (*Analysis*, page 228.)

Justice

- The Office of Criminal Justice Planning (OCJP) requests a $21.7 million increase in spending authority in federal funds for the Anti-Drug Abuse program. The Legislature should ensure that the office's plan for allocating these funds to local government is consistent with legislative priorities. (*Analysis*, page 1069.)

- Marijuana eradication should be funded from federal funds, not the General Fund. (*Analysis*, page 1070.)

- Expansion of the Comprehensive Alcohol and Drug Prevention Education (CADPE) program is premature. (*Analysis*, page 1072.)

Other

- ✔ The Museum of Science and Industry is unlikely to establish its security force in the current year and proposes no funding for it in the budget year (*Analysis*, page 101).
- ✔ The Museum of Science and Industry fails to submit expenditure plan for Exposition Park Improvement Fund revenues. (*Analysis*, page 102.)
- ✔ The 22 percent increase proposed by the Arts Council for grants to artists and art organizations is not justified on an analytical basis. (*Analysis*, page 1088.)
- ✔ The Arts Council improperly spent funds for its own operating expenses over a three-year period. (*Analysis*, page 1089.)

CAPITAL OUTLAY

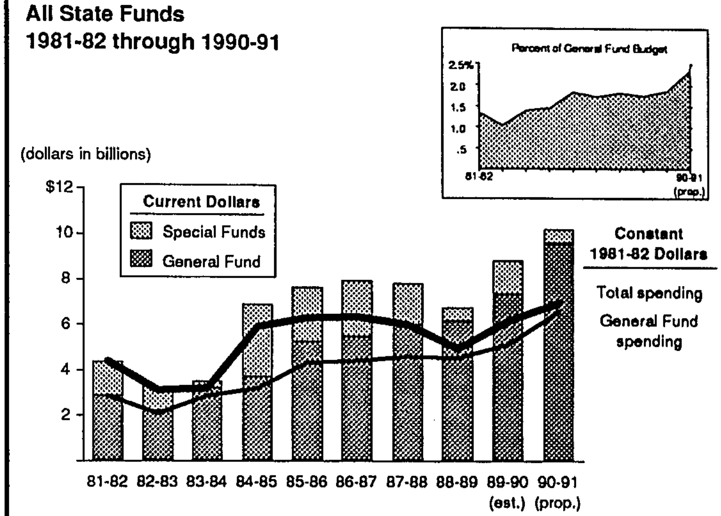
Funding for capital outlay expenditures represents about 2.1 percent of expenditures from all state funds proposed for 1990-91 and about 2.3 percent of the General Fund budget. These expenditures reflect the state's current *payments* for capital programs in each year (through "pay-as-you-go" spending or debt service payments), as opposed to the total amount of *outlays* (such as a bond expenditure which is "paid for" over a period of many years). As shown in Figure 1, expenditures for capital outlay programs (state projects as well as the local school facilities aid program) have increased significantly over the past 10 years, and the increase is attributable to increased General Fund spending. The average annual increase in General Fund expenditures over the 10-year period amounts to 15 percent.

Figure 1 also displays the spending trend as adjusted for declines in the purchasing power of the dollar. On this basis, spending for capital outlay expenditures have increased at an average annual rate of 5.4 percent (all state funds) over the 10-year period, while state General Fund expenditures have increased at an average annual rate of 9.6 percent.

Figure 1

Capital Outlay Expenditures
Current and Constant Dollars

All State Funds
1981-82 through 1990-91



Our review of the proposed budget for 1990-91 resulted in the following significant findings:

State Office Buildings

✔ Since 1977, state leasing of office space in Sacramento has increased from 2.1 million to 4.8 million square feet and lease costs have increased more than sixfold, from $10.1 million to $65.5 million annually. (*Analysis*, page 1210.)

✔ To reach the Sacramento Capital Area Plan goal to accommodate 90 percent of state employees in state-owned space, the state would have to construct an additional 3.3 million square feet beyond what has been authorized. (*Analysis*, page 1210.)

CAPITAL OUTLAY

Department of Veterans Affairs

- The capital outlay program to upgrade facilities at the Veterans' Home in Yountville to meet accreditation standards is 10 years behind schedule and three times more costly. (*Analysis*, page 1216.)
- Contrary to legislative authorization, the department is spending funds to establish six veterans' homes, rather than one, in southern California. (*Analysis*, page 1218.)

Forestry

- Use of lease-revenue bonds is a significant departure from past funding practice that will increase General Fund costs. (*Analysis*, page 1232.)

Employment Development Department

- The U.S. Department of Labor claims over $50 million equity in state-owned buildings used by the Employment Development Department. (*Analysis*, page 1271.)

Corrections

- Governor's Budget does not include any proposals for new prisons, despite department's indication that it plans to seek authorization to build 13,300 beds at a cost of over $1 billion in the budget year. (*Analysis*, page 1275.)
- Administrative actions to unilaterally change the security level and mission of state prisons raise cost and policy implications for the Legislature. (*Analysis*, page 1277.)

Youth Authority

- The department plans to close three facilities and reduce its capacity by 221 beds, despite continued systemwide overcrowding. (*Analysis*, page 1290.)

Postsecondary Education

- The University of California will need at least one new campus by 2005-06 and should expedite planning and development efforts for that facility. The university should reassess its enrollment projections with regard to the need for a second campus and suspend planning for a third campus. (*Perspectives and Issues*, page 214.)

- The California State University at this time should not plan for any additional campuses, as existing campuses will be able to accommodate enrollment growth through 2005-06. (*Perspectives and Issues*, page 221.)

- Given the shortcomings in the model used to project facilities needs for the California Community Colleges, we cannot at this time assess the need for new community college campuses. (*Perspectives and Issues*, page 226.)

- Although the Chancellor's Office estimates that the Community College five-year capital outlay needs are $1.0 to $1.2 billion, a systemwide five-year capital outlay plan has not been developed to address these needs. (*Analysis*, page 1361, *Perspectives and Issues*, Page 229.)

- The budget proposes $282 million of lease-revenue bonds even though adequate general obligation bonds are proposed for approval by the voters in 1990 to meet all postsecondary education capital outlay expenditures requested for the budget year. We estimate that the use of lease-revenue bonds would increase General Fund costs for bond interest payments by up to *$70 million* over the next 20 years. (*Analysis*, page 1301.)

SUBSTANCE ABUSE ISSUES

The Department of Alcohol and Drug Programs estimates that in 1985 alcohol abuse cost California $11.7 billion and drug abuse $6 billion due to reduced productivity, increased mortality and morbidity, increased crimes and accidents, and increased needs for social services. While substance abuse has been a serious issue for the Legislature for several years, the public's and the Legislature's concern about the subject has been heightened by the current federal "war on drugs." In order to help the Legislature put the issue of substance abuse into perspective, we have included a three-part series on substance abuse related-issues in our *Perspectives and Issues* document. These analyses focus on the following issues:

- ☑ *Drug Use in California.* The drug using population can be categorized into two main groups: casual, or experimental users whose numbers have been decreasing, and heavy users, whose numbers have been increasing. In this piece we present data on trends in drug and alchohol use and on the characteristics of two categories of users who have been of special concern: youths and heavy users. *(Perspectives and Issues, page 141).*

- ☑ *Anti-Drug Programs in California.* California will spend more than $1 billion (all funds) for anti-drug programs in the current year--of which 70 percent is for enforcement--and local governments in the state will spend close to $2 billion. In this piece we review anti-drug programs and discuss the more than $100 million in additional federal funds that the state will receive as a result of recent federal anti-drug legislation. *(Perspectives and Issues, page 163).*

- ☑ *Drug Prevention Programs.* California will spend more than $100 million in state and federal funds for educational and social services programs designed to prevent drug and alcohol abuse. While these programs have not generally been rigorously evaluated, those that have--classroom programs designed to discourage children from starting to use drugs and alcohol--have not been shown to be effective in reducing drug use. In this piece, we provide recommendations to help the Legislature improve its strategy for preventing substance abuse. *(Perspectives and Issues, page 178).*

SUBSTANCE ABUSE ISSUES

In addition to the analyses presented in the *Perspectives and Issues* document, we make a variety of recommendations in our *Analysis of the 1990-91 Budget Bill.* For our specific recommendations, please see the following items:

Department of Alcohol and Drug Programs (Analysis, page 467.)
Department of Social Services (Analysis, page 748.)
Department of Corrections (Analysis, page 793.)
State Department of Education (Analysis, page 910.)
Office of Criminal Justice Planning (Analysis, page 1069.)